USA Inc. (Mar '25)

A Basic Summary of America's Financial Statements - Revisiting our 2011 Report

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March 2025

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Introduction

Over the last 14 years, the state of our country's finances has profoundly deteriorated. Metrics that we analyzed in our 2011 report *USA Inc., A Basic Summary of America's Financial Statements* show – as we had feared – a dramatic decline in America's ability to handle many of the social, economic, and international challenges that lie ahead. Beneath the surface, financial "results" – treating the government as if it were a corporation – conceal a buildup in structural weakness that can jeopardize our country's standing in the world. The growth and general inefficiency in public spending (and regulation) of all sorts – but especially related to entitlements and interest expense – appears unsustainable.

Paying for the debt we have collectively assumed is increasingly likely to crowd out future opportunities. Simply put, the abnormally low interest rates prevailing in the early years of this century allowed our elected and appointed leaders to avoid making the difficult decisions needed to restore our finances to long-term stability. Had effective interest rates remained at their longer-term average, America's annual net interest payments would have been nearly $1 trillion higher. Adding state and local government debt adjusted to include the real long-term impacts of public retirement costs, the "net worth" of our country is deteriorating rapidly – leaving our flexibility to handle real national crises greatly diminished. This document is a 2025 update to the summary section of our 2011 report.

USA Inc., A Basic Summary of America's Financial Statements – **Revisiting our 2011 Report**

Mary Meeker & Alexander Krey

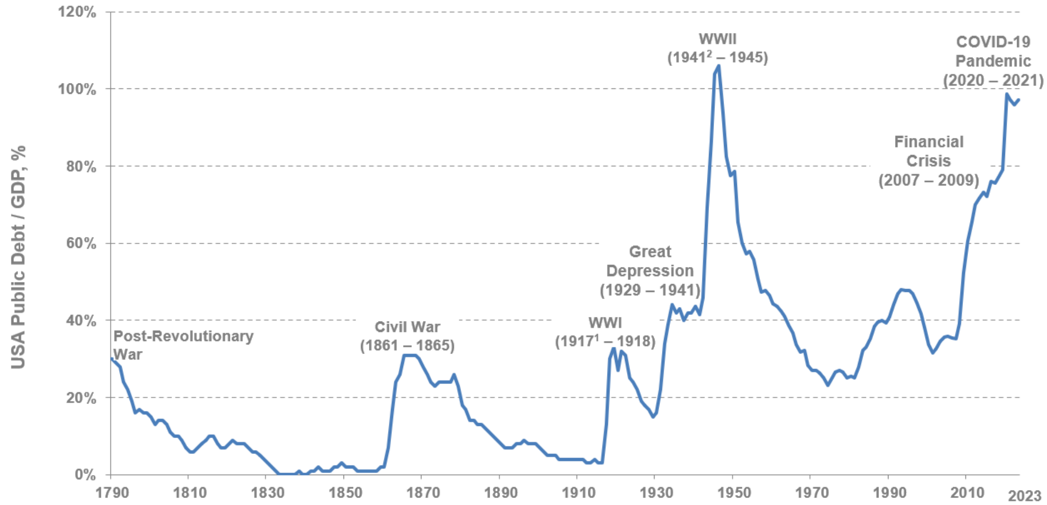
In mid-2009, as America was working its way out of the financial crisis, we were preparing a document focused on key economic metrics and the emergence of the mobile Internet and social networking. We also focused on the nagging problem of steadily rising domestic debt levels (especially government debt).

This work led us to ask the question, "What would America's income statement look like if we were to model it out the same way we model Google?" This took us on a journey that led us to publish *USA, Inc., A Basic Summary of America's Financial Statements* in February 2011. Here's a link to the 266-page document…and the same as a book. We released the report into the public domain as a source document. For us it was "one and done" and back to our day jobs.

But we remained concerned that debt was rising at rates in excess of economic growth (evinced by trends in the ratio of USA Public Debt to GDP) – especially during a novel period of government-driven interest rate declines (a.k.a. borrowing). Our worries never went away…in fact they rose dramatically.

USA Public Debt to GDP Ratio = Rising Materially Over 15 Years (@ 97% in 2023 vs. 39% in 2008)… Near Anomalous WWII Levels

USA Public Debt / GDP Ratio, 1790 – 2023



1. While WWI began in 1914, the US entered in 1917. 2. While WWII began in 1939, the US entered in 1941
Note: USA Public Debt is all federal debt held by individuals, corporations, state or local governments, Federal Reserve Banks, foreign governments, and other entities outside the United States Government. GDP measures the value of all goods and services produced in the USA during the period shown. Source: Congressional Budget Office Long-Term Outlook (3/24); Historical Statistics of the United States, Colonial Times to 1970

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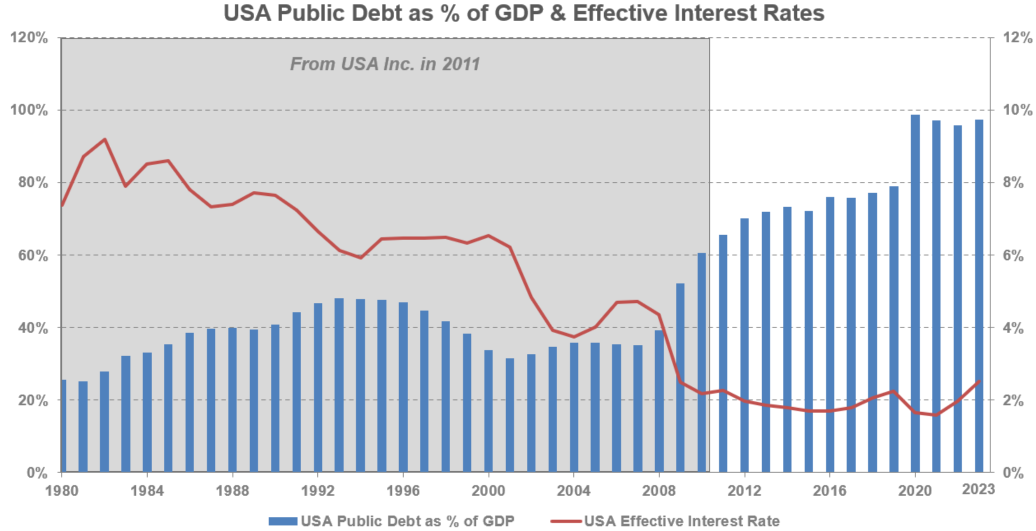
Since 2008, USA, Inc's. Public Debt as % of GDP Rose 148%… While Effective Interest Rates* Fell 64% to Historically Low Levels (2021)… Since Then, Interest Rates Have Risen 59%, Driving Up Effective Cost of Debt

USA Public Debt as % of GDP & Effective Interest Rates



*Note: USA Public Debt is all federal debt held by individuals, corporations, state or local governments, Federal Reserve Banks, foreign governments, and other entities outside the United States Government. GDP measures the value of all goods and services produced in the USA during the period shown. *Effective interest rate is the weighted average interest rate paid on federal government debt in that financial year and is different from treasury yields.*
Source: Congressional Budget Office (CBO) Long-Term Budget Outlook (1/25), White House Office of Management and Budget (OMB).

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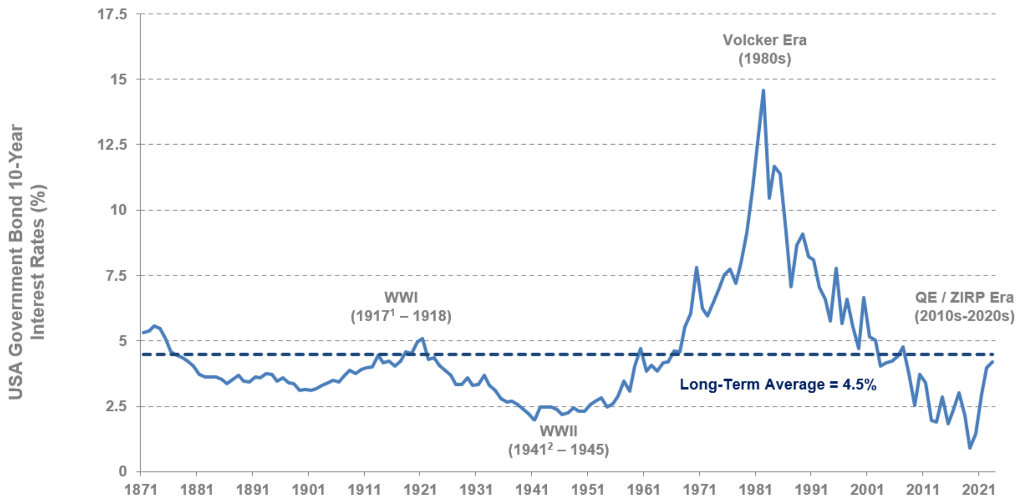
Nominal Interest Rates* (1871 – 2023) = 2000s & 2010s Declines Were Not Normal… Especially During Relatively Good Economic Times

USA Long-Term Interest Rates (10-Year), 1871 – 2023



1. While WWI began in 1914, the US entered in 1917. 2. While WWII began in 1939, the US entered in 1941
* Nominal interest rates unadjusted for impacts of inflation.
Source: Robert Shiller, original from Market Volatility (Cambridge, MA: MIT Press, 1989), subsequent data updates at http://www.econ.yale.edu/~shiller/data.htm; US Treasury Department.

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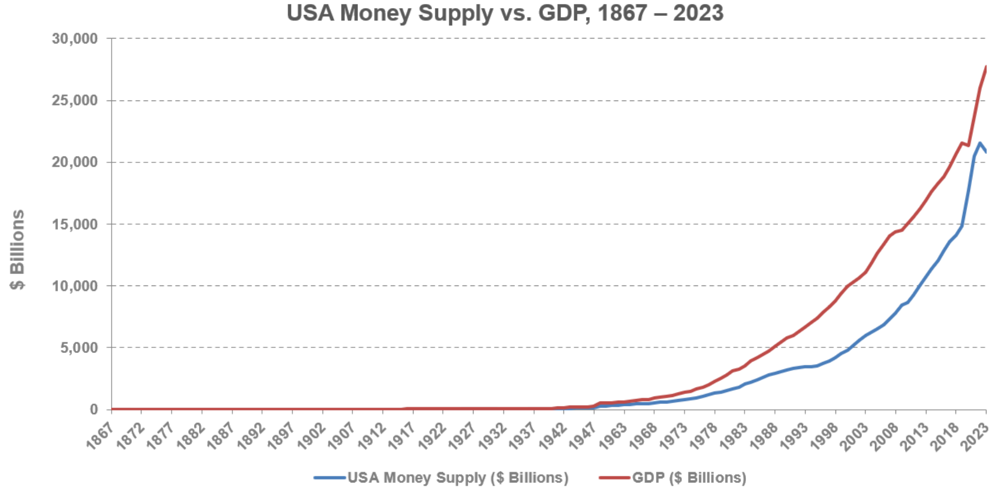
USA Money Supply Rising Rapidly = 167% Growth Over 15 Years (2023 vs. 2008)...Accelerated Briskly in 2019… Money Printing Growing Faster Than GDP (USA Inc.'s Output) = Unsustainable

USA Money Supply vs. GDP, 1867 – 2023



GDP : Money Supply Ratio — 1867 – 1899: **4.5x** — 1900 – 1947: **2.3x** — 1959 – 2023: **1.7x**

Note: Money Supply includes currency, savings deposits, money market funds, and time deposits under $100,000. Source: 1867-1947: Federal Reserve Bank of St. Louis, "Some Tables of Historical U.S. Currency and Monetary Aggregates Data", published April 2003; 1959-2023: St. Louis FRED M2 and GDP data as of 2/25. Annual average shown.

