The U.S. National Balance Sheet—An Overdue Checkup

How are we doing as a country from a purely fiscal perspective? There are a lot of concerns about the national debt, the health of social security, the ever-increasing cost of Medicare, and financial inequality. These topics deserve attention, but rather than try to answer the question, "What should we do about these specific issues?", let's analyze if we, as a country, have the financial resources to effectively deal with them. Are we facing imminent decline due to excessive and reckless spending?

The Health of U.S. Households the Last Five Years

A comprehensive look at the balance sheet of U.S. households and government debt is a good place to start. In Table 1, data is presented in year-end 2023 dollars.

Table 1: National Balance Sheet, Inflation Adjusted

	12/29/2023	12/30/2022	12/31/2021	12/31/2020	12/31/2019	12/31/2018
Real estate	$49,100	$48,887	$47,942	$42,359	$38,949	$37,398
Consumer durable goods	$7,879	$7,933	$7,730	$6,934	$6,595	$6,456
Hard assets	$56,979	$56,820	$55,672	$49,293	$45,544	$43,854
Deposits and Money Market Funds	$17,856	$18,837	$19,321	$17,684	$14,937	$14,306
Bonds and Debt Securities	$5,672	$4,601	$3,298	$4,401	$5,011	$4,719
Equities and mutual funds	$58,778	$54,385	$66,340	$57,765	$50,349	$42,295
Pension entitlements	$30,157	$30,455	$34,123	$32,600	$31,831	$30,891
Other assets	$5,325	$5,462	$5,628	$5,580	$5,293	$5,253
Financial assets	$117,787	$113,740	$128,709	$118,031	$107,422	$97,465
Total assets	$174,766	$170,559	$184,381	$167,324	$152,966	$141,319
Liabilities	$20,532	$20,719	$20,823	$19,798	$19,323	$18,854
Net worth	$154,234	$149,840	$163,558	$147,526	$133,643	$122,465
Federal Government	$29,476	$27,860	$27,951	$27,180	$22,146	$21,078
State & Local Governments	$3,255	$3,355	$3,629	$3,700	$3,633	$3,686
Foreign	$4,881	$4,811	$5,546	$5,188	$4,942	$4,591
F,S&L debt	$37,612	$36,026	$37,125	$36,068	$30,721	$29,355
Net worth after gov't debt	$116,622	$113,815	$126,433	$111,458	$102,922	$93,111
Gov't debt as a % of HNW	24%	24%	23%	24%	23%	24%

Source: Renaissance Research, FactSet

There is a lot to analyze here, but let's stick to broad observations. The value of equities and mutual funds owned by households is up 39% and the value of real estate holdings is up 31% over the last five years. While Federal government debt has risen by 34%, the net worth of households after deduction of liabilities and after deduction of Federal, state, and local government debt has grown by 25% over the last five years.

Net worth after government debt is down 7.7% over the last two years. The major culprit is an 11.4% decline in the value of equities and mutual funds. These financial assets took an unusually large hit in 2022 as a result of the decline in value of both stocks and bonds triggered by the Federal Reserve's fight with inflation. However, with some success in that fight, there has been a recovery in values off their recent lows.

It is worth noting that government debt as a percent of household net worth did not change, holding steady at 24%. To many, this is likely a startling statistic. Worth mentioning,, first, the denominator grew by 26%. Secondly, the numerator is inflation adjusted. Federal government borrowing grew dramatically during these five years. Yet, in one small benefit of inflation, the value of the previously borrowed debt went down in inflation-adjusted terms. Inflation effectively reduced the value of government debt outstanding as of December 31, 2018, by $4.75 trillion over the subsequent five years on a constant dollar basis.

