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US Government Profligacy and National Wealth Destruction

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We have already explored how money supply growth is threatening us with a return to inflation. (See http://www.clearandcandid.com/why-so-many-fear-a-return-to-inflation/) Much of the risk until recently has emanated from incredible surges in government spending related to recovering from the financial crisis as well as coping with Covid-19. However, unlike the period post-financial crisis, where the Federal government quickly reduced deficits, the present administration appears to be on a spending spree, which will result in a massive destruction in national wealth.

Federal Government Deficits (Fiscal Year) as a Percent of GDP

2009	9.8
2010	8.6
2011	8.3
2012	6.7
2013	4.1
2014	2.8
2015	2.4
2016	3.1
2017	3.4
2018	3.8
2019	4.6
2020	17.9
2021.	9.8*

*Estimated

Given that we have had two major crises, both of which have been dealt with through massive fiscal stimulus, we are now saddled with a huge federal government debt and, in some instances, massive state debts.

US National Debt (Trillions of $)

2009	11.9
2010	13.6
2011	14.8
2012	16.1
2013	16.7
2014	17.8
2015	18.2
2016	19.6
2017	20.2
2018	21.5
2019	22.7
2020	27.2
3/21	28.0

These numbers are *mindboggling*! It's not really possible for us to get our heads around these staggering levels of debt. At the same time, the overall level of revenue, even when we combine federal, state and local governments only totaled about $5.8 trillion in 2020.

Debt-to-Revenue

Traditionally, when examining sovereign creditworthiness, economists often looked to a so-called debt-to-revenue ratio. Historically, whenever that ratio rose above 250 percent, there was a significant risk that a government might face a fiscal crisis. The US Federal government number for debt/revenue is approaching 500 percent! In fact, if we were to add state and local governments to the debt level, the ratio would easily exceed 500 percent. The US never even approached that level of debt/revenue during WWII.

What is extremely worrisome is that the present administration appears set to continue the massive spending spree even as the country winds down from the disruption caused by Covid-19. Spending proposals appear to be a wish list put together by people with little concern about what this profligacy will do to the country over time.

Infrastructure in Name Only

For instance, the oddly named infrastructure proposal is front and center. Spending about $2.9 trillion, most of which has little to do with traditional infrastructure and through an Orwellian turn of phrase includes things that historically would have been called *entitlements* not infrastructure is being proposed. The proposal is a being *sold* as a plan that will be funded by taxes. However, even with the large tax increases proposed by the administration, the plan for financing the proposal is deeply flawed.

Flawed Financing

The proposal indicates that the spending will occur over approximately eight years. However, the proposal's tax plan will actually need to be financed over fifteen years, not the stated ten years. Over $900 billion in additional revenue, will be needed to fully finance this program. It's obfuscation on a grand scale.

As noted above, we see that once the financial crisis had passed, deficits went down. However, all the new proposals by the administration appear to indicate that even now that the pandemic is becoming less meaningful, deficits would likely remain very high into the foreseeable future. After all, besides the infrastructure proposal, the administration passed a massive Covid-19 stimulus bill worth $1.9 trillion. In addition, there is serious talk about a so-called *Green New Deal.* ***Spending under the new administration is completely out of control*****.**

Traditional measures of sovereign risk such as debt-to-revenue, or even debt-to-GDP, plus many more traditional measures don't fully capture the wealth destruction we are witnessing as well as the deterioration in the creditworthiness of the US government.

Citizens' Wealth

I would argue that the greatest advance in sovereign risk analysis has been the development of a measure of Citizens' Wealth (CW). This methodology was first developed by Paul Kazarian (Chairman and CEO of Japonica Partners) and his colleagues at the Kazarian Center for Public Financial Management (KZPFM).

The new approach uses a balance-sheet to measure a national government's performance. Most traditional analysis of sovereign risk has been derived from economic analysis, not accounting. I would argue the two modes of analysis can play a complementary role, but where a government's balance-sheet should play an integral part in government risk analysis and decision making.

The first part of the analysis calculates the net worth of the US government. Total assets and liabilities, using generally accepted international accounting standards, are totaled. We then compare that total to GDP. From the table below, we can see how the net worth of the US government has steadily deteriorated.

US Government Net Worth as a Percent of GDP *

2000	-70
2005	-81
2010	-109
2011	-114
2012.	-118
2013.	-119
2014	-118
2015	-117
2016	-120
2017	-120
2018	-120
2019	-122
2020 (est.).	-147

***Source: KCPFM**

There was a sharp deterioration following the financial crisis. However, the government's negative net worth stabilized through the second Obama administration and remained stable in the Trump administration, at least until Covid-19 hit in 2020. Then, not surprisingly given massive fiscal stimulus, US government net worth nosedived, representing a one-year decline that was twice as large as the next biggest decline in the last 20 years!

Per Capita Citizen's Wealth Falling Fast

Once government net worth has been calculated, it is an easy next step to calculate US Government per capita Citizens' Wealth. We simply add per capita net wealth of the government to per capita GDP or overall income generated by the economy. We can then see how the average citizen has become burdened with the growing deterioration in the government's balance sheet.

US Government's Per Capita Citizens' Wealth ($) *

2000	10,931
2005	8,817
2006	8,592
2007	8,961
2008	5,790
2009	382
2010	-4,577
2011	-7,096
2012	-9,996
2013	-9,972
2014	-10,128
2015	-9,624
2016	-11,385
2017	12,298
2018	-12,635
2019	-14,327
2020 (est.)	-29,393

*Source: KCPFM

As the net worth of the government declines, so does per capita Citizens' Wealth (CW), except here we see how terrible the deterioration in net worth has become. When we realize that the present administration appears hell-bent on adding to the debt with little concern about where we will be in not just the long run but over the next 3-5 years, the country is facing a potential creditworthiness crisis.

A Lethal Brew?

As discussed in my previous blog regarding the risk of inflation, this surge in debt is being financed by the Federal Reserve printing money on a massive, unprecedented scale. If we begin to see the inflation rate tick up, then the burden of this enormous debt will cause major disruptions.

In case you believe that Covid-19 would always lead to such a deterioration in a government's balance sheet as well in a country's citizens' wealth, I should point out that over this same period, New Zealand, which follows strict internationally accepted accounting standards when deciding its government's policies, actually saw a rise in its citizens' wealth.

The deterioration in US CW must be stopped. The only way to affectively do that is for deficit spending to be reduced ASAP and dramatically.

Summary

The US is at a financial crossroads. Government spending is out-of-control. Combined with a similar out-of-control Federal Reserve we have all the ingredients for another financial crisis, but this time centered on the Federal government and certain overly indebted states. Time is growing short to reverse this trend.

As always, **Clear and Candid.**

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