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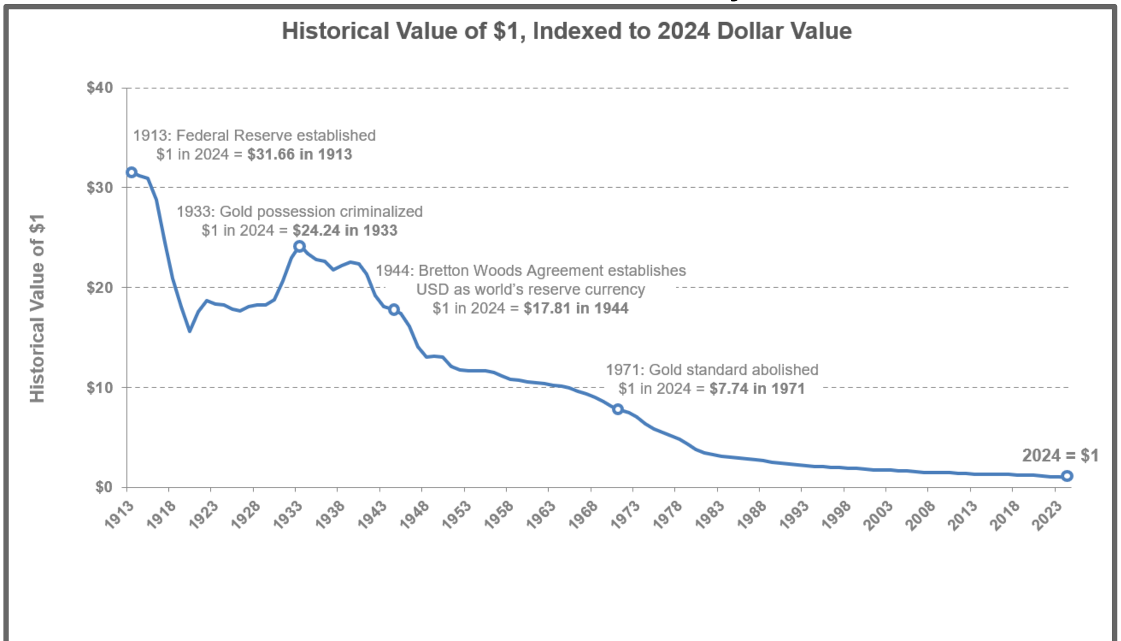
Value of US Dollar Has Fallen Steadily Since 1933



Source: US Federal Reserve of St. Louis (FRED) database – Consumer Price Index for All Urban Consumers

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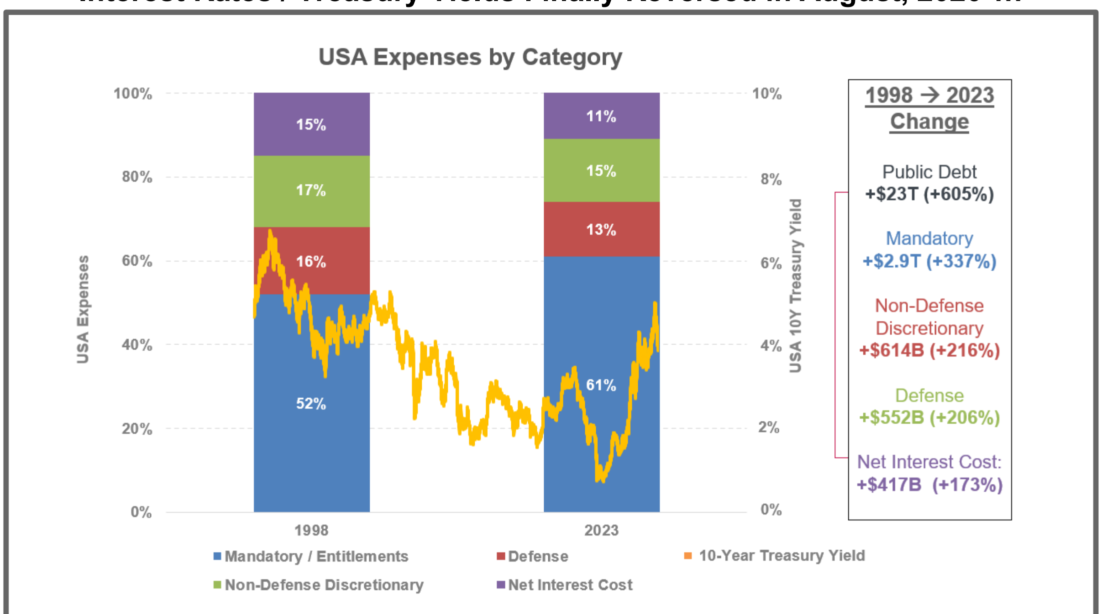
USA Public Debt Up 600%+ Over 25 Years…
While Interest Expense Payments Down to 11% of Spending (vs. 15%)...
Peak-to-Trough 10-Year US Treasury Yield Fell From 6.8% to 0.5% (2000 – 2020)…
Interest Rates / Treasury Yields Finally Reversed in August, 2020*…



Source: Congressional Budget Office, White House Office of Management and Budget, US Treasury
*Note: Yellow line represents yield on 10-year US Treasury bill from 12/31/98 to 12/31/23. *Differs from effective interest rates (total interest paid / net public debt).*

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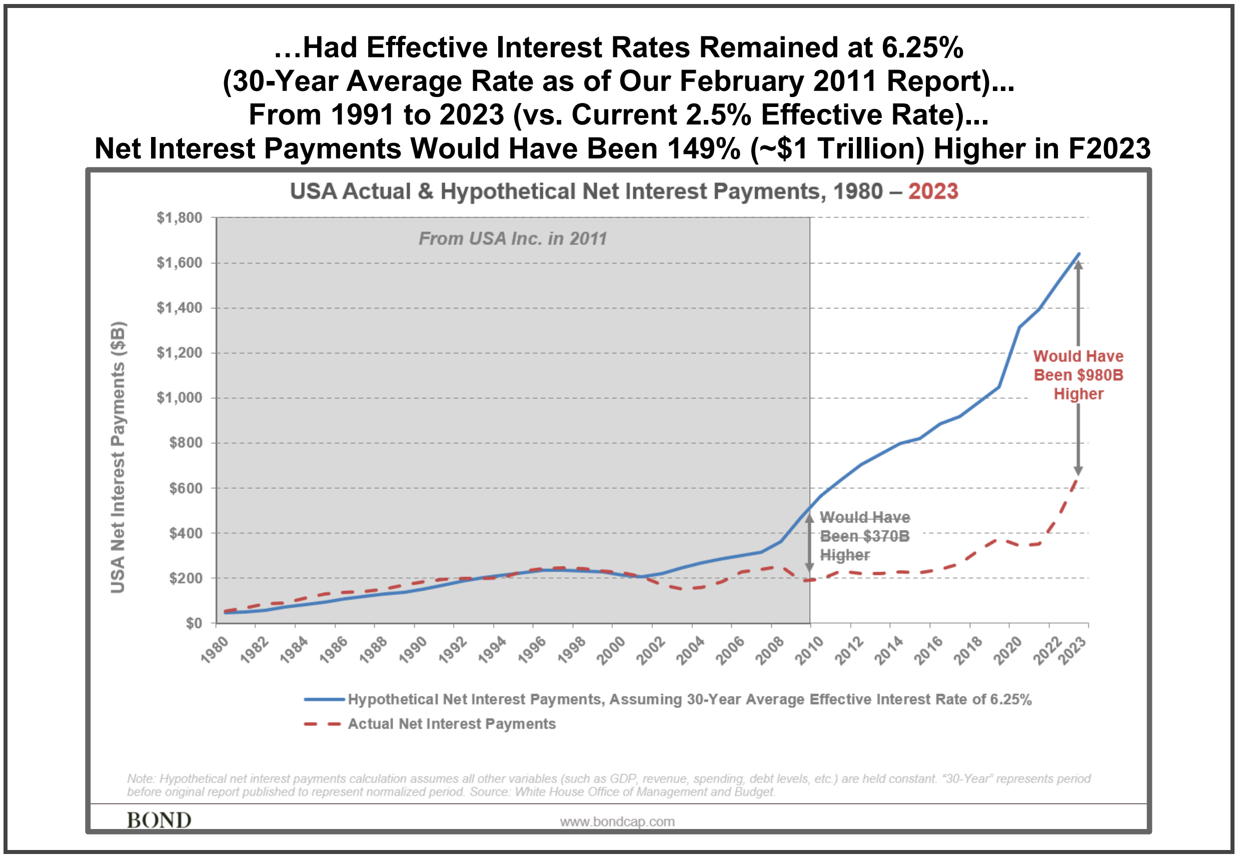


Sadly, most people responsible for managing America's income statement (spending) and balance sheet (borrowing) highlighted in the preceding seven graphs – our collective elected and appointed officials – have not had the resolve to make necessary changes.

Overdue though it may be, the tide may now be shifting. Newly appointed Treasury Secretary Scott Bessent observed during his Senate confirmation hearing on January 16, 2025 – "Productive investment that grows the economy must be prioritized over wasteful spending that drives inflation…We must work to get our fiscal house in order." And, others are stepping up…

We are optimistic that renewed focus (with corresponding urgent solutions) on the rising, unsustainable and often inefficient spending of our government can help re-ignite already impressive innovation and growth in America. Our country – and our world – need it. As Secretary Bessent pointed out, "The breadth and depth of our capital markets, along with predictable pro-growth tax policy, and smart, updated regulation will continue to make America the most popular destination in the world for starting, growing and taking public a business."

With all this in mind, we decided it was time to revisit the 12-page Summary from USA, Inc. which was published fourteen years ago, with a red-line of updated words and data (and additions / clarifications in blue text). In general, the trends continue to be distressing – and getting worse and worse. We thus hope this document helps shine a light on portions of such problematic trends…and that others take the data (from this document and the original report), go deep and improve / expand on them. For us, back to the day job…

Summary (2025 Update)

2011 *USA Inc.* Text Red-Line Updated with Recent (~2023) Actuals + New Observations in Blue…
2011 *USA Inc.* Slides / Charts Updated with Recent Data + New Header Summaries in Blue

Imagine for a moment that the United States government is a public corporation. Imagine that its management structure, fiscal performance, and budget are all up for review. Now imagine that you're a shareholder in USA Inc. How do you feel about your investment?

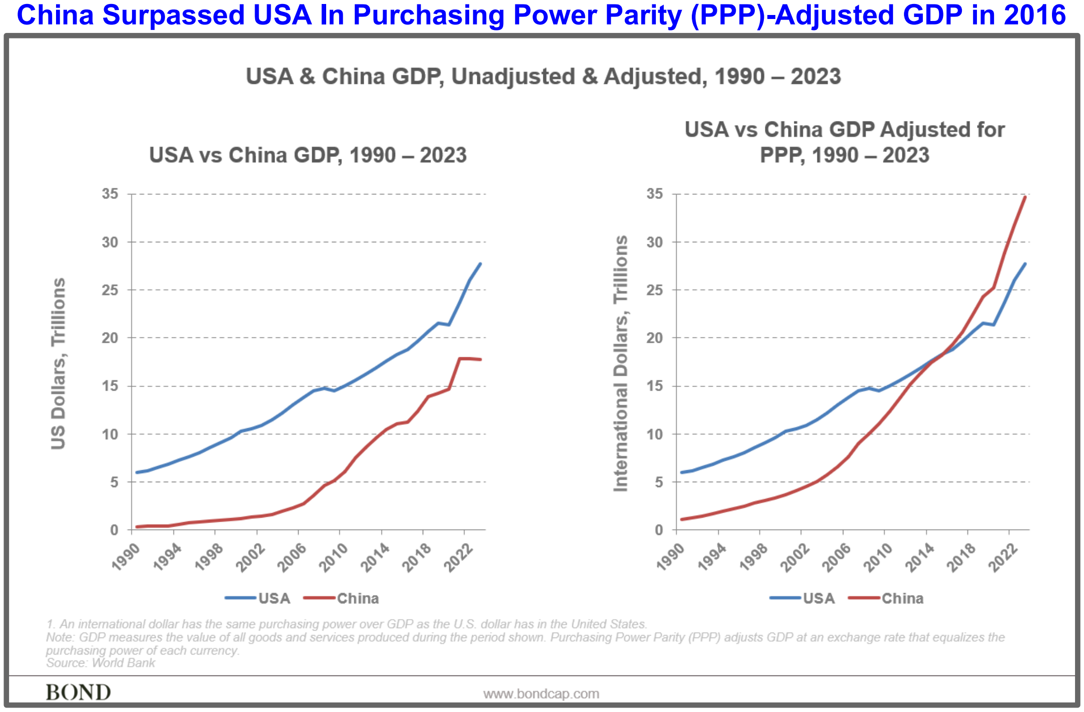
Because ~~45%~~ **61%** of us own shares in publicly traded companies, ~~nearly half~~ **over half** the country expects quarterly updates on our investments. But although **100%** of us are stakeholders in the United States, very few of us look closely at Washington's financials. If we were long-term investors, how would we evaluate the federal government's business model, strategic plans, and operating efficiency? How would we react to its earnings reports? ~~Nearly two-thirds~~ **Some 60%** of all American households pay federal income taxes, but very few of us take the time to dig into the numbers of the entity that, on average, collects 13% of our annual gross income (not counting another 15-30% for payroll and various state and local taxes).

We believe it's especially important to pay closer attention to one of our most important investments.

As American citizens and taxpayers, we care about the future of our country. As investors, we're in an on-going search for data and insights that will help us make more informed investment decisions. It's easier to predict the future if one has a keen understanding of the past, but we found ourselves struggling to find good information about America's finances. So we decided to assemble – in one place and in a user-friendly format – some of the best data about the world's biggest "business."

Note that, in 2011, when *USA, Inc.* was published, America was still the world's biggest "business" based on Gross Domestic Product (GDP) adjusted for Purchasing Power Parity (PPP). While America still leads in absolute GDP, China – as measured by purchasing power parity – has been the largest since 2016, according to the World Bank.

