Zimmerman Family Papers

Frederick M. Zimmerman, PhD

5300 Woodhill Road Unit 342
Minnetonka, Minnesota 55345
612-867-8368

Zimmerman Newsletter – May 7, 2025

Influencing the economy of the United States is not easy. As citizens, we need to bring in revenue, pay bills, attract and compensate employees, obtain needed materials and components, keep abreast of emerging technologies, maintain incentives, and sustain systems of order and compliance that are respected by our citizens and other entities throughout the world.

Unfortunately, very few of the influential variables integral to our complex economy are easily managed by either industrial or political leaders. A few can be gently and carefully influenced to achieve modest changes, some of which might even make things better, but most of the important variables are beyond our reach. As the respected financier Ray Dalio has described, the world economy is influenced by powerful world trends such as heavy debt loads, populism, costly conflicts, climate change, and shifting technologies. Each of these trends is substantial and some are probabilistic. But all of these need to be considered when formulating policies.

Variable # 1 Competition for Debt

The world has no shortage of borrowers. Sovereign countries, major institutions, corporations, and consumers all seek, and need money for their pursuits. With relatively low savings rates in the United States and ever-increasing borrowings, lenders can be picky. With the US Dollar gradually declining in value, the intrinsic value of US debt is not as appealing as it once was. As Ogden Nash wrote several decades ago:

There is one rile in banking,

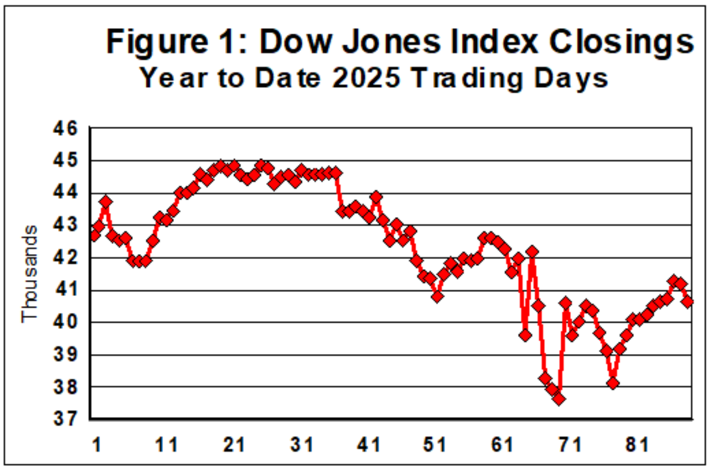
not a banker fails to heed it.

Never lend money to a man

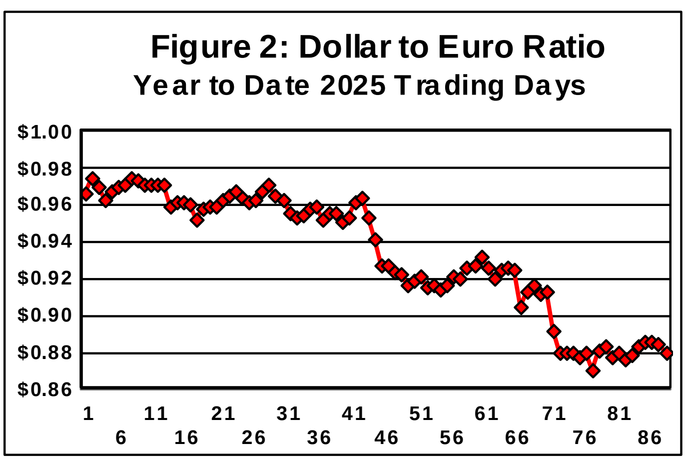
unless he doesn't need it.

Japan, China, the United Kingdom, Luxembourg, and Canada are all substantial holders of US Debt. Japan and China have historically been the largest foreign holders. As borrowers, we do need to wonder if our largest creditors will purchase US debt with the same enthusiasm that they have previously exhibited.

