Traitors: The Economic Implications of Dollar Dominance

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Select U.S. Macroeconomic Features, 2025:Q1

real GDP growth:

unemployment rate:

inflation rates:

wage growth:

interest rates:

Select U.S. Macroeconomic Features, 2025:Q1

real GDP growth: -0.3% / $-0.6\%^*$

unemployment rate: 4.1% / 1.8%**

inflation rates: 3.1% (Core CPI), 2.8% (Core PCE) / 2.7% (DEF)*

wage growth: 3.6% (ECI) / 1.3% (AHE)** / 0.7% (AHE)**

interest rates: 4.5% (fed funds), 4.2% (10 yr. treasury bond)

Source: Wells Fargo Economics. U.S., South Dakota, *: 2024:Q4, **: 2025:M3.



"How a dollar crisis would unfold" (The Economist, April 19, 2025)





exorbitant privilege



balancing act

Y = C + I + G + NX

$\mathbf{Y} = C + I + G + NX$

$Y = \mathbf{C} + \mathbf{I} + \mathbf{G} + \mathbf{N}\mathbf{X}$

Y = C + I + G + NX

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Y = C + I + G + NX

$$Y - C - I - G = NX$$

$$NX = Y - C - G - I$$

$$NX = \underbrace{Y - C - G}_{National \ Saving} - I$$





$$NX = \underbrace{Y - C - G}_{National \ Saving} - I$$

$$NX = \underbrace{Y - T - C}_{Private Saving} + \underbrace{T - G}_{Public Saving} - I$$

$$NX = \underbrace{Y - T - C}_{Private Saving} + \underbrace{T - G}_{Public Saving} - I$$







buried treasury
















scale matters

Select Federal Budget Items, Fiscal Year 2024, \$6.8 Trillion Total

Mandatory Expenditures

Social Security\$1.5 trillionMedicare\$865 billionMedicaid\$618 billionIncome Security Programs\$370 billion

Source: U.S. Congressional Budget Office.

Select Federal Budget Items, Fiscal Year 2024, \$6.8 Trillion Total

Discretionary Expenditures

Defense	\$850 billion
Non Defense	\$960 billion
Net Interest	\$881 billion
Other	\$752 billion

Source: U.S. Congressional Budget Office.

$$debt \uparrow \Leftrightarrow deficit \uparrow$$

 $debt \uparrow \Leftrightarrow interest \ rates \uparrow$

debt
$$\uparrow \Leftrightarrow GDP \downarrow$$

 $\textit{debt} \uparrow \iff \textit{deficit} \uparrow$

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$$debt \uparrow \Leftrightarrow deficit \uparrow$$

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$$\textit{debt} \uparrow \iff \textit{GDP} \downarrow$$

$$debt \uparrow \Leftrightarrow deficit \uparrow$$

 $debt \uparrow \Leftrightarrow interest \ rates \uparrow$

debt $\uparrow \Leftrightarrow GDP \downarrow$

steepening twist



Knight fall





$$i = r + \pi^e$$

$$i = r + \pi^e$$



$$i = r + \pi^e$$

$$i = r + \pi^*$$

$$i = r + \pi^*$$

$$i = r + \pi^*$$

$$i^* = \mathbf{r}^* + \pi^*$$

$$r^* = f\left(
ho, g, \delta, s
ight)$$

$$r^* = f\left(\stackrel{+}{\rho}, g, \delta, s\right)$$

$$r^* = f\left(\rho, \frac{+}{g}, \delta, s\right)$$

$$r^* = f\left(
ho, g, \overline{\delta}, s
ight)$$

$$r^* = f\left(\rho, g, \delta, \overline{s}\right)$$









Sources: Federal Reserve Bank of St. Louis; U.S. Federal Open Market Committee via FRED®

fred.stlouisfed.org

taylor rules

$$i_{target} = r^* + \pi + \frac{1}{2} imes (inflation \ gap) + \frac{1}{2} imes (output \ gap)$$

$$i_{target} = r^* + \pi + \frac{1}{2} \times (inflation \ gap) + \frac{1}{2} \times (output \ gap)$$

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the Taylor rule

$$i_{target} = r^* + \pi + \frac{1}{2} \times (inflation \ gap) + \frac{1}{2} \times (output \ gap)$$

where π is the actual inflation rate; and r^* is the equilibrium real federal funds rate.

the Taylor rule

$$i_{target} = r^* + \pi + \frac{1}{2} \times (inflation \ gap) + \frac{1}{2} \times (output \ gap)$$

where π is the actual inflation rate; and r^* is the equilibrium real federal funds rate.











Takeaways

balancing act: $S - I < 0 \Leftrightarrow NX < 0$

buried treasury: $\frac{debt}{gdp}$ \uparrow and $\$ \downarrow \Leftrightarrow i \uparrow$

steepening twist: buried treasury + uncertainty $\Rightarrow i_{LT} \uparrow + i_{ST} \downarrow$

r-star is born: $r^* \uparrow \Rightarrow i_{ST} \uparrow$

taylor rules: $r^* \uparrow$ and $\pi \uparrow \Rightarrow i_{ST} \uparrow$

thank you

...and save the date:

October 1, 2025 at the Sanford PREMIER Center, Sioux Falls

SDLLC.2025