While USA GDP Remains Above China…
China Surpassed USA In Purchasing Power Parity (PPP)-Adjusted GDP in 2016



We also provide some historical context for how USA Inc.'s financial model has evolved over decades. And, as investors, we look at trend lines which help us understand the patterns (and often future directions) of key financial drivers like revenue and expenses.

The complexity of USA Inc.'s challenges is well known, and our presentation is just a starting point; it's far from perfect or complete. But we are convinced that citizens should understand the business of their government. Thomas Jefferson and Alexis de Tocqueville knew that – armed with the right information – the enlightened citizenry of America would make the right decisions. It is our humble hope that a transparent financial framework can help inform future debates.

In the conviction that every citizen should understand the finances of USA Inc. and the plans of its "management team," we examine USA Inc.'s income statement and balance sheet and present them in a basic, easy-to-use format. We summarize our thoughts in PowerPoint form and in this brief text summary at BOND's website. We encourage people to take our data and thoughts and study them, critique them, augment them, share them, and make them better. There's a lot of material – think of it as a book that happens to be a slide presentation.

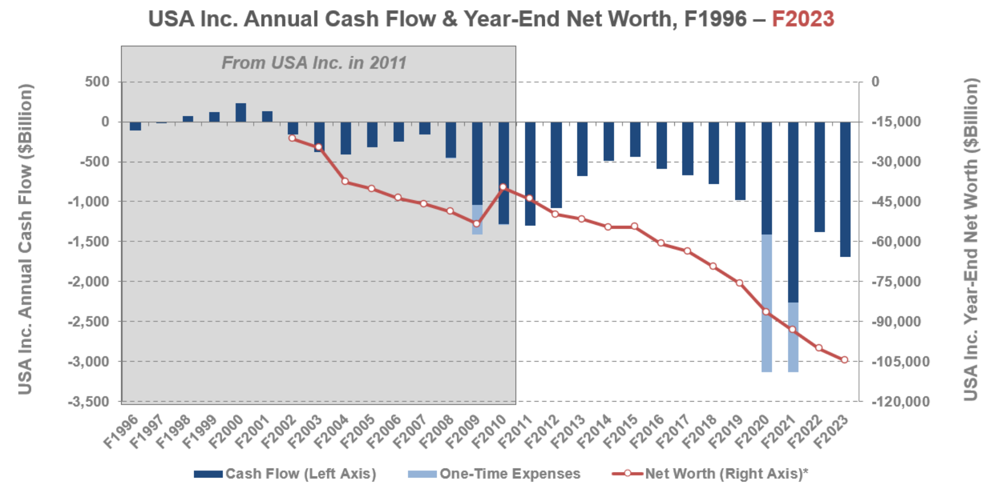
There are two caveats. First, we do not make policy recommendations. We try to help clarify some of the issues in a straightforward, analytical way. We aim to present data, trends, and facts about USA Inc.'s key revenue and expense drivers to provide context for how its financials have reached their present state. Our observations come from publicly available information, and we use the tools of basic financial analysis to interpret it. Forecasts generally come from 3rd-party agencies like the Congressional Budget Office (CBO), the nonpartisan federal agency charged with reviewing the financial impact of legislation. Second, the "devil is in the details." For US policy makers, the timing of material changes will be especially difficult, given the current economic environment.

While we focus on America's federal government, state and local governments face similar long-term financial challenges. The size of state and local government budget deficits**,** per the Census Bureau, was $1 trillion in aggregate in F2022 vs. $70 billion in F2009 (excluding intragovernmental revenue from the federal government) and debt-to-GDP ratio was 12%, on average, in F2022 vs. 7% in F2008. This pales in comparison to the federal government's $1.7 trillion budget deficit and 96% debt-to-GDP ratio in F2022. Note that many have noted that these metrics may actually understate state and local governments' financial challenges by a significant amount because they exclude the long-term cost of public pension and other post employment benefit (OPEB) liabilities. Like USA Inc., state and local governments must meet this fiscal challenge by reducing their outstanding debts and balancing their budgets.

By the standards of any public corporation, USA Inc.'s financials are discouraging.

USA Inc. has many fundamental strengths. On an operating basis (excluding Medicare and Medicaid spending and one-time charges, as a hypothetical exercise), the federal government's profit & loss statement is ~~solid, with a 4% median net margin~~ **fair, running just below breakeven over the last 15 years (see addendum for trending).** But cash flow is deep in the red (by almost ~~$1.3 trillion~~ **$1.7 trillion** last year, or ~~$11,000~~ **-$12,810** per household), and USA Inc.'s net worth is negative and deteriorating. That net worth figure includes the present value of unfunded entitlement liabilities but not hard-to-value assets such as natural resources, the power to tax or mint currency, or what Treasury calls "heritage" or "stewardship assets" like national parks. Nevertheless, the trends are clear, and critical warning signs are evident in nearly every data point we examine.

Since 2002, the Year After USA Last Generated Positive Cash Flow…
America's Net Worth Has Decreased to -$105 Trillion from -$21 Trillion



Note: USA federal fiscal year ends in September; Cash flow = total revenue – total spending on a cash basis; net worth includes unfunded future liabilities from Social Security and Medicare on an accrual basis over the next 75 years using the Statement Of Social Insurance (SOSI) open group figures. One-time expenses in F2008 include $14B payments to Freddie Mac; F2009 includes $279B net TARP payouts, $97B payment to Fannie Mae & Freddie Mac and $40B stimulus spending on discretionary items; F2010 includes $26B net TARP income, $137B stimulus spending and $41B payment to Fannie Mae & Freddie Mac. F2010 net worth improved dramatically owing to revised actuarial estimates for Medicare program resulted from the Healthcare reform legislation. F2020 CARES Act stimulus included $975B of Treasury appropriations (primarily EIP stimulus) and $751B of Small Business Administration appropriations (primarily PPP loans). In F2021, Treasury appropriations were $633B; SBA appropriations were $243B. Other COVID-19 appropriations are difficult to split from departmental funding sources. Source: cash flow per White House Office of Management and Budget; net worth per Dept. of Treasury, "Financial Report of the U.S. Government" (2010-2023)

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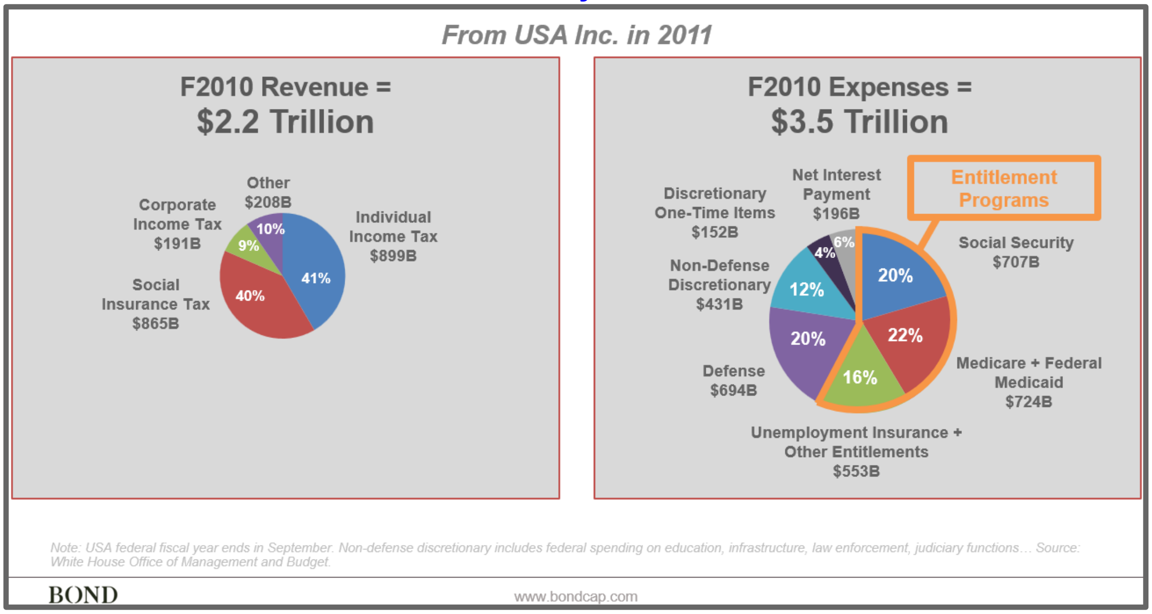
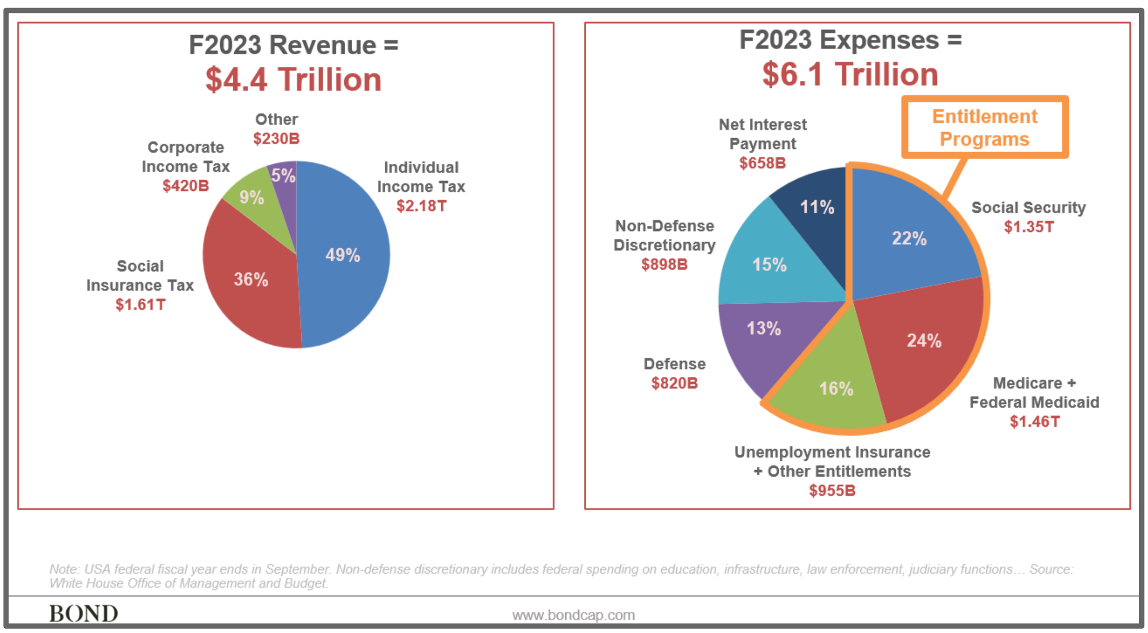
Note: "Net Worth" methodology has changed since USA Inc.'s 2011 publication. In 2011, we estimated the NPV of the next 75 years' worth of liabilities for Social Security & Medicare using a 3% discount rate. In 2006, the White House Office of Management and Budget's (OMB's) "Financial Report of the U.S. Government" began reporting future open-group (i.e., accounting for future participants, as well as current ones) net liabilities for these programs in the Statement of Social Insurance (SOSI), backdated to 2002. To ensure consistency, we have updated the US government's net worth figures (red-line) to reflect these SOSI figures.

Underfunded entitlements are among the most severe financial burdens USA Inc. faces. And because some of the most underfunded programs are intended to help the nation's poorest, the electorate must understand the full dimensions of the challenges.

As we publish this update, entitlements remain a boogeyman of USA Inc. But with the return of higher interest rates in 2022, as predicted, growth in net interest payments now looms large and makes it even more imperative that we resolve the entitlement challenge.

Since 2010, USA, Inc's. Annual Revenue Rose $2.3T While Expenses Rose $2.7T… Net Interest Payments Grew 236% vs. Medicare & Federal Medicaid +102%, Social Security +91%, Unemployment Insurance & Other Entitlements +73%, Non-Defense Discretionary +108% & Defense +18%

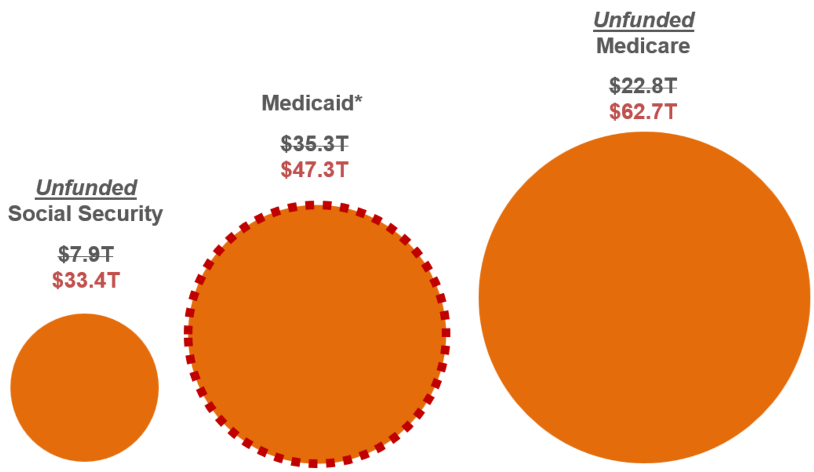




In addition to rapidly rising expenses, USA Inc.'s off-balance sheet liabilities (related to the likes of unfunded future Medicare and Social Security commitments) are, in a word – epic – and rising. These total at least $73 trillion as of F2023 (mostly unfunded Medicare and Social Security obligations, but they include others like future defense discretionary and non-defense discretionary items) and amount to nearly $3 for every $1 of debt on the books. Just as unfunded corporate pensions and other post-employment benefits (OPEB) weigh on public corporations, unfunded entitlements, over time, may increase USA Inc.'s cost of capital. And today's off-balance sheet liabilities will be tomorrow's on-balance sheet debt.