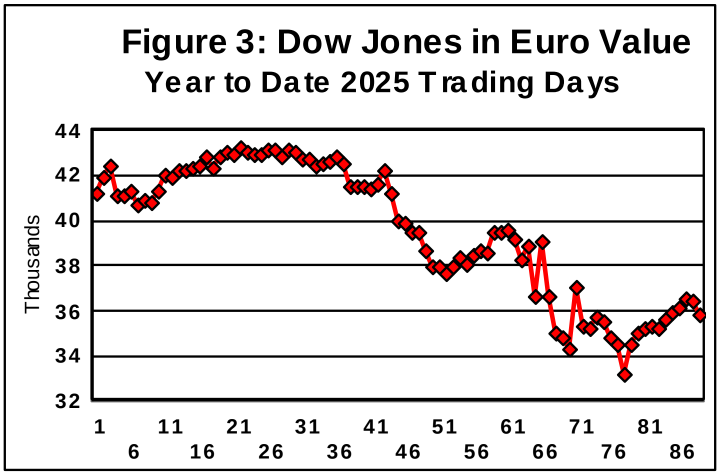
There have now been 86 trading days in 2025 which have produced alarming fluctuations and some precipitous declines. In general, The Dow Jones Industrial Index has recovered much of the decline it experienced following the announcements of the recent tariffs, but it is still down about four percent since January 1



But the decline in equity markets is not our only worry. The US Dollar has slipped and recovered very little of its lost value. Compared to the Euro, our national currency has lost close to nine percent of its value during the first four months of 2025. In one sense, the declining value of the US dollar may indicate the declining appeal of US debt among foreign investors.



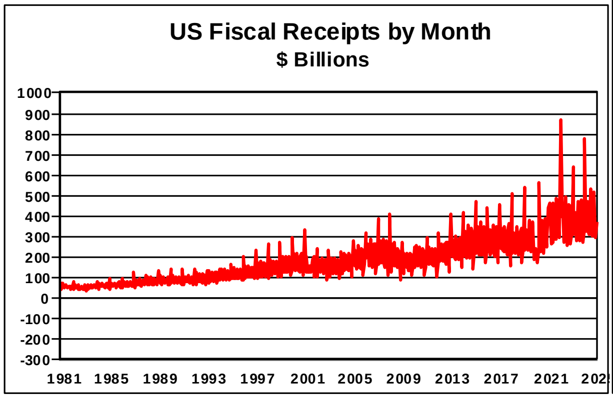
The combination of these two recent changes, the decline in our financial markets and the slipping value of our national currency, paints a more problematic picture for our financial future. The Dow Jones is essentially a dollar denominated index, but Figure 3 shows what that index would look like if it were denominated in Euros.

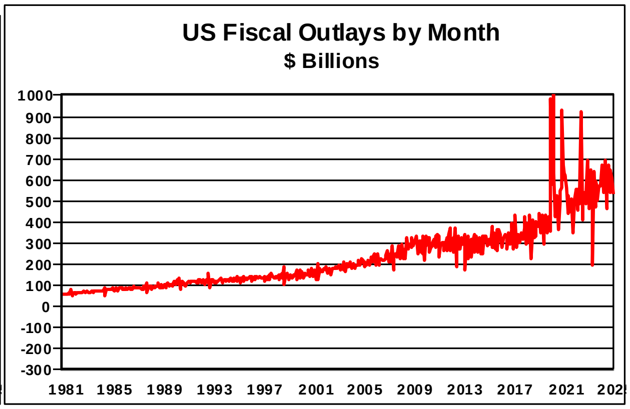


In one sense, the slipping value of the US Dollar may well be more threatening to the future prosperity of our nation than current fluctuations in equity markets. It is difficult to see how it is good for the future financial structure of the United States if lenders see shrinking value of their loans denominated in US dollars. Such a trend could develop into the combined difficulties of higher prices, higher interest rates, and a slower economy – all at the same time.

How are we doing, now?

The United States Treasury does publish monthly totals for receipts, outlays, and deficits. The data set that we are working with here goes back to October of 1980. US monthly outlays are a bit less varied but consistently increasing at higher levels.





As is noticeable on closer inspection, US Treasury receipts are more volatile than outlays, though outlays can also vary when traumatic events such as wars and pandemics trigger extraneous large expenditures.

Receipts are also normally more seasonable than expenditures. Since 1981, every month has averaged between 7.4 and 8.9 percent of outlays for the entire year. However, the month of April has historically accounted for more than thirteen percent of the US Treasury receipts for the entire year. Due to the quarterly obligations of most tax obligations, June, September, and December also show prominence.

