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Debt/GDP? A Better Framework Delivers Bad News For US

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Jl-Analytics (JIA) provides government financial performance benchmarking analytics based on an insightful proprietary framework applied to governments around the world. Their recent analysis of the US federal government delivers a stark, motivating message.

The financial position of the federal government of the United States has deteriorated dramatically since 2007, and so has JIA's broader "Citizens' Wealth" measure coupling government finances with overall economic output. The timing of the 2007 inflection point – a stark reversal from trends in previous decades -- raises troubling questions about the quality of our federal government's financial management.

Two days ago, JIA took out a full-page ad in the Financial Times summarizing their review of results for the US federal government since the mid-1970s. Here's a look at the summary table:

U.S. Federal Government: Citizens' Wealth Framework 12 KPIs Comparison: 2007 to 2023 with 1974 to 2007

# Citizens' Wealth Framework 12 KPIs	<u>2007 to 2023</u>	<u>1974 to 2007</u>	<u>Comparative</u>
	<u>(16 years)</u>	<u>(33 years)</u>	<u>Annualized Ratio</u> <u>(16 years / 33 years)</u>
1. CW - per person: Change	-\$48,732	\$5,881	Negative from Positive
2. GTNW - per person: Change	-\$82,423	-\$34,888	487%
3. CW (GTNW) % of GDP: Change	-67pps	-25pps	558%
4. GDP/GTNW "multiplier"	0.4x	1.2x	35%
5. GTNW/GDP "inverse multiplier"	2.4x	0.9x	286%
6. CW Created/Destroyed "return"	-59%	17%	Negative from Positive
7. CW Created/Destroyed Per Day - billions	-\$4.7	\$0.3	Negative from Positive
8. CW Change "swing" - per person	-\$11,821	-\$9,976	244%
	<u>Latest U.S.</u>		
	<u>Government Financial</u>	<u>Year Before Financial</u>	<u>1st U.S. Government</u>
	<u>Report</u>	<u>Crisis</u>	<u>Financial Report</u>
	<u>2023</u>	<u>2007</u>	<u>1974</u>
9. CW - per person: Year-end	-\$39,687	\$9,045	\$3,164
10. GTNW - per person: Year-end	-\$121,373	-\$38,950	-\$4,062
11. GTNW % of GDP: Year-end	-149%	-81%	-56%
12. CW % of GDP: Year-end	-49%	19%	44%

Source: JI-Analytics High Value-add Analytics (HVA) #611, October 2024. JI-Analytics is the world's best government financial performance benchmarking firm. www.jianalytics.com.

The results in the table are based on JIA's analysis of federal government financial statements and economic data since 1974, when our federal government first provided consolidated financial statements on a consistent and comparable basis, including statements like balance sheets and income statements long produced in the private sector.

JIA calls its method a "Citizens' Wealth Framework." This is a healthy perspective for anyone concerned that government financial performance should matter most importantly for the citizens served by government, not for actors who place their current self-interest above the long-term best interest of the country.

In JIA's first "Key Performance Indicator" – KPI #1 – reported in the table above – "CW per person: Change," the "CW" is the abbreviation for "Citizens Wealth," calculated as "GDP + GTNW," which is Gross Domestic Product (GDP) plus Government Total Net Worth (GTNW).

Much of the world focuses on measures of government debt relative to GDP, a worthy but limited indicator that can turn into a dangerously flawed government financial performance framework when used in isolation. For JIA, what matters is not the overall stock of government financial debt, but the Government Total Net Worth (financial and non-financial assets less financial and non-financial debt), and in turn, the economic output for the country served by the government. An increase in government financial debt and/or a decrease in Government Total Net Worth are not necessarily value-destructive if they support productive investment and lead to greater economic output for society.

What does JIA's analysis of the longer-term trends in the US reveal? From 1974 to 2007, "Citizens' Wealth" in the US increased on a per-person basis. But the improvement over those 33 years was then erased by a marked deterioration from 2007 to 2023 -- nearly 10 times the magnitude of the 1974-2007 change, even as the period covered for results in the first column in the table was only half the number of years of the second column.

The 2007-2023 deterioration in "Citizens' Wealth" was driven by more rapid erosion in federal Government Total Net Worth than in previous decades, coupled with economic growth insufficient to offset the fiscal erosion. That is reflected in the "multiplier" – KPI #4 – results reported in JIA's table.

The top half of the table – KPIs #1 to #8 – relates to "performance over a period of time" indicators, while the bottom half – KPIs #9 to #12 – relates to "point in time" financial positions, including those implied in the federal government's latest financial report (for FY 2023). But comparing those latest results to earlier reports, including the year before the financial crisis and the first (1974) financial report on which they relied, delivers a similarly dark set of results.

On a per-person basis, "Citizens' Wealth" tripled to a positive \$9,000 in 2007 from 1974, then dove to a negative \$40,000 in 2023. The improvement from 1974 to 2007 arose as economic growth offset the deterioration in the federal Government Total Net Worth, but the rate of deterioration in the federal Government Total Net Worth accelerated from 2007 to 2023, leading to a decline, not an increase, in "Citizen's Wealth" on a per-person basis.

Federal Government Total Net Worth isn't just "the government's" financial position. It is OUR government's financial position. That helps illustrate the value of JIA's "Citizens' Wealth" framework – and to motivate educational efforts helping citizens understand government financial performance. In full disclosure, I have served as a consultant for JIA, and was drawn to work with them by their framework and the hard work of their team.

Why did 2007 show up as such a stark inflection point in JIA's results? Where you stand depends on where you sit, but one can argue that the federal government's bailouts for the 2007-2009 financial crisis were both directly and indirectly responsible. Once the floodgates of public money were opened for powerful forces that drove the crisis in the first place, a broader range of groups adopted a "where's mine?" approach, intensifying their pressure on government to spend money for their own special needs and wants, too.

Meanwhile, JIA's "Citizens' Wealth" results suggest our federal government's bang-for-the-buck has really been bang – a negative one – for the average Joe and Jane. If government should serve the common good and the general welfare, these are not passing grades.

Article: <https://govmoneynews.com/bills-blog/f/debtgdp-a-better-framework-delivers-bad-news-for-us>