Since 2010, Unfunded Liabilities for Social Security Up ~320% & Medicare Up ~175%... Unfunded Liabilities ~180% Greater than 2023 USA Public Debt… Today's Off-Balance Sheet Liabilities = Tomorrow's Debt

USA Balance Sheet Liabilities Composition, ~~F2010~~ F2023



Note: Medicaid funding is appropriated by Congress (from general tax revenue) on an as-needed basis every year, therefore, there is no need to maintain a contingency reserve, and, unlike Medicare, the "financial status" of the program is not in question from an actuarial perspective. In F2010, we estimated the net present value of future Medicaid spending through 2085E, assuming a 3% discount rate; for F2023, we use the BFS's published figures. Unfunded Medicare figures shown across Parts A, B & D. Data source: Dept. of Treasury, Dept. of Health & Human Services Center for Medicare & Medicaid Services, Bureau of Fiscal Services

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Some consider defense outlays – which have ~~nearly doubled~~ **increased 29%** in the last decade, to ~~5%~~ **3%** of GDP – a principal cause of USA Inc.'s financial dilemma. But defense spending is ~~still~~ **massively** below its average 7% share of GDP from 1948 to 2000; it accounted for ~~20% of the budget in 2010~~ **only 13% of the budget in 2023**, compared with 41% of all government spending between 1789 and 1930. The principal challenges lie elsewhere. Since the Great Depression, USA Inc. has steadily added "business lines" and, with the best of intentions, created various entitlement programs. They serve many of the nation's poorest, whose struggles have been made worse by the recent financial crisis (late 2007 - mid 2009) and COVID (2020-2022). Apart from Social Security and unemployment insurance, however, funding for these programs has been woefully inadequate – and getting worse.

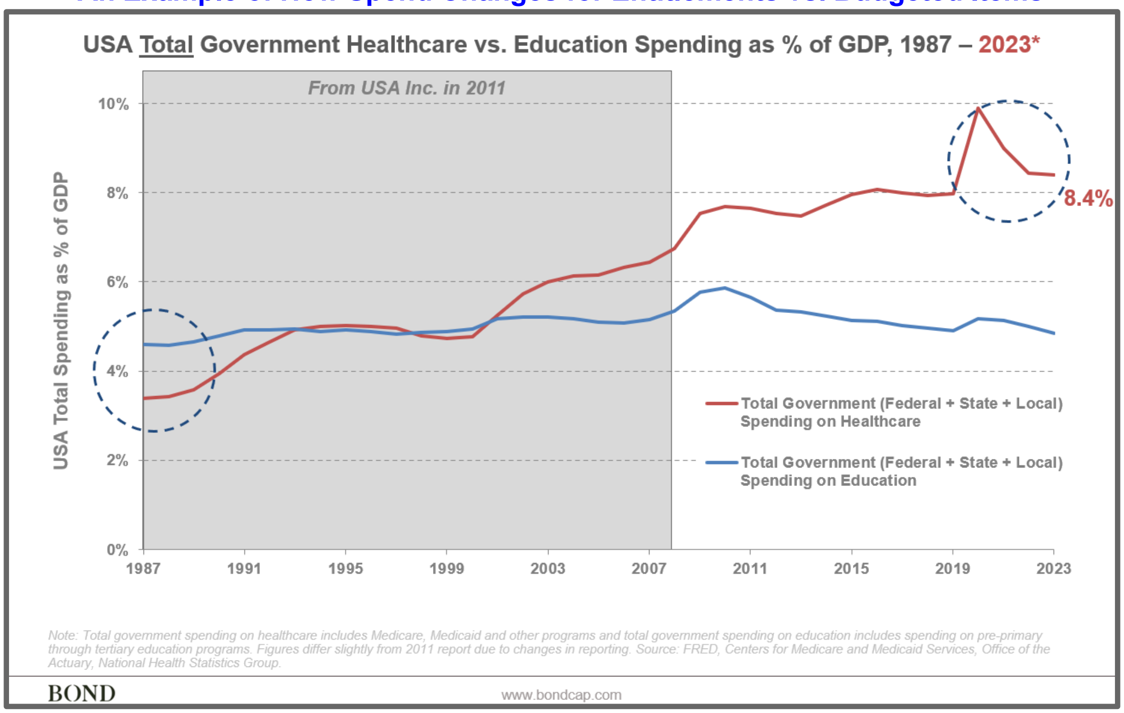
Entitlement expenses amount to ~~$16,000~~ **$25,967** per household per year, and entitlement spending far outstrips funding, by more than ~~$1 trillion~~ **$1.8 trillion** (or ~~$9,000~~ **$13,683** per household) in ~~2010~~ **2023**. ~~More than 35%~~ **Estimates ranging from 30% to 50%** of the US population receives entitlement dollars or is on the government payroll, up from ~20% in 1966. In addition, means-tested programs have grown considerably since we first published USA Inc., as others have highlighted. Given the high correlation of rising entitlement income with declining savings, do Americans feel less compelled to save if they depend on the government for their future savings? It is interesting to note that in China the household savings rate is ~~~36%~~ **~31%**, per our estimates based on CEIC data, in part due to a higher degree of self-reliance – and far fewer established pension plans. In the USA, the personal savings rate (defined as savings as percent of disposable income) was ~~6% in 2010~~ **5% in 2023** and only 4% from 2000 to 2008 – both of which compare poorly to the 1970s, when Americans saved, on average, 12%.

Millions of Americans have come to rely on Medicare and Medicaid – and spending has skyrocketed, to ~~21%~~ 24% of USA Inc.'s total expenses (or ~~$724B~~ $1.46T) in ~~F2010~~ F2023, up from 5% ~~forty~~ fifty years ago.

Together, Medicaid and Medicare – the programs providing health insurance to low-income households and the elderly, respectively – now account for ~~35%~~ **39%** of total healthcare spending in the USA. Since their creation in 1965, both programs have expanded markedly. Medicaid now serves ~~16%~~ **19%** of all Americans, compared with 2% at its inception; Medicare now serves ~~15%~~ **19%** of the population, up from 10% in 1966, in part owing to aging demographics. As more Americans receive benefits and as healthcare costs continue to outstrip GDP growth, total spending for the two entitlement programs is accelerating. Over the last decade alone, Medicaid spending has ~~doubled~~ **increased nearly 65%** in real terms, with total program costs running at ~~$273~~ **$616 billion** in ~~F2010~~ **F2023**. Between 1967 & ~~2010~~ **2023**, real Medicare spending per beneficiary rose ~~36~~ **42 times**. In fact, Medicare spending exceeded related revenues by ~~$272 billion~~ **$481 billion** last year.

Amid the rancor about government's role in healthcare spending, one fact is undeniable: total government spending on healthcare now consumes ~~8.2%~~ 8.4% of GDP, compared with just ~~1.3% fifty years ago~~ 3.4% in 1988. This compares unfavorably to, for example, government expenditures on education – which, over the same period since 1988, have increased only by 0.2pp, from 4.6% to 4.8% of GDP.

Since 1987, Total Government Spending on Healthcare as % of GDP Has Risen 148% to 8.4%...
While Total Government Spending on Education Has Increased Only 6%…
An Example of How Spend Changes for Entitlements vs. Budgeted Items



Note: In 2009, the Center for Medicare & Medicaid Services (CMS) began publishing national healthcare spending data at the "sponsor" level, breaking down spending across federal vs state and local government sources. We use this data to align with sources used in the Office of Management and Budget's "Financial Report of the U.S. Government." The earliest available date for this national healthcare spending data is 1987.

The overall healthcare funding mix in the US is skewed toward private health insurance due to the predominance of employer-sponsored funding (which covers ~~157MM~~ **178MM** working Americans and their families, or ~~58%~~ **54%** of the total population in **2023** ~~2008~~ vs. 64% in 1999). This mixed private-public funding scheme has resulted in implicit cross-subsidies, whereby healthcare providers push costs onto the private market to help subsidize lower payments from public programs. This tends to help drive a cycle of higher private market costs causing higher insurance premiums, leading to the slow erosion of private market coverage and a greater enrollment burden for government programs.

The Patient Protection and Affordable Care Act, enacted in early 2010, includes the biggest changes to healthcare since 1965 and ~~will eventually expand health insurance coverage by ~10%, to 32 million new lives~~ (per HHS) **has**

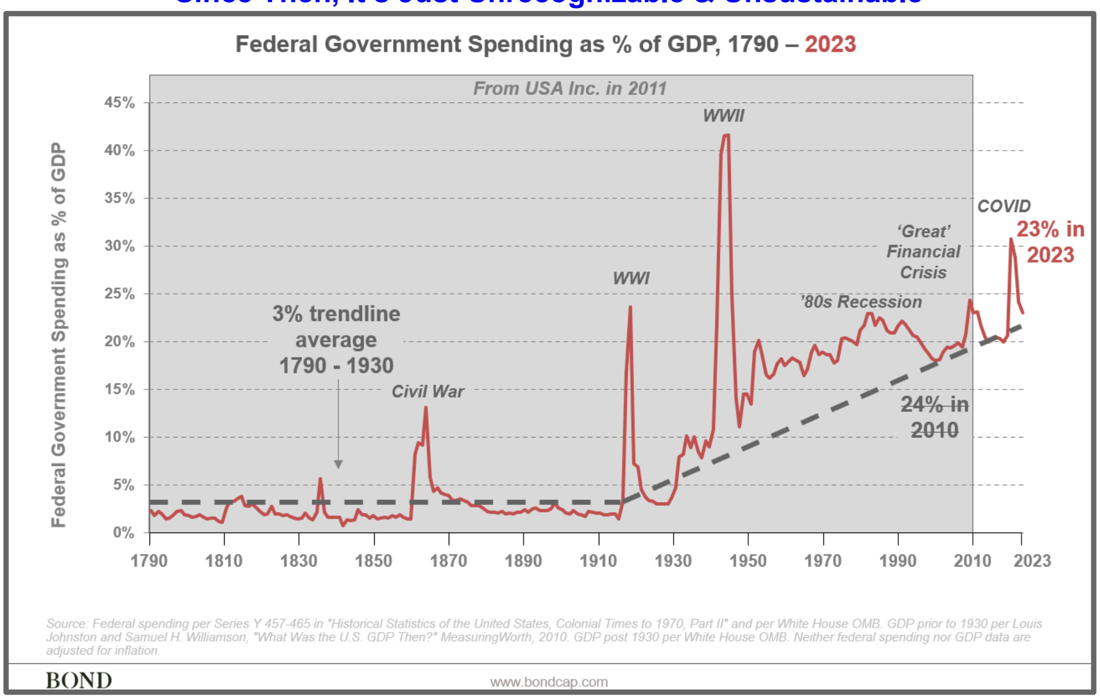
enrolled 21MM new American consumers as of February 2024, or 6% of the US population. Increased access likely means higher spending if healthcare costs continue to grow 2 percentage points faster than per capita income (as they have over the past 40 years). ~~The CBO sees a potential $143B reduction in the deficit over the next 10 years, but this assumes that growth in Medicare costs will slow – an assumption the CBO admits is highly uncertain.~~ Under current policy, the CBO no longer forecasts this reduction in the deficit, and at the same time, the Government Accountability Office (GAO), the agency tasked with the nation's fiscal simulations, now forecasts — using CBO assumptions — that the federal government's healthcare spending will steadily rise from 5.6% of GDP in 2023 to 8.2% of GDP by 2052.

Unemployment Insurance ~~and Social Security are~~ is adequately funded...for now. ~~Their~~ Its future, unfortunately, isn't so clear. And Social Security is in rough shape.