Seasonal Adjustment Factors by Month 1981 to 2025			
Month	**Receipts**	**Outlays**	
January	9.80%	7.43%	
February	5.28%	8.42%	
March	6.72%	8.82%	
April	13.23%	8.61%	
May	6.71%	8.43%	
June	10.19%	8.89%	
Jully	7.12%	8.18%	
August	6.74%	8.17%	
September	10.65%	7.97%	
October	7.05%	8.18%	
November	6.37%	8.31%	
December	10.13%	8.60%	
T otal Year	**100.00%**	**100.00%**	

With both receipts and outlays fluctuating during the year, it is difficult for observers to determine whether our fiscal situation is getting better or worse. This ambiguity can be reduced by employing the same sort of seasonal adjustments used by both major retailers and other analytical organizations to better analyze short-term trends. For instance, in July of 2013, the US Treasury had receipts of $ 200.030 billion. Dividing $200.030 billion by the .0712 seasonal (or monthly) adjustment factor might suggest that the US Treasury was receiving receipts at the rate of $2.808 Trillion per year. Indeed, $2,812 Trillion were the actual Receipts for all of 2013. By using adjustment factors similar to those described in this example, we are better able to see whether things are getting better or getting worse.

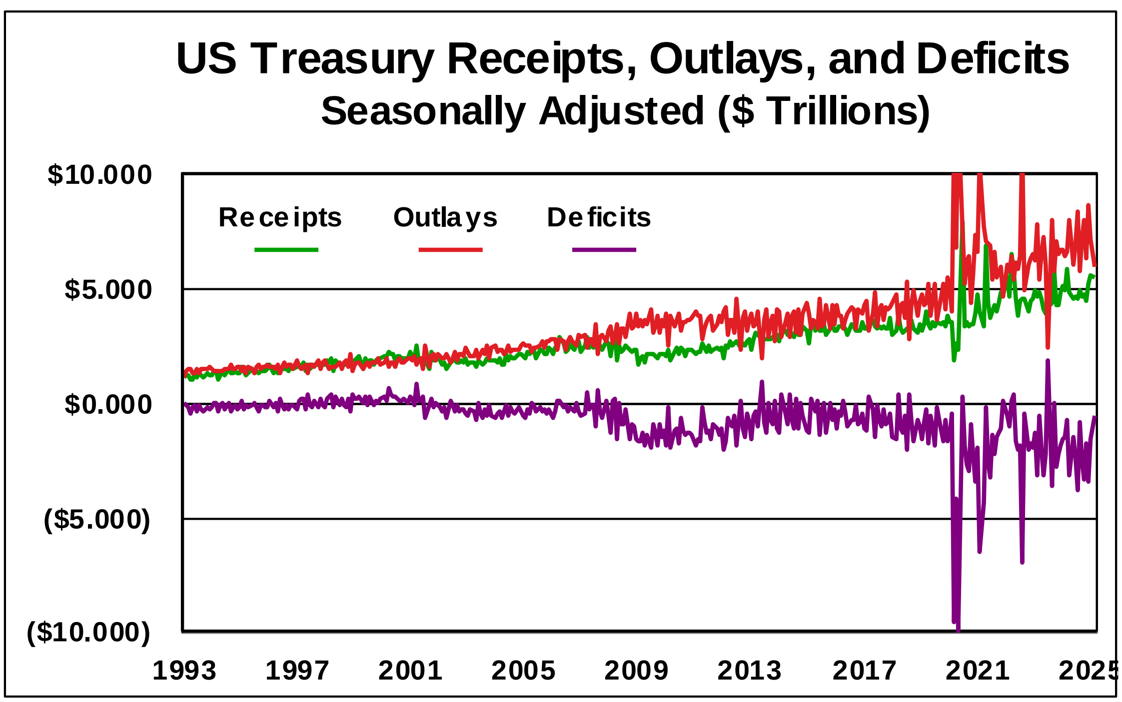
Things are not getting better. They are getting worse. The debt situation is precarious. With a US National Debt of $36.22 Trillion, **the US national debt is more than twice that of China, roughly three times that of Japan, and almost twice the combined total of India, France, Brazil, Germany, Italy, the UK, and Canada combined.**

There are two problems with our national debt. It is big and it is growing. With the growth in our national debt, and the decline in the value of our currency in which our debt is denominated, we are losing our appeal as a credible borrower. So, interest rates may rise.

The US Federal Reserve Bank has taken some criticism for not lowering interest rates. But if the Fed did lower rates, the US Dollar would likely decline further in value – most likely leading to higher inflation and even more uncertainty for the US economy.

As capable as the US Federal Reserve Bank is, it does not control all world financial markets. Basic investor preferences, along with the credit worthiness of the United States, become major factors in what interest rates will be.

