Ivory’s Economic Outlook

SPRING 2025 • IVORY JOHNSON; CFP®, CHFC; FOUNDER; DELANCEY WEALTH MANAGEMENT, LLC

“Philosophy is common sense with big words.”.
James Madison, 4th President of the United States

En route to spring semester of my sophomore year I rode back to Penn State with Remi from Brooklyn and Brian who lived off of 14th and 8th, at least until my six cylinders of freedom huffed and puffed all the way to the side of the road, exhausted by the neglect of a college student who got something for free. I called my dad from a gas station and thankfully he picked us up to make the final stretch back to campus. It wasn’t an act of love so much as he had paid the tuition and wanted his money’s worth of instruction.

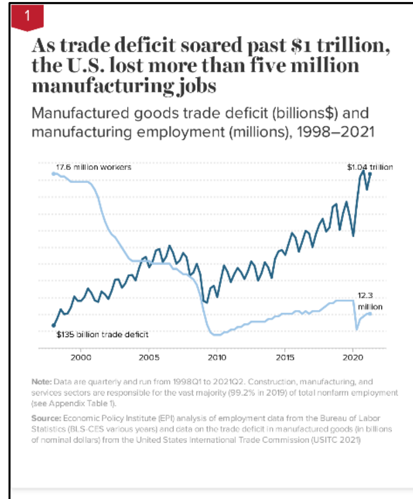
Relieved that we were back on the road I turned on the radio and searched for a station in the middle of what we called nowhere and the people living there considered paradise, hoping to find something with a fresh beat in a haystack of soft rock compositions. Jackpot! There was rap music in the mountains serenading my dad’s 1981 Oldsmobile ’88. We listened for a few seconds, long enough to bop our heads up and down, when my dad asked if we liked the song on the radio. Remi thought he was making conversation, Brian knew better, and I braced for the worst. Within a blink of a twitched eyelid he announced, “well you better hurry up and listen to it because I’m not listening to this crap in my car” and quickly changed the station to jazz.

Market volatility comes at you faster than you think and Kangol hat wearing John Coltrane enthusiasts won’t come to the rescue if the global trade landscape is turned upside down. One minute you’re riding a wave of economic growth and the next thing you know you’re doing fast math on tariffs like a 1970’s numbers runner. Yes, it’s messy, but we are essentially resetting the global monetary system and five decades of trade policies because the current structure is unsustainable.

The United States has the dominant reserve currency status, which means the dollar is the predominant currency held on the balance sheets of central banks in other countries. The dollar used to be exchangeable for gold to prevent our government from increasing the supply of paper money and debasing the currency. In the wake of the Vietnam War and social spending, France and England saw the graffiti on the wall, lost faith and wanted their gold back. Unfortunately, we didn’t have the gold to give and so Nixon ended the gold standard in 1971[i]. From this point on our currency wasn’t backed by anything of value.

To preserve the reserve currency status that allowed the U.S. to keep running a deficit, we agreed to send Saudi Arabia military weapons in exchange for them pricing oil in dollars[ii]. This meant that the world needed dollars to buy oil, which was awfully convenient because we were creating dollars as we spent more money than a drunken college student with a credit card.

Our hand was all the way in the cookie jar once the deficit spending had an accomplice, and since the world needed more and more dollars as the global economy grew, a trade deficit became attractive. When our consumers buy more products from overseas than we purchase from them, foreign countries get the dollars they need to buy oil and settle international transactions. This was a deal with the devil and since the devil charges on helluva hard bargain, we end up where we are today.



Globalism is the sort of thing that sounded good at the time, a "rising tide lifts all ships" fairy tale sold to the American middle class as a magic potion for the wealth gap that was about to expand. In the wake of NAFTA (1994), U.S. trade with Mexico and Canada tripled[iii], consumer prices declined and our companies improved efficiencies by integrating supply chains. International collaboration accelerated with the WTO (1995) as standardized shipping containers and just-in-time manufacturing allowed firms to capitalize on lower tariff barriers negotiated under these two agreements.

