

The US Government's Assets and Debts

Our Editorial Board has spent a substantial amount of time reviewing the US Government's annual "budget" (ie, the "annual deficit") along with the related Financial Statements of the US Government that are published by the US Department of the Treasury in cooperation with the Office of Management and Budget (OMB). We have provided a link to the most current Financial Report of the U.S. Government, which is for the fiscal year ending on September 30, 2012. [embed link here].

The purpose of this conversation piece is to provide our thoughts and observations on the US Government's Financial Statements. We have approached this exercise as business people who understand the nature of business, and the nature of the assets owned by an enterprise, along with that enterprise's obligations.

First - The "bad news" - - The assets owned by the US Government (as defined) total \$2.7 trillion, and the liabilities owed by the US Government (as defined) total \$18.8 trillion - therefore We the People are \$16.1 trillion in the hole. Also, We The People need to keep in mind that foreign governments hold more than \$4.5 trillion of this debt, and the largest foreign holder of US debt is China, which owns more than \$1.2 trillion. (However, it can be argued - and it has been argued - both positively and negatively - that China's holding of US debt is a good thing.... or a bad thing). Having said that.... It doesn't matter who holds our debt paper - we believe that any US government debt owed to anyone is a bad thing, because it means that the US government is not living within its means.

Second - The "worse news" - - If you were to include "on book" the present value of unfunded intergenerational social obligations for Social Security and Medicare, the amount of the US Government's liabilities would increase by another \$48.5 trillion, over and above the amount published in its annual report. (However, see our separate Conversation Pieces on Social Security and Medicare).

Third - The "worst news" - - We continue to head in the wrong direction at an accelerating pace. The budgeted deficit for 2013 (additional borrowing / debt) was another \$868 billion. The table below tracks the cumulative government debt over the past 10 years (it is not going down) -

2003 - \$6.8 trillion, 2004 - \$7.4 trillion, 2005 - \$7.9 trillion, 2006 - \$8.5 trillion, 2007 - \$9.0 trillion, 2008 - \$10.0 trillion, 2009 - \$11.9 trillion, 2010 - \$13.5 trillion, 2011 - \$14.8 trillion, 2012 - \$16.1 trillion,

Now, some good news - - The US Government's financial statements do not include all of the assets owned by the US Government. The value(s) of the following assets are nowhere to be found in the US Government's financial statements - the interstate highway system, national parks, other land owned by the US government, etc. There is a footnote within the financial statements that indicates the "remaining depreciable net value" of certain military property, plant and equipment is included in the country's total assets, but a separate specific value for those military assets is not disclosed (appropriately), nor is there any way to determine what the "intrinsic useful value" of those type of assets might be. (Who can put a dollar figure on the true value of the country's nuclear deterrent?)

One last issue.... There is a generally accepted accounting concept regarding "intangible" assets (which include "goodwill"). You can look at goodwill as being the excess of favors bestowed versus favors received. Our Editorial Board believes that the country still maintains a little bit of positive goodwill that was banked with the French for D-Day (but you can never tell with the French). It is

generally understood that the value of the country's goodwill goes up and down every day, depending on whether we're doing something good somewhere in the world, or if we're spying on our allies.

The bottom line is that the United States of America is far from being bankrupt - - we are certain that the value of what we have going for us exceeds our obligations. However, having said that... The cumulative US debt is real and it must be addressed, which means that we need to re-structure the operations of the US government, so that it not only lives within its means, but for a period of time over the next several years, the tax revenues of the US government will need to exceed its spending, so that the current generation of responsible citizens can begin to pay down the existing US debt. This task must be undertaken by our generation - **not** our children's generation, and **not** our grandchildren's generation.

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