The financial aspects of the US economy have been mismanaged by both the Executive and Legislative branches of the US Government for several decades with neither Party governing with distinction. With respect to our country's financial condition, the statistical differences between our major parties is trivial.



Actions we might Consider – and Reject

In general, the financial situation of the United States is essentially an arithmetic problem. In order to avoid extensive financial difficulties, cash in must exceed cash out, or at least come close. By any acceptable financial standards, **we are spending too much, but we are also collecting too little. Both are problems that cannot be ignored.**

This dilemma of needing to both collect more and spend less will limit the practical options we have before us. In our current financial situation, tax cuts are likely to prove quite dangerous. As citizens, we need to pay more money. As government officials, we need to collect it. As managers, we all must do more to improve our efficiency. Constructive changes to our tax collection system are likely going to be imperative to improve collections.

It is both sobering and motivating to examine the share of expected revenue that will likely be consumed by seven major spending categories. US fiscal deficits have ranged from $800 Billion in 2018 to $3.2 Trillion in 2020. Using 2024 history as a rough estimate of current spending on major spending categories, it could be argued that these seven rather inflexible budget categories will account for around 125 percent of usual Federal Government Revenue.

Table 1-- Major Expense Categories as a 5 of Revenue			
US Federal Spending	% of Costs	% of Revenue	
Social Security	22.00%	30.20%	
Interest & Service on	14.00%	19.20%	
Public Health	13.00%	17.80%	
Medicare	13.00%	17.80%	
National Defense	13.00%	17.80%	
Income Security	11.00%	15.10%	
Veterans Benefits	5.00%	6.90%	
Estimates for 2024	91.00%	124.80%	

There is also the possibility that some of these existing costs may increase. For instance, if interest rates on our national debt rise by one half of one percent, $180 Billion will be added annually to our national expenditures.