There was, however, an erosion of blue-collar jobs that created a simmering anger and a vague demand for a reset some 30 years later, even if it was unclear what exactly should be demanded or how things would be reset. According to the book "No Trade is Free" by former U.S. Trade Representative Bob Lighthizer, "between 2000 and 2016, the U.S. lost nearly 5 million manufacturing jobs". Gil Scott Heron warned us that dignity doesn't show up on P&L reports when he sang "I saw my daddy meet the mailman, and I heard the mailman say, now don't you take this letter to heart now Jimmy, 'cause they've laid off nine others today, but he didn't know what he was saying, he could hardly understand, that he was only talking, to pieces of a man".

America had changed the station - we supplied the world with dollars and hollowed out the industrial base in the process. The United States currently has a $24 trillion net asset deficit with the rest of the world[iv] because they own more of our assets than we own of theirs. The plan to supply the world with dollars inflated U.S. financial assets once foreign investors used the excess dollars to buy stocks and real estate that many of the marginalized blue-collar workers didn't own. It seems that segments of the middle class became collateral damage for stock market mania just as globalism paved the way for a K shaped economy that was supposed to remain silent. To make matters worse, the excess supply of dollars destroys the purchasing power of consumers because those dollars in our pocket are the equivalent of ice cubes that melt.

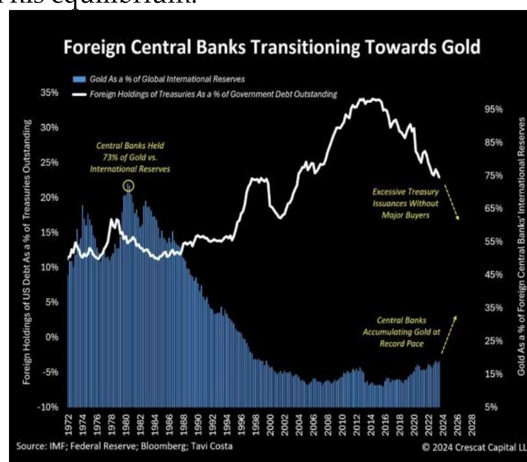
All these years later we are left with $36 trillion in debt and $73 trillion in unfunded liabilities[v]. This did not happen overnight, instead it is a problem child left at the doorstep of one president after another that has now grown into adulthood. Nobody wants to say the quiet part out loud, but the United States will have a difficult time paying the tab.

News that we spend more money on interest payments than we do on the military is not only noteworthy[vi], but highlights the motivation to push interest rates lower by hook, crook or a manufactured economic slowdown right before we refinance $5.3 trillion over a three-month period[vii]. We are threading the needle, albeit with a sledgehammer that increases the odds that something breaks. This predicament, wedged between a rock and rising expenses, explains why the United States has gambled the dollar dominance as if it were something that could be returned after seven years of filing for bankruptcy, or worse yet, repurchased at an IMF pawn shop.

Truth be told, we can't afford to defend the world any more than we can absorb higher borrowing costs. The dominance of the dollar, however, comes with significant advantages that include the ability to sanction bad actors. When Japan trades with India, they must convert yen to dollars and use those dollars to buy rupees on the foreign exchange market. The dollar serves as a weigh station even in a transaction that doesn't involve an American firm.

Edward Fishman explained in "Chokepoints, American Power in the Age of Economic Warfare" that the infrastructure undergirding the world economy facilitating cross border transactions are either American or follow U.S. law. Locking Iran out of the dollar market, for instance, made global trade difficult, akin to traveling the world without a passport, and allowed America to secure the nuclear deal without firing a shot. The United States has spent a considerable amount of political capital weaponizing the U.S. dollar against Iran, China and Russia with mixed results and lots of ruffled feathers. A country overseas might begin to ask themselves "if they can do it to them, they could do it to us". Lo and behold a preemptive trade war unfolds.

The newly implemented tariffs are being described by some as a negotiating tactic. It's hard to argue that our allies pay their fair share for military protection or that foreign markets are as open to our companies as our market is to theirs, but it sure is nice to have the primary reserve currency status that allows us to accumulate the debts that we have at the pace that we do with a mountain of unfunded liabilities sitting on our balance sheet like Humpty Dumpty trying to maintain his equilibrium.