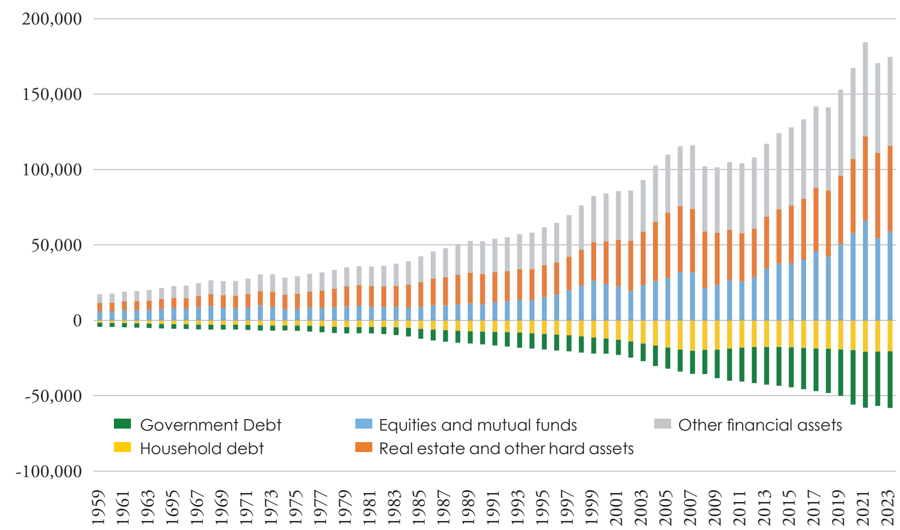
Longer-Term Trends

Since the beginning of the 1960s, the value of household assets, net of household and government liabilities, has grown from $13 trillion to $117 trillion, in constant 2023 dollars—an 800% increase (see Chart 1). Over the course of 64 years, this represents an annualized growth rate of 3.5%. In the chart, we can see that growth has been fairly persistent over time, with the broader categories of assets and liabilities all rising. There is an evident pullback seen in the value of household assets during the Great Recession, and there is an equally evident surge in the value of household assets during the pandemic.

Let's look at this from the perspective of a ten-year rolling growth rate to get a more granular view of periods of prosperity versus periods of suboptimal growth (see Chart 2). This chart highlights damage that occurred when the housing bubble burst and during the Great Recession. The ten-year rolling growth rate dipped to a low of 0.1% annualized for the period ending December 31, 2011. It was a lost decade, and on a 10-year rolling basis, the numbers did not improve much until the collapse in household net worth in 2008 rolled off of the calculations.

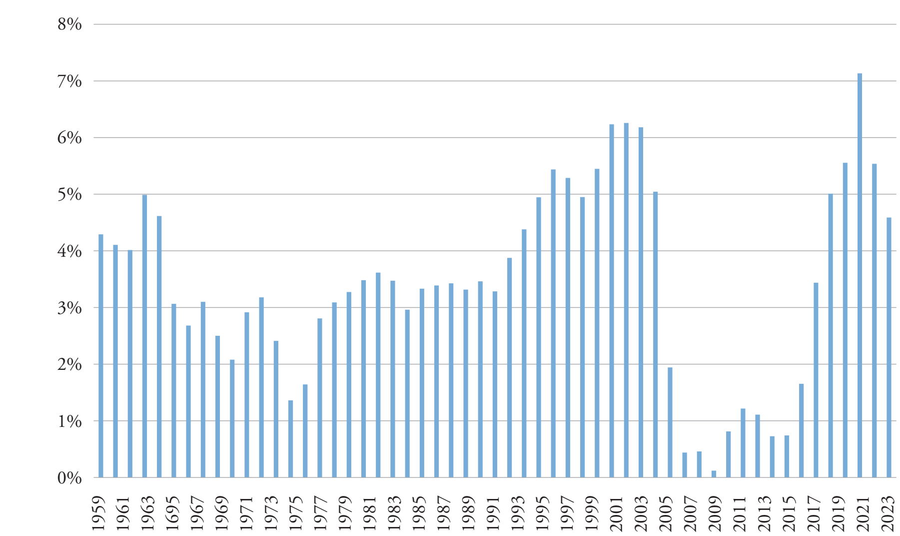
The 10-year rolling growth rate hit an all-time high for the ten years ending December 31, 2021, due to a favorable decade for both the stock market and the housing market. Of course, both were helped by government stimulus

Chart 1: Household Net Worth



Data from 12/31/1959–12/31/2023
Source: Bloomberg

Chart 2: 10-Year Rolling Annualized Growth in Household Net Worth (Net of Government Debt)



Data from 12/31/1959–12/31/2023
Source: Bloomberg

during the last two years of the period. Finally, it's not surprising that the 10-year period ending December 31, 1982, represented a notably slow period of growth (1.4% annualized). The 10-year rolling growth rate for household net worth never went negative during this specific period, but during two periods it dropped below 2% (periods ending in 1981 and 1982 and again in the periods ending in 2008 through 2017).