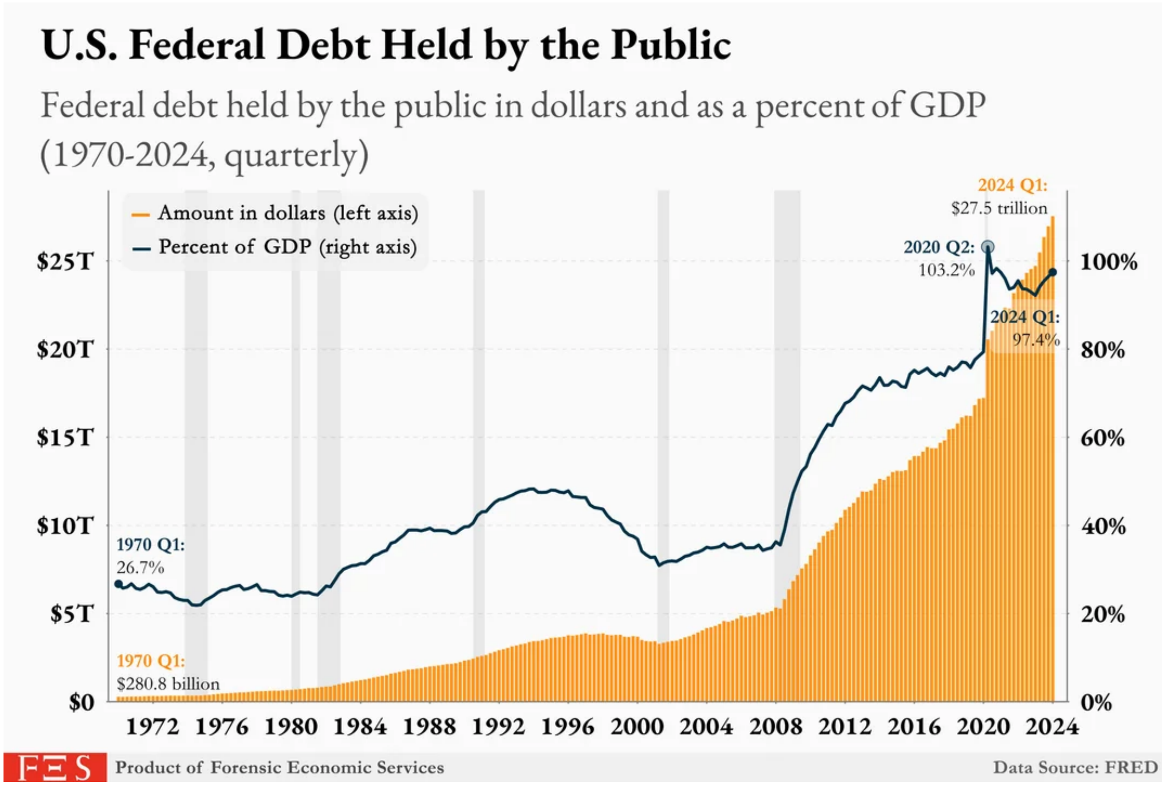
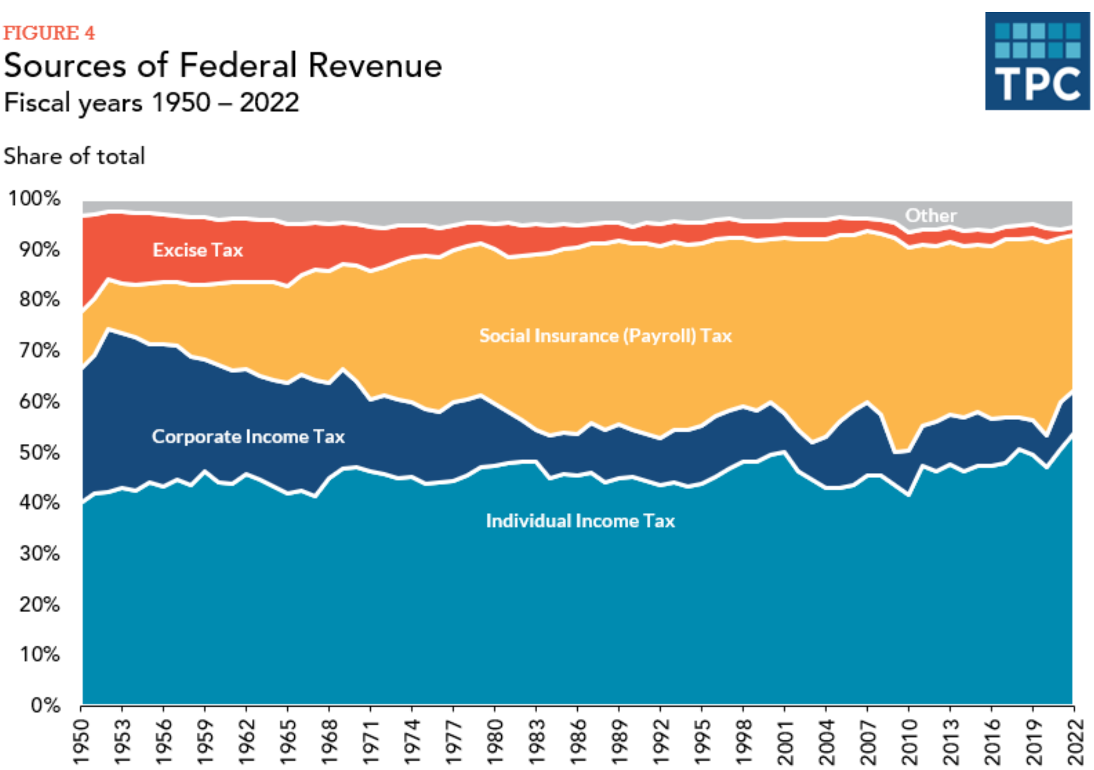


FIGURE 4

Sources of Federal Revenue

Fiscal years 1950 – 2022



Source: Office of Management and Budget. Historical Tables. Table 2.1, "Receipts by Source: 1934–2028," March 2023.

The financial condition of the United States is unappreciated, dependent on influential crucial factors, and is quite precarious. Our population is old but often dedicated. Our industries have been capable, but many of them have been hollowed out by predatory financial moves. And our fiscal affairs at the aggregate level have been mismanaged for several decades. During the past fifty years, the United States fiscal budget has been in the black four times, most recently in 2001. Our national debt, now $36 Trillion, has increased by several trillions of dollars in every recent administration, independent of party affiliation. The world is taking notice and as a result, we are on the precipice of major societal and economic disruption.

I appreciate those who are interested in workable solutions to the problems before us. I am sure that the offerings of others are at least equal to the material I have presented here.

Thank you for your time.

Frederick M. Zimmerman, PhD

Dr. Fred Zimmerman is Professor Emeritus of Engineering and Management at the University of St. Thomas in St. Paul, Minnesota. He has served in industry, written books on the industrial economy, and served on the boards of directors of more than ten companies.

More information is available at https://zimmermanfamilypapers.online/