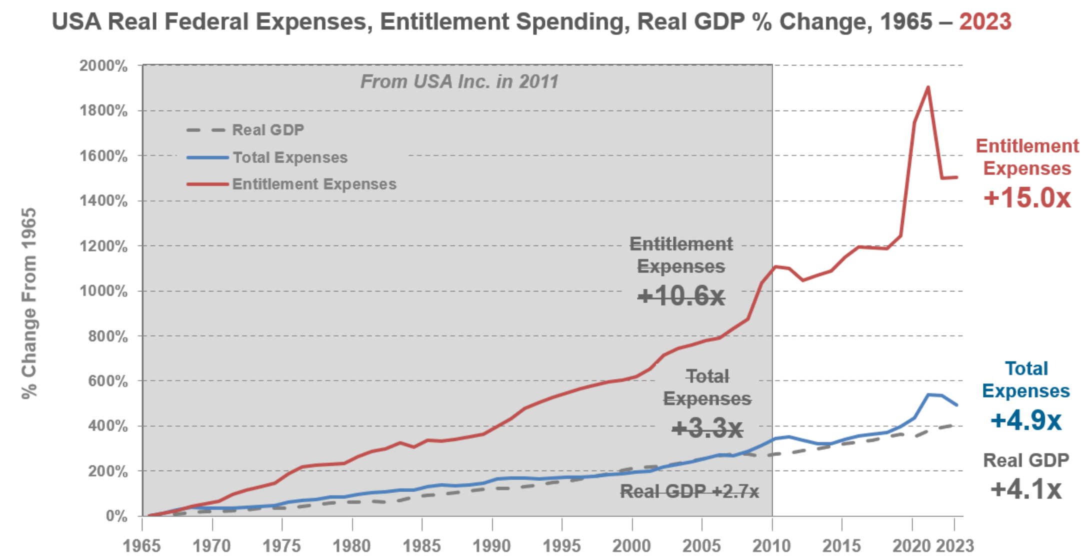
Unemployment Insurance is cyclical and, apart from the 2007-09 recession, generally operates with a surplus, though it is the purview of state legislature decisions that roll up to the federal government. Payroll taxes kept Social Security mainly at break-even until 1975-81 when expenses began to exceed revenue. Reforms that cut average benefits by 5%, raised tax rates by 2.3%, and increased the full retirement age by 3% (to 67) restored the system's stability for the next 25 years, but the demographic outlook is poor for its pay-as-you-go funding structure. In 1950, 100 workers supported six beneficiaries; today, 100 workers support ~~33~~ **37** beneficiaries. Since Social Security began in 1935, American life expectancy has risen 26% (to 78), again with aging demographics playing a part, but the "retirement age" for full benefits has increased only 3%. And Social Security today creates $100 billion in new debt for USA Inc. each year, rising rapidly, per the Hoover Institution's John Cogan.

Regardless of the emotional debate about entitlements, fiscal reality can't be ignored—if these programs aren't reformed, one way or another, USA Inc.'s balance sheet will go from bad to worse.

Federal Government Spending as % of GDP Likely Would Have Made America's Founders Happy for First 128 Years (1790 – 1917)… Since Then, It's Just Unrecognizable & Unsustainable



Since 1965, The Dawn of the "Great Society,"* Entitlement Expenses Have Risen 15x… While Real GDP Has Risen 4.9x…Bottom Line, Math Does Not Work



Note: Data adjusted for inflation and indexed to 1965 values. Real GDP figures use the Federal Reserve of St. Louis's GDP deflator; real expense figures use OMB's composite deflator. Entitlement figures exclude government employee pension. Excludes one-time expenses in 2008 ($14B), 2009 ($376B), 2010 ($15B), 2020 ($1,726B) & 2021 ($876B). Source: White House Office of Management and Budget, Federal Reserve of St. Louis

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Note: The Great Society program was a series of legislative reforms and entitlement expansions introduced by President Lyndon B. Johnson that, according to the White House, "became Johnson's agenda for Congress in January 1965: aid to education, attack on disease, Medicare, urban renewal, beautification, conservation, development of depressed regions, a wide-scale fight against poverty, control and prevention of crime and delinquency, removal of obstacles to the right to vote."

Take a step back, and imagine what the founding fathers would think if they saw how our country's finances have changed. From 1790 to 1930, government spending on average accounted for just 3% of American GDP. Today, government spending absorbs closer to ~~24%~~ **23%** of GDP.

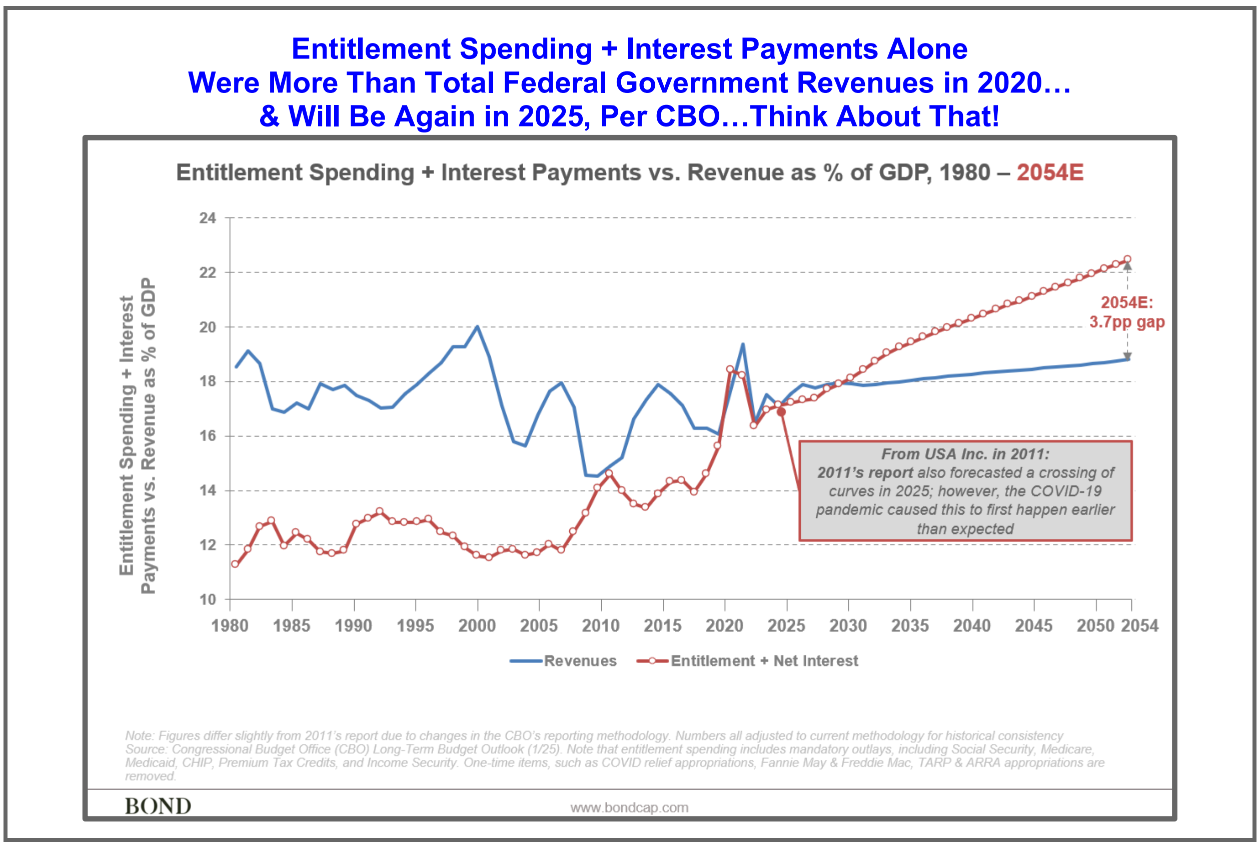
It's likely that they would be even more surprised by the debt we have taken on to pay for this expansion. As a percentage of GDP, the federal government's public debt has ~~doubled~~ **increased nearly 4x** over the last ~~30~~ **45** years, to ~~53%~~ **97%** of GDP. The public debt to GDP ratio is likely to ~~triple to 146% over the next 20 years, per CBO.~~ **reach its highest point in history – 106% – in 2028, and increase to a stunning 535% of GDP by 2099, per CBO.** The main reason is entitlement expenses, **plus rising interest expense on our rising debt.** ~~By 2037, cumulative deficits from Social Security could add another $11.6 trillion to the public debt.~~ By 2033, per the CBO, cumulative deficits from Social Security could add another $4.1 trillion to the public deficit. This is steadily draining the country's Social Security trust funds, which will be depleted by 2035, according to the 2024 Social Security Board of Trustees report - two years earlier than forecast back in 2010.

The problem gets worse. Even as USA Inc.'s debt was rising for decades, plunging interest rates were keeping the cost of supporting it relatively steady. Last year's interest bill would have been ~~155%~~ **149%** (or ~~$290~~ **$980** billion) higher if rates had been at their ~~30-year~~ **1980-2009** average of 6.25% (vs. ~~2% in 2010~~ **2.5% in 2023**). As debt levels rise and interest rates normalize, net interest payments could grow 20% or more annually. Below-average debt maturities in recent years have also kept the Treasury's borrowing costs down, but this trend, too, ~~will drive up~~ **is driving up** interest payments **as** interest rates rise.

Bottom line: as interest rates have risen, 2010's warning indicators turned into 2023's reality. The country's interest bill has grown sharply: net interest payments grew 87% from F2021 to F2023 alone. Looking forward, under current policy, net interest costs as a percent of GDP would increase more than 4x from F2024 to F2062, and increase almost 8x by F2099, per OMB. By 2099, net interest payments could account for 51% of government spending.

As described by Hoover Institution's John Cogan in a recent *Wall Street Journal* editorial, "Excessive spending has been a way of life for lawmakers in Washington for more than half a century. Since 1969 federal outlays have exceeded revenue every year, except briefly during the high-tech bubble in the late 1990s…the root cause of this problem lies with the federal government's abandonment of federalism in fiscal matters…The federal government has…chosen to take on and finance additional responsibilities by using debt alone. This is a sharp, and dangerous, break from its past fiscal restraint…The Founders believed that, among its benefits, federalism would serve as an effective constraint on federal spending and a barrier to structural budget deficits. Prior to World War I, the federal government experienced budget deficits only during war and economic recession - and, in other years, ran budget surpluses to pay down any debt it incurred."

Can we afford to wait until the turning point comes? This fiscal year, entitlements plus net interest payments will absorb all – yes, all – of USA Inc.'s revenue, per CBO; and by 2037, net interest will surpass Social Security to become the largest category of government spending, per OMB.



Note: In 2011 and now, we are using the CBO's Long-Term Budget Outlook data. Changes to these figures reflect updates to assumptions & forecasts over time.

~~Less than 15 years from now~~ **In just one year**, in other words, USA Inc. – based on current forecasts for revenue and expenses – without borrowing more money, would have nothing left over to spend on defense, education, infrastructure, and R&D. This critical juncture is getting ever closer. Just ~~ten~~ **fifteen** years ago, the CBO thought federal revenue would support entitlement spending and interest payments until 2060 – 35 years beyond its current projection. This dramatic forecast change over the past ~~ten~~ **fifteen** years helps illustrate, in our view, how important it is to focus on the here-and-now trend lines and take action based on those trends.

How would a turnaround expert determine 'normal' revenue and expenses?

The first step would be to examine the main drivers of revenue and expenses. It's not a pretty picture. While revenue – mainly taxes on individual and corporate income – is highly correlated (~~83%~~ **78%**) with GDP growth, expenses – mostly entitlement spending – are less correlated (~~73%~~ **65%**) with GDP. With that as backdrop, a turnaround expert might try to help management and shareholders (citizens) achieve a long-term balance by determining "normal" levels of revenue and expenses:

- From 1965 to ~~2005~~ **2019** (a period chosen to exclude abnormal trends related to the ~~recent recession~~ **COVID-19 pandemic**), real annual revenue growth (3%) has been roughly in line with GDP growth (3%, per BEA), but corporate income taxes have grown ~~2%~~ **0.3%** a year (albeit with some unusual items which repressed growth), while personal income taxes have grown 2.8% per year. Social insurance taxes grew ~~5%~~ **4%** annually and represented ~~37%~~ **36%** of USA Inc. revenue, compared with 19% in 1965. An expert might ask:
  - What level of social insurance or entitlement taxes can USA Inc. support without reducing job creation?
  - Are low corporate income taxes important to global competitive advantage and stimulating growth?

- Entitlement spending has risen 5% a year on average since 1965, well above average annual GDP growth of 3%, and now absorbs ~~51%~~ **56%** of all expenses, more than twice its share in 1965. Defense and non-defense discretionary spending (including infrastructure, education, and law enforcement) is up just 1-2% annually over that period. Questions for shareholders:
  - Do USA Inc.'s operations run at maximum efficiency? Where are the opportunities for cost savings?
  - Should all expense categories be benchmarked against GDP growth? Should some grow faster or slower than GDP? If so, what are the key determinants?
  - Would greater investment in infrastructure, education, and global competitiveness yield more long-term security for the elderly and disadvantaged?

With expenses outstripping revenues by a large (and growing) margin, a turnaround expert would develop an analytical framework for readjusting USA Inc.'s business model and strategic plans. Prudence would dictate that our expert assume below-trend GDP growth and above-trend unemployment, plus rising interest rates – all of which would make the base case operating scenario fairly gloomy.