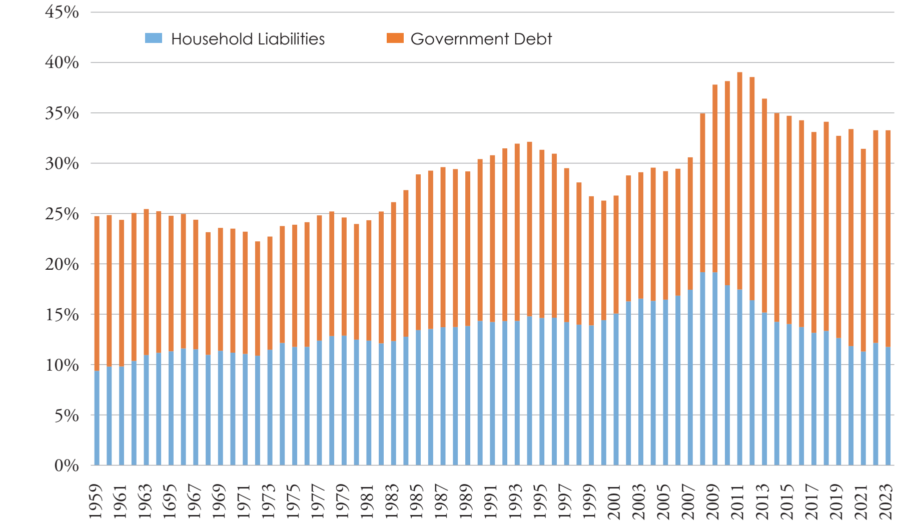
Balance Sheet Leverage

What about financial leverage? In Chart 3, both Household Liabilities and Government Debt as a Percent of Household Total Assets are shown.

In aggregate, household liabilities and government debt have grown from 24% of total household assets at the beginning of 1960 to 34% at the end of 2023. Clearly, this represents a leveraging of the overall system, but not to a degree of catastrophe. Household liabilities went from 9% to 12% during the 64-year period, and government debt rose from 15% to 22%.

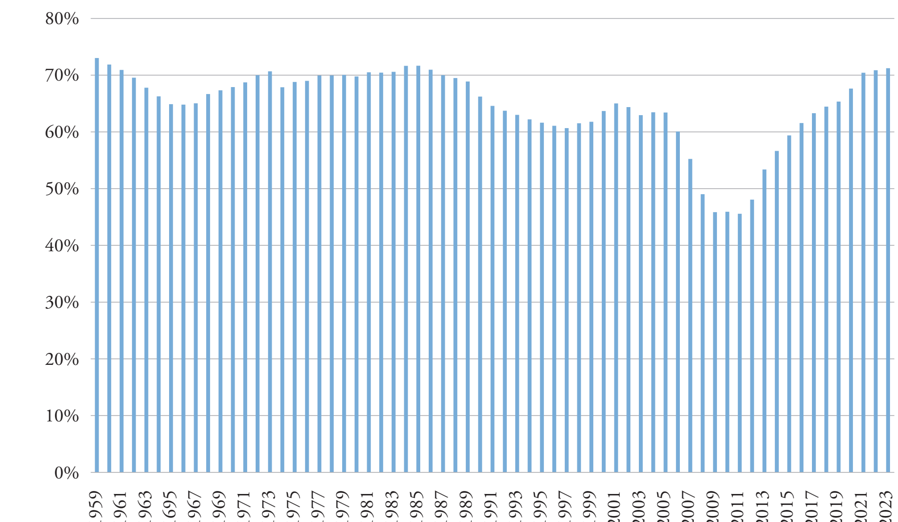
In Chart 4, a look at home equity as a percent of home value tells an interesting story. Home equity remained stable throughout the 1960's and 1970's at around 70%. However, a multi-decade decline began in the second half of the 1980's which didn't bottom out until 2011 at 46%. Since then, home equity has fully recovered to 71% at the end of 2023.

Chart 3: Household Liabilities and Government Debt as a Percent of Household Total Assets



Data from 12/31/1959–12/31/2023
Source: Bloomberg

Chart 4: Home Equity as a Percent of Home Values



Data from 12/31/1959–12/31/2023
Source: Bloomberg

Conclusions

The 3.5% annualized growth in household net worth, net of government liabilities, is calculated on a constant dollar basis, but it has not been adjusted for population growth. The U.S. population has grown 94% during the 64-year period analyzed reducing the annualized growth rate on a per capita basis to 2.4%. Nevertheless, this is healthy overall.

No doubt, there have been some bumps in the road since the beginning of the 1960s, with the The Great Recession and a period of stagflation during the 1970s that was primarily caused by import inflation (primarily, oil and gas), along with Federal Reserve chairmen that were less than perfect. Today, the pandemic does not appear to have caused significant, if any, harm to the fiscal health of the U.S. in aggregate, even taking into consideration a sizable jump in Federal borrowing at the time.

A healthy balance sheet in the