The mere suggestion seems farfetched with 90% of all transactions being settled with the U.S. dollar[viii], 70% of international bonds denominated in the greenback and 57% of all central banks using dollar denominated holdings as a reserve asset[ix]. Nevertheless, the unlikely went from impossible to plausible when markets recently saw the dollar decline and treasury rates increase when investors shunned treasury bonds as a safe haven and fled to gold[x]. Be that as it may, the rabbit not only has a gun, but it is keenly aware that the U.S. doesn't want to get shot. Make no mistake about it, their gun might not be as big as ours, but those bullets would still hurt.

The matter at hand is more about diversifying away from the dollar than it is an abandonment. Why would investors diversify their dollar holdings in the first place? Financial distress and the loss of a store of value would motivate central banks and foreign investors to find an alternative to the dollar. Geopolitical shifts would push the capital markets towards de-dollarization if rival powers emerged, new alliances were formed or there was a perceived U.S. sanction overreach. The demand for dollars would also decline if major oil producers began selling oil in other currencies or if there was a question about the rule of law that would impair the ability to enforce a contract.

These events, coupled with our mounting debt, have led to speculation about whether foreign central banks would accelerate the diversification of their balance sheets and what instruments would be used to circumvent the dollar for international transactions. These could include bitcoin, not as a medium of exchange for daily trade, but as a neutral, decentralized reserve asset similar to digital gold. Unlike fiat currencies or even stablecoins, bitcoin is not issued by any government, making it attractive to countries or institutions looking to hedge against currency debasement or geopolitical risk.

As more countries seek to reduce their reliance on the dollar, commodity-backed or multi-currency stablecoins could serve as a neutral medium of exchange. For example, a BRICS-backed stablecoin might be tied to a mix of gold, oil, the Chinese yuan, and the Indian rupee, offering a credible alternative to the dollar for international trade settlements. These digital currencies could run on decentralized or consortium blockchains, allowing countries to settle transactions directly with each other without converting to dollars or relying on dollar-dominated financial infrastructure.

All of this requires trust in non-dollar systems that must be built, particularly when it comes to the credibility of backing mechanisms. The idea that alternative markets currently have the liquidity of the dollar is a fallacy. Moreover, rival nations must cooperate economically and technologically to establish shared financial rails, which is challenging due to geopolitical tensions.

Ultimately, the erosion of dollar dominance through digital assets or gold is not likely to be sudden or absolute given the strength of our economy, but rather a gradual shift toward a multipolar financial system. In this emerging landscape, the dollar should remain dominant, even if it is not unrivaled as digital assets and precious metals open the door to alternative systems of value that operate outside the traditional monetary order.

For our purposes, let's agree that the global financial system might be in transition and we should hedge our bets because the range of what can happen is wide. Like it or not, we cannot continue to engage in obscene deficit spending that promotes this much of a trade imbalance so Uncle Sam can create an unlimited supply of dollars to send overseas, particularly if the middle-class gets the short end of the stick and can't afford to buy carrots. This road could remain rocky until certainty is restored to the markets. In the meantime, time we'll maintain our positions in gold, bitcoin, cash and vehicles that own stocks in way that hedges against volatility. There's no shame in not having a crystal ball. After all, it's not the crime that got Nixon in trouble; it was the cover up.

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[i] *The Crime of '71: When Nixon Ended the Dollar's Last Connection to Gold; Mises Institute; 8/13/2021*
[ii] *The Petrodollar Is Dead, Long Live the Petrodollar; Bloomberg; 6/27/2024*
[iii] *Council of Foreign Relations*
[iv] *42 Macro Research*
[v] *Medicare and Social Security Are Responsible for 100 Percent of US Unfunded Obligations, CATO Institute; 3/20/2024*
[vi] *Council of Foreign Relations*
[vii] *42 Macro Research*
[viii] *Chokepoints, American Power in the Age of Economic Warfare; Edward Fishman*
[ix] *IMF*
[x] *Trump tariffs drove a Treasury sell-off — who sold the safe-haven asset?; CNBC.com; 4/15/2025*