A turnaround expert might also consider implementing zero-based budgeting (ZBB) into the budget planning process. ZBB requires that each year, all expenses must be individually justified and approved, not just based on the previous year's budgeted or actual amounts. This would impose thoughtful discipline on the budgeting process and the maintenance of 'first principles' thinking for USA Inc.

This analysis can't ignore our dependence on entitlements. Almost one-third of all Americans have grown up in an environment of lean savings and heavy reliance on government healthcare subsidies. It's not just a question of numbers—it's a question of our responsibilities as citizens…and what kind of society we want to be.

As of 2022, some ~~90~~ **116** million Americans (out of a total population of ~~307~~ **333** million) have grown accustomed to support from entitlement programs; so, too, have ~~14~~ **22** million workers in the healthcare industry **(as of 2022)** who, directly or indirectly, benefit from government subsidies via Medicare and Medicaid. Moreover, with the boomer generation reaching retirement age, 71MM million Americans will be 65 or older (21% of population) by 2030, up from ~14% in 2012, per the US Census Bureau. Low personal savings, ~~and~~ high unemployment and demographic shifts make radical change difficult. Political will can be difficult to summon, especially during election years.

At the same time, however, these numbers don't lie. With our demographics and our debts, we're on a collision course with the future. The good news: Although time is growing short, we still have the capacity to create positive outcomes. If we don't act very soon, which generation will be left holding the bag?

Even though USA Inc. can print money and raise taxes, USA Inc. cannot sustain its financial imbalance indefinitely – especially as the Baby Boomer generation ~~nears retirement age~~ **retires**. Net debt levels are approaching warning levels (note, this was written in 2011…), and ~~some polls suggest that Americans consider reducing debt a national priority~~ and recent polling suggests a large majority of Americans from all parties consider reducing the debt a top electoral priority. Change is legally possible. Unlike underfunded pension liabilities that can bankrupt companies, USA Inc.'s underfunded liabilities are not legal contracts. Congress has the authority to change the level and conditions for Social Security and Medicare benefits; the federal government, together with the states, can also alter eligibility and benefit levels for Medicaid.

Options for entitlement reform, operating efficiency, and stronger long-term GDP growth.

As financial analysts, not public policy experts, we can offer mathematical illustrations as a framework for discussion (not necessarily as actual solutions). We also present policy options from outside organizations such as the CBO.

Reforming entitlement programs – Social Security.

The underfunding could be addressed through some or all of the following mechanical changes (per the Congressional Research Service): ~~increasing the full retirement age to as high as 73 (from the current level of 67); and/or reducing average annual social security benefits by up to 12% (from $13,010 to $11,489); and/or increasing the social security tax rate from 12.4% to 14.2%.~~ **raising the payroll tax rate by 3.44 percentage points, from 12.40% to 15.84%; or immediately reducing benefits by 21.3% for all current and future beneficiaries, or by 25.4% for newly-eligible beneficiaries only. An alternative approach proposed by the trustees of the Social Security Trust Fund is to raise the full retirement age immediately from 67 to 69, and an additional 2 months each year thereafter; however, this would close only slightly more than half the funding gap by 2098.** Options proposed by the CBO include similar measures, as well as adjustments to initial benefits and index levels. Of course, the low personal savings rates of average Americans – ~~3%~~ **5%** of disposable income, compared with a 10% average from 1965 to 1985 – limit flexibility, at least in the early years of any reform.

Reforming entitlement programs – Medicare and Medicaid.

Mathematical illustrations for these programs, the most underfunded, seem draconian: Reducing average Medicare benefits by ~~53%~~ **58%**, to ~~$5,588~~ **$5,391** per year, or increasing the Medicare tax rate by ~~3.9~~ **4.0** percentage points, to ~~6.8%~~ **6.9%**, or some combination of these changes would address the underfunding of Medicare. As for Medicaid, the lack of a dedicated funding stream (i.e., a tax similar to the Medicare payroll tax) makes the math even more difficult. But by one measure from the Kaiser Family Foundation, 60% of the Medicaid budget in 2001 was spent on so-called optional recipients (such as mid- to low-income population above poverty level) or on optional services (such as dental services and prescription drug benefits). Reducing or controlling these benefits could help control Medicaid spending – but increase the burden on some low-income groups.

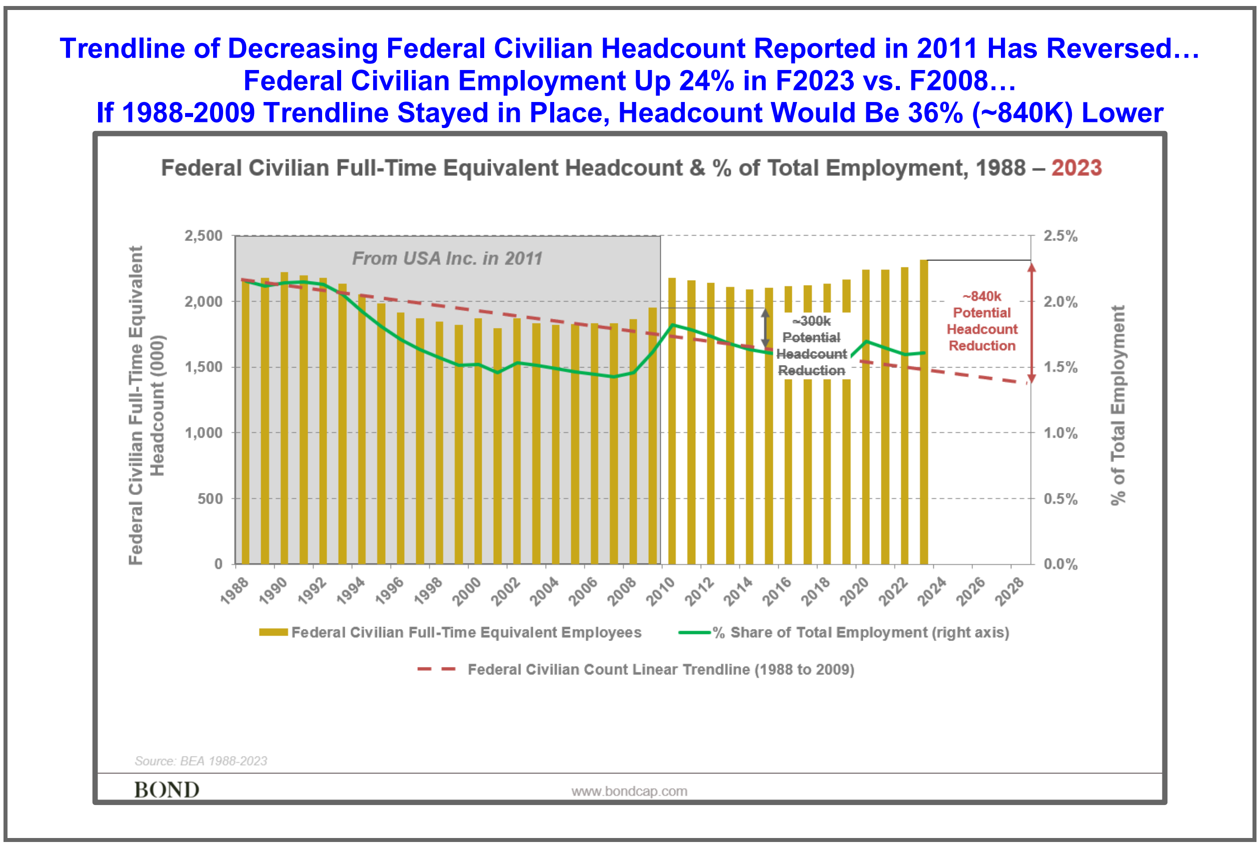
Ultimately, the primary issue facing the US healthcare system is ever-rising costs, historically driven by increases in price and utilization. Beneath sustained medical cost inflation is an entitlement mentality bolted onto a volume-based reimbursement scheme. All else being equal, the outcome is an incentive to spend: Underlying societal, financial, and liability factors combine to fuel an inefficient, expensive healthcare system.

Many thoughtful commentators have weighed in here – for one, Sebastian Caliri of 8VC recently noted several promising areas for systemic reform: "***Reform healthcare payments*** – pay for value (i.e. health outcomes), not volume of work; ***Eliminate barriers to market entry*** – open the door to new market entrants who will compete to produce the strongest health outcomes at the lowest cost; ***Liberate healthcare data*** – allow all patients and healthcare providers to benefit from seamless sharing of health records; ***Accelerate scientific inquiry*** – speed up research that will yield valuable new technologies and care models; ***Address fraud and abuse*** – clean up areas where bad actors siphon off federal funds for personal benefit."

Improving operating efficiency.

With nearly one federal, state and local government civilian worker for every six households, per the Bureau of Economic Analysis, efficiency gains seem possible. A 20-year trend line of declining federal civilian headcount was reversed in the late 1990s, and headcount growth accelerated post-2008, jumping 24% (+450,000 full-time employees) by 2023. However, federal employees (ex-Postal Service) as a share of total civilian employment have remained steady at 1.5% for more than a decade, according to Pew Research.

Our analysis shows that resuming ~~that trend~~ **the 1988 to 2009 trend** would imply a ~~15%~~ **36%** potential headcount reduction over five years **(through 2028)** and save ~~nearly $300 billion~~ **over $1.3 trillion** over the next ten years – see the following slide for more detail. USA Inc. could also focus intensively on local private company outsourcing, where state and local governments are finding real productivity gains.



Areas for improvement and efficiency are also likely to be found beyond the workforce. For example, the GAO noted in September 2024 that federal agencies have estimated $2.7 trillion in total improper payments since 2003, and that the federal government may be facing up to $520 billion of annual losses in F2023 due to fraud in the federal government. The GAO has conducted reports like this for multiple decades now and the observations have gotten more troubling with each report.

Improving long-term GDP growth – productivity and employment.

Fundamentally, federal revenues depend on GDP growth and related tax levies on consumers and businesses. Higher GDP growth won't be easy to achieve as households rebuild savings in the aftermath of a recession, as experienced in both 2008-2009 and in 2020. To break even without changing expense levels or tax policies, USA Inc. would need ~~real GDP growth of 6-7% in F2012-14 and 4-5% in F2015-20, according to our estimates based on CBO data~~ **to close an average deficit gap of 6% of GDP between 2023 and 2035** – highly unlikely, given 40-year average GDP growth of 3%. While USA Inc. could temporarily increase government spending and investment to make up for lower private demand in the near term, the country needs policies that foster productivity and employment gains for sustainable long-term economic growth.

Productivity gains and increased employment each contributed roughly half of the long-term GDP growth between 1970 and 2009, per the National Bureau of Economic Research. Since the 1960s, as more resources have gone to entitlements and interest payments, USA Inc. has scaled back its investment in technology R&D and infrastructure as percentages of GDP. Competitors are making these investments. India ~~plans to double infrastructure spending as a percent of GDP by 2013, and its tertiary (college) educated population will double over the next ten years, according to Morgan Stanley analysts~~ **pledged to increase infrastructure spending by 33% in its 2023 budget and, according to the UK India Business Council, will have the largest college-enrolled population globally by 2030, thus perhaps** enabling its GDP growth ~~to accelerate to 9-10%~~ **of an average 6%** annually ~~by 2015~~ **through 2030** (China's annual GDP growth is forecast to remain ~~near 8% by 2015~~ **near 4% through the same period, both per the IMF**). USA Inc. can't match India's demographic advantage, but technology can help. For employment gains, USA Inc. should minimize tax and regulatory uncertainties and encourage businesses to add workers. While hiring and R&D-related tax credits may add to near-term deficits, over time, they should drive job and GDP growth. Immigration reform could also help: ~~A Federal Reserve study in 2010 shows that immigration does not take jobs from U.S.-born workers but boosts productivity and income per worker~~ **A 2024 study from the Dallas Federal Reserve showed that immigration contributes to job growth and output, with payroll job growth up 100,000 in 2023 and GDP increasing $8.9 trillion from 2024-2034**. If we are to benefit from this contribution, we must fix our immigration system to allow for more effective legal immigration.

Changing tax policies.

Using another simple mechanical illustration, covering the ~~2010~~ **2023** budget deficit ~~(excluding one-time charges)~~ by taxes alone ~~would mean doubling individual income tax rates across the board, to roughly 26-30% of gross income,~~ **would mean increasing individual income tax rates by nearly 80% across the board, to roughly 25% of gross income,** we estimate. Such major tax increases would ultimately be self-defeating if they reduce private income and consumption. ~~However, reducing tax expenditures and subsidies such as mortgage interest deduction would broaden the tax base and net up to $1.7 trillion in additional revenue over the next decade, per CBO.~~ **However, reducing subsidies such as itemized deductions or head-of-household tax filing statuses could net more than $1.75 trillion in additional revenue over the next decade, per CBO.** A tax based on consumption – like a value added tax (VAT) – could also redirect the economy toward savings and investment, though there would be drawbacks.

These issues are undoubtedly complex, and difficult decisions must be made. But inaction may be the greatest risk of all. The time to act is now, and our first responsibility as investors in USA Inc. is to understand the task at hand.

Our review finds serious challenges in USA Inc.'s financials. The 'management team' has created incentives to spend on healthcare, housing, and current consumption. At the margin, investing in productive capital, education, and technology – the very tools needed to compete in the global marketplace – has stagnated. With these trends, USA Inc. will not be immune to the sudden crises that have afflicted others with similar unfunded liabilities, leverage, and productivity trends. The sovereign credit issues in Europe suggest what might lie ahead for USA Inc. shareholders – and our children. In effect, USA Inc. is maxing out its credit card. It has fallen into a pattern of spending more than it earns and is issuing debt at nearly every turn. Common principles for overcoming this kind of burden include the following:

1) *Acknowledge the problem* – ~~some 80% of Americans believe 'dealing with our growing budget deficit and national debt' is a national priority, according to a Peter G. Peterson Foundation survey in 11/09;~~ **The Peter G. Peterson Foundation reported in August 2024 that 75% of Americans agreed on the importance of addressing the national debt, with 65% of Democrats, 74% of independents, and 86% of Republicans considering it a top-three priority for the president and Congress;**

2) *Examine past errors* – People need clear descriptions and analysis to understand how the USA Inc. arrived at its current financial condition – a 'turnaround CEO' would certainly initiate a 'no-holds-barred' analysis of the purpose, success and operating efficiency of all of USA Inc.'s spending;

3) *Make amends for past errors* – Most Americans today at least acknowledge the problems at personal levels and say ~~they rarely or never spend more than what they can afford (63% according to a 2007 Pew Research study)~~ **they know at least a fair amount about personal finances (54% according to a 2023 Pew Research study)**. The average American knows the importance of managing a budget. Perhaps more would be willing to sacrifice for the greater good with an understandable plan to serve the country's long-term best interests;

4) *Improve reporting transparency* – High quality public companies provide transparent, high quality, detailed quarterly reporting, and more importantly, clear and easy-to-understand core KPIs... shouldn't USA Inc. simplify and publish similar metrics for USA citizen-shareholders to track fundamentals?

5) *Develop a new code of behavior* – Policymakers, businesses (including investment banks), and citizens need to share responsibility for past failures and develop a plan for future successes.
Past generations of Americans have responded to major challenges with collective sacrifice and hard work. Will ours also rise to the occasion?

Addendum

As the Summary of our Report shows, a lot has changed with USA Inc.'s financials since 2011. Sadly, most changes were predictable by simply extending (or worse, by accelerating) trend-lines. Many such trends represented, in effect, "give an inch and they'll take a mile." We won't be updating our full report, which, again, can be found here - but we pulled out a few charts that especially warrant updates and added a few new ones.

It's worthwhile to go back in time and reflect on the goals and objectives of America's Founders. From a financial perspective, the outlays (a.k.a. spending) were very focused. For the country's first 155 years, 41% of cumulative spending went to defense, 8% to veterans, 14% to interest on public debt, and 37% to 'other,' defined as administration, legislation plus veteran compensation and pensions. The intent was to keep the country, citizens and fledgling democracy safe and sound.

USA Inc. First 155 Years (1776 – 1930) = Era of Defense… Departments of Army & Navy = 41% of Cumulative Spend (1789 – 1930)...

USA Inc.'s Budget Outlays For the First 155 Years (1776 – 1930)[1]

	1789-1791	1800	1850	1900	1930	1789-1930 Cumulative
Total Federal Government Outlays ($MM)	$4	$11	$40	$521	$3,320	$98,747
Defense	$1	$6	$17	$191	$839	$40,332
% of Total Outlays	*15%*	*56%*	*44%*	*37%*	*25%*	*41%*
Dept. of the Army	*$1*	*$3*	*$9*	*$135*	*$465*	*$28,831*
% of Total Outlays	*15%*	*24%*	*24%*	*26%*	*14%*	*29%*
Dept. of the Navy	*$0*	*$3*	*$8*	*$56*	*$374*	*$11,500*
% of Total Outlays	--	*32%*	*20%*	*11%*	*11%*	*12%*
Interest on the Public Debt	$2	$3	$4	$40	$659	$13,790
% of Total Outlays	*55%*	*31%*	*10%*	*8%*	*20%*	*14%*
Other*	$1	$1	$18	$290	$1,822	$44,626
% of Total Outlays	*30%*	*13%*	*47%*	*56%*	*55%*	*45%*
Veteran Compensation and Pensions	*$0*	*$0*	*$2*	*$141*	*$221*	*$8,273*
% of Total Outlays	*4%*	*1%*	*5%*	*27%*	*7%*	*8%*

*Note: Data is rounded and not adjusted for inflation. 1) Data not available from 1776 to 1789. * Other includes various spending on administration, legislation and veteran compensation and pensions. Source: Census Bureau, "Historical Statistics of the United States, Colonial Times to 1970," Data series Y 457-465.*

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For the country's next 93 years (1931-2023), federal government spending evolved dramatically. After rising from 23% in 1931 to 52% in 1960, defense spending fell precipitously as a percent of the pie, while spending for social welfare rose markedly. By 2023, defense declined to 13% of spend while healthcare rose to 28%, retirement and disability insurance rose to 22%, "other" defined as international affairs, agriculture, justice, education, veterans' services and general uses, rose to 19% while interest on public debt clocked in at 11%.

…USA Inc. Next 93 Years (1931 – 2023) = Era of Expansion…By 2023... Defense Down to 13% of Spending…Social Security + Healthcare Up to 50%

USA Inc.'s Budget Outlays For the Next 93 Years (1931 – 2023)

	1931	1940	1950	1960	1970	1980	1990	2000	2010	2020	2023
Total Federal Government Outlays ($B)	$4	$9	$43	$92	$196	$591	$1,253	$1,789	$3,456	$6,554	$6,135
Defense	$1	$2	$14	$48	$82	$134	$299	$294	$694	$725	$820
% of Total Outlays	*23%*	*20%*	*32%*	*52%*	*42%*	*23%*	*24%*	*16%*	*20%*	*11%*	*13%*
Interest on the Public Debt	$1	$1	$5	$7	$14	$53	$184	$223	$196	$345	$658
% of Total Outlays	*17%*	*11%*	*11%*	*8%*	*7%*	*9%*	*15%*	*12%*	*6%*	*5%*	*11%*
Retirement & Disability Insurance	$0	$0	$1	$12	$30	$119	$249	$409	$707	$1,096	$1,354
% of Total Outlays	*0%*	*0%*	*2%*	*13%*	*15%*	*20%*	*20%*	*23%*	*20%*	*17%*	*22%*
Healthcare	$0	$0	$0	$1	$12	$55	$156	$352	$821	$1,524	$1,736
% of Total Outlays	*0%*	*1%*	*1%*	*1%*	*6%*	*9%*	*12%*	*20%*	*24%*	*23%*	*28%*
Physical Resources (Energy / Housing…)	$0	$2	$4	$8	$16	$66	$126	$85	$89	$896	$394
% of Total Outlays	*5%*	*26%*	*9%*	*9%*	*8%*	*11%*	*10%*	*5%*	*3%*	*14%*	*6%*
Other	$2	$4	$19	$17	$42	$165	$239	$426	$950	$1,968	$1,171
% of Total Outlays	*55%*	*42%*	*45%*	*18%*	*21%*	*28%*	*19%*	*24%*	*27%*	*30%*	*19%*

Note: Data is rounded and not adjusted for inflation. Physical resources include energy, natural resources, commerce & housing credit, transportation infrastructure, community and regional development. Other includes international affairs, agriculture, administration of justice, general government, education and veterans' benefits and services. Source: 1931-1939 data per Census Bureau, "Historical Statistics of the United States, Colonial Times to 1970." 1940-2023 data per White House OMB.

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In the 1930s, the federal government substantially expanded its role (in effect, its "business lines") in response to the Great Depression (1929-1941). As the chart below articulates, the entitlement expansion started with Social Security & Aid to Dependent Children (1935) and evolved to Federal Housing Administration & Fannie Mae (1938) as part of President Franklin D. Roosevelt's "New Deal," to Federal Subsidies for K-12 & Higher Education and Medicare & Medicaid (1965) as part of President Lyndon B. Johnson's "Great Society," to the Community Development Block Grant (1974) to the Department of Energy (1977) to President Barack Obama's "Affordable Care Act" (2010).

USA Inc. "Business Line" Extensions: 1930 – 2023 (Nominal $)

	"Business Line" Extensions	~~F2010~~ F2023 Expense ($B)	Agencies / Programs Created (Year)	Goals
1970's	Energy Policy	~~$12~~ -$0.4	Department of Energy (1977)	Establish the Strategic Petroleum Reserve / mandate automobile fuel efficiency standards & temporary oil price control
	Community Development	~~13~~ 18	Community Development Block Grant* (1974)	Provide federal grants to local governments for projects like parking lots / museums / street repairs
1960's	Healthcare	~~724~~ 1,455	Medicare / Medicaid (1965)	Provide medical insurance program for the elderly (Medicare) and welfare program for low-income population (Medicaid)
1950's	Education	~~97~~ -36	Federal Subsidies for K-12 & Higher Education (1965)	Provide federal subsidies for student loans / school libraries / teacher training / research / textbooks and other items.
1940's	Housing	~~36~~ -22	Federal Housing Administration (1937) / Fannie Mae (1938)	Reduce cost of mortgages and spur home building / purchasing by offering federal mortgage insurance and create secondary market for mortgage loans.
	Welfare	~~28~~ 39	Aid to Dependent Children (1935)	Provide cash assistance to low-income families with children. Replaced by Temporary Assistance for Needy Families program in 1996
1930's	Retirement	~~584**~~ $1,277**	Social Security (1935)	Provide retirement income to the elderly
	TOTAL	~~$1.5 Trillion~~ $2.7 Trillion	Or 10% of F2010 GDP / ~~69%~~ 61% of USA Inc.'s Revenue / ~~43%~~ 45% of Expense	

Note: *Community Development Block Grant was an effort to consolidate various pre-existing categorical community development programs that started with "urban renewal" in the 1950's. **Social Security's F2023 expense excludes ~$181B payments to disabled workers via Disability Insurance program (created in 1956). Source: CATO Institute, White House OMB.

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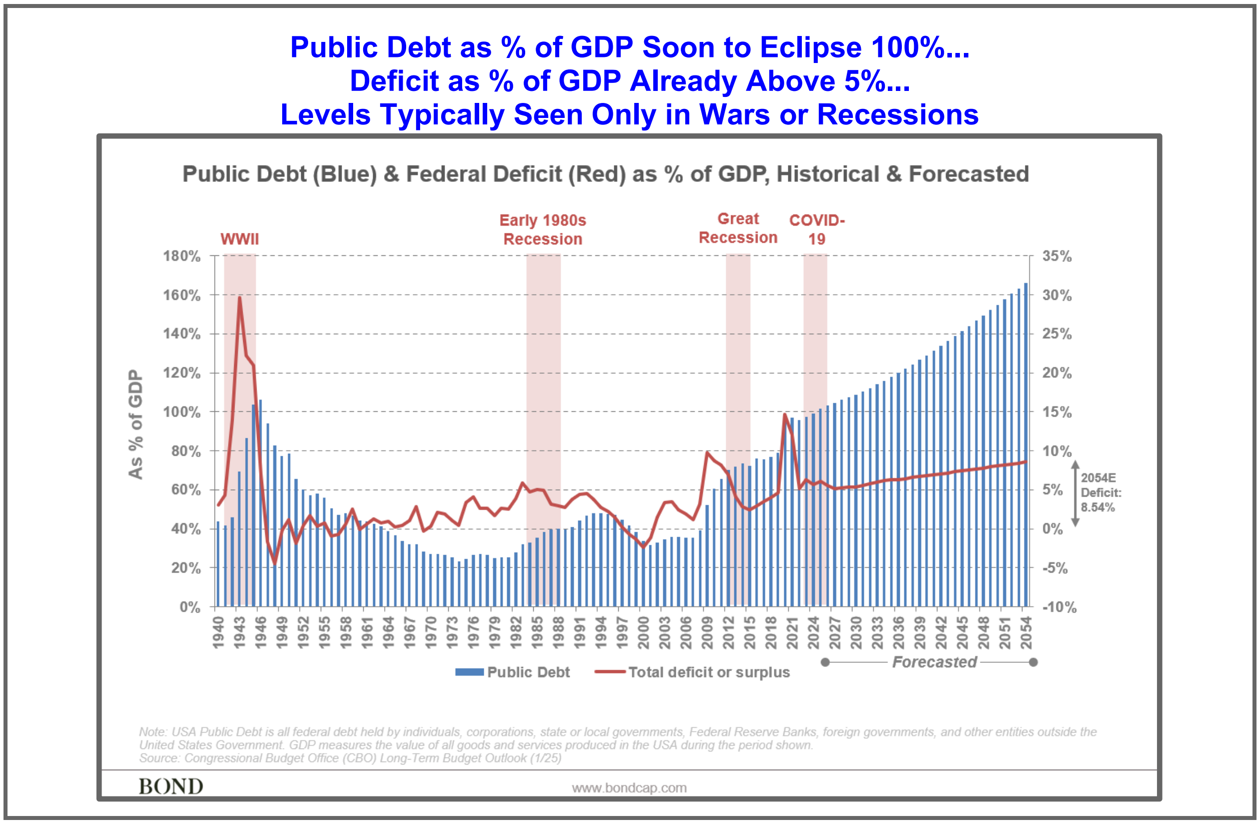
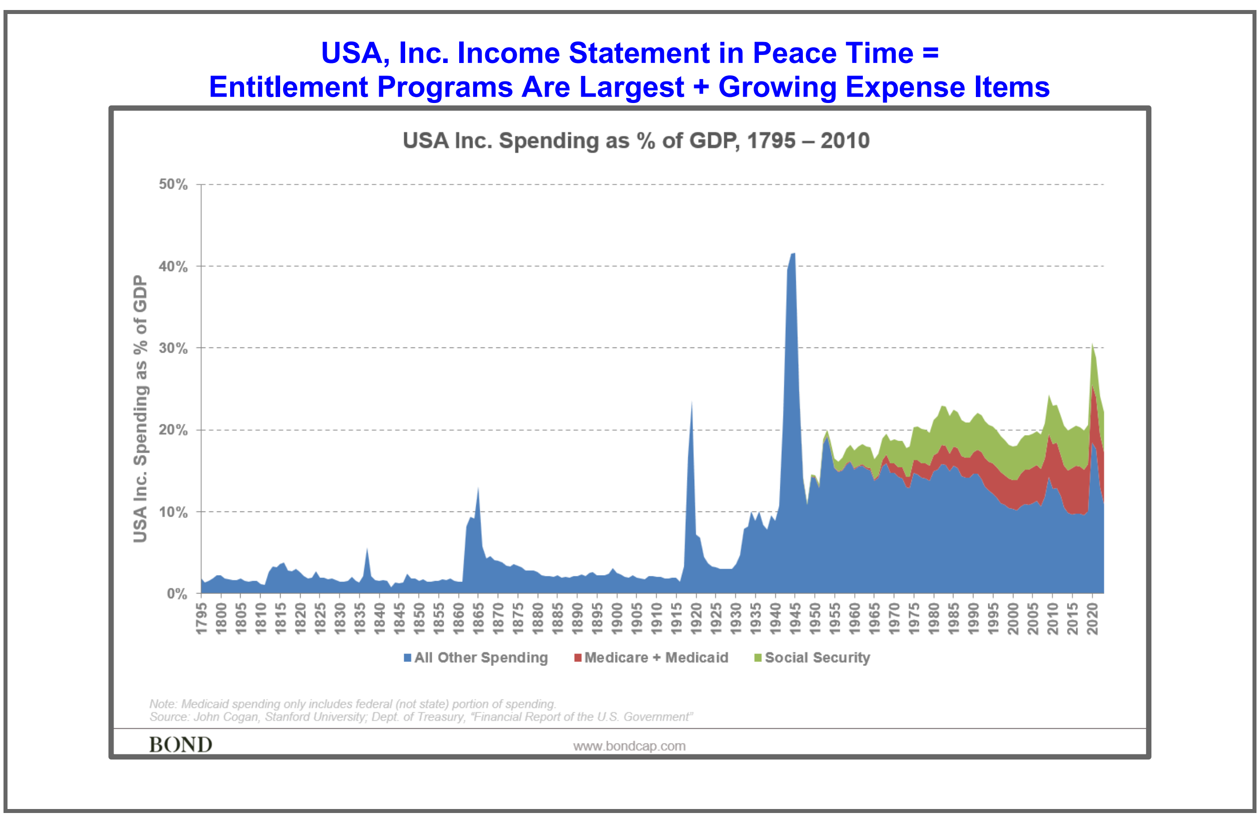
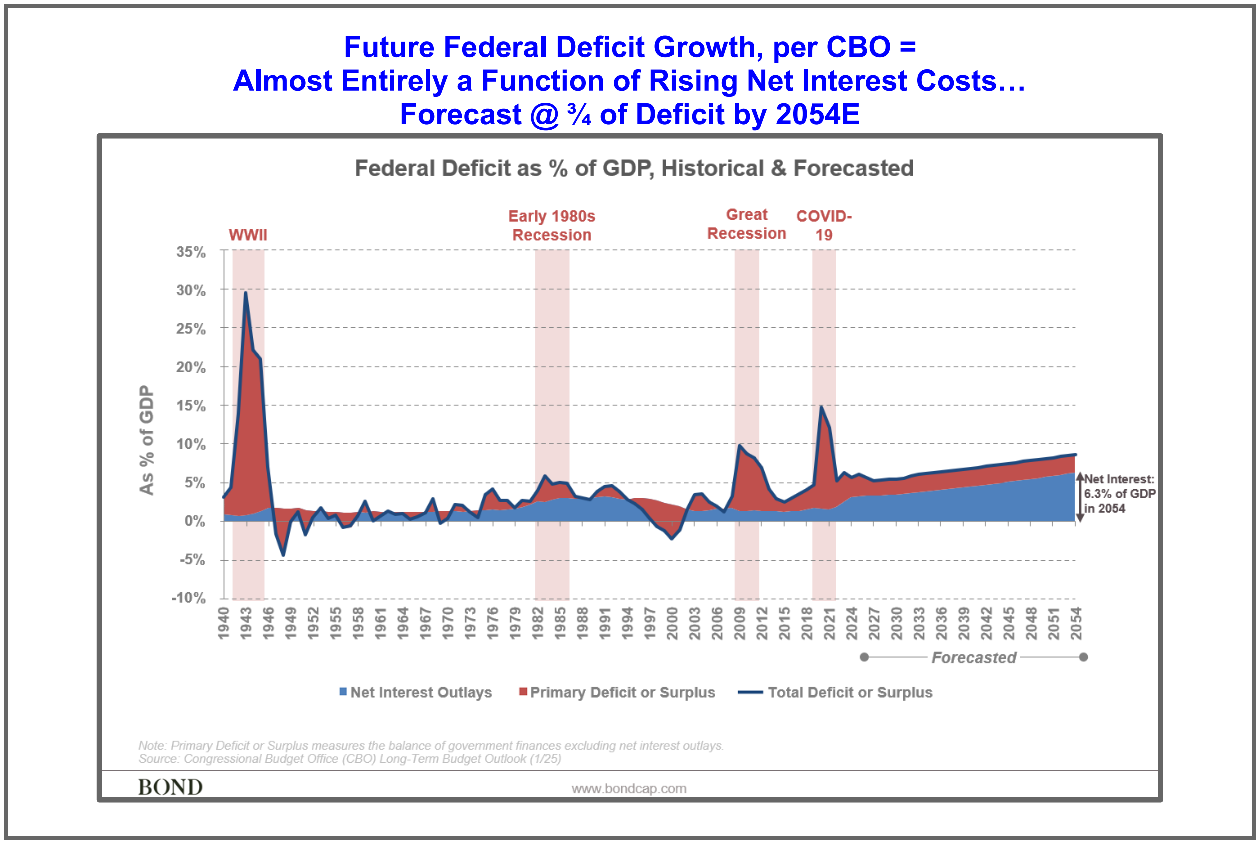
While some of these policy implementations have remained cost-efficient for taxpayers, several have blown through the original expense forecasts and have been added onto time and again. Medicare serves as arguably the most cautionary tale.



The preceding thoughts might appear to be a theoretical exercise – but in an increasingly turbulent world, where the rainy day funds no longer exist (see the two following graphs), every dollar matters.





In sum, we harken back to our trend summary from USA Inc. (2011), which as per the chart below remains equally and frustratingly relevant today…

- America is spending beyond its means, and the problem – with mounting losses & increasing debt – is getting worse, not better.

- Healthcare spending ~~and obesity are~~ is rising dramatically. However, given the rise of GLP-1 drug usage, some progress against obesity rates is being made.

- Education spending is growing slower than healthcare spending.

- Defense spending is declining on a relative basis.

- More and more Americans are on the government payroll or receive government subsidies for retirement income, medical care, housing, and food.

- Inequality of income and wealth is rising, and fewer Americans pay income taxes to support USA Inc.

- The government increasingly resorts to borrowing.

The original report ended with a note of optimism and a hope that we could break trendlines. Sadly, as the chart below highlights, America has not learned its lesson, yet…

USA Inc. = Key Data Points & Trends Over 58 Years

	1965		~~2005~~ 2023	'65 – '23 Change
National[1] Healthcare Spending as % of GDP	6%	→	~~16%~~ 18%	~~167%~~ 200%
Federal[2] Healthcare Spending as % of GDP	*1*	→	*~~5~~ 6*	--
Out-of-Pocket Healthcare Spending as % of GDP	*3*	→	*2*	--
% of Adult Population Considered Obese	13	→	~~32~~ 46	~~146~~ 254
% of Americans Receiving Govt. Subsidy[3]	20	→	35	75
% of Americans that Pay No Federal Income Tax	20	→	~~33~~ 40	~~65~~ 100
National[1] Education Spending as % of GDP	5	→	7	48
Federal Education Spending as % of GDP	*0*	→	*1*	--
Gross Debt as % of GDP	47	→	~~64~~ 119	~~36~~ 153
Interest Payments as % of GDP	1.2	→	~~1.5~~ 2.4	~~25~~ 100
Gini Index of Income Inequality[4]	0.34[4]	→	~~0.41~~ 0.48	~~20~~ 41
Net Debt[5] as % of GDP	38	→	~~37~~ 97	~~-3~~ 155
People Below Poverty Level as % of Population	17	→	~~13~~ 11	~~-26~~ -35
Defense Spending as % of GDP	7	→	~~4~~ 3	~~-33~~ -57
% of Americans that Pay 50% of All Income Tax	10[6]	→	~~4~~ 2	~~-60~~ -80
Federal Budget Surplus / Deficit as % of GDP	-0.2	→	~~-3~~ -6	--

Note: 1) Includes all government and private spending. 2) Includes federal spending on Medicare, Medicaid and other healthcare programs, excludes state spending on Medicaid. 3) % of Americans receiving government subsidy include all recipients of Social Security, Medicare and Medicaid, as well as government employees (incl. federal / state / local / military). Data excludes our estimated duplicates. 4) A Gini index of 0 implies perfect income equality and an index of 1 implies complete inequality, the higher the index, the more inequality there is. Earliest data for USA was measured in 1967. 5) Net debt is federal debt held by the public. 6) Earliest data available in 1980. Source: White House Office of Management and Budget, Department of Health & Human Services, Centers for Disease Control, Internal Revenue Service, Census Bureau.

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As we emphasized at the start – this is not our day job, and we're returning to that. We hope, if this is your day job, that you take it and run with developing solutions. But below are a few thoughts from the original report about how we might start to tackle our current challenges…and hearteningly, if we can muster the collective will, these also still apply…

Overview of USA Inc.'s Key Financial Challenges & Potential *and/or* Solutions

Rank	Financial Challenge	Net Present Cost[1] ($T / % of ~~2010~~ 2023 GDP)	Mathematical Illustrations *and/or* Potential Policy Solutions
1	Medicare	~~$23~~ $63 Trillion / ~~156%~~ 226%	• Reduce benefits • Increase Medicare tax rate • Isolate and address the drivers of medical cost inflation • Improve efficiency / productivity of healthcare system
2	Medicaid	~~$35~~ $47 Trillion[2] / ~~239%~~ 171%	• Isolate and address the drivers of medical cost inflation • Improve efficiency / productivity of healthcare system • Reduce coverage for optional benefits & optional enrollees
3	Social Security	~~$8~~ $33 Trillion / ~~54%~~ 120%	• Raise retirement age • Reduce benefits • Increase Social Security tax rate • Reduce future initial benefits by indexing to cost of living growth rather than wage growth • Subject benefits to means test to determine eligibility
4	Slow GDP / USA Revenue Growth	--	• Invest in technology / infrastructure / education • Remove tax & regulatory uncertainties to stimulate employment growth • Reduce subsidies and tax expenditures & broaden tax base
5	Government Inefficiencies	--	• Resume the 20-year trend line for lower Federal civilian employment • Implement more flexible compensation systems • Consolidate / selectively local outsource certain functions

Note: 1) Net Present Cost is calculated as the present value of expected future net liabilities (expected revenue minus expected costs) for each program / issue over the next 75 years, Medicare estimate per Dept. of Treasury, "2023 Financial Report of the U.S. Government." 2) Medicaid does not have dedicated revenue source and its $47T net present cost excludes funding from general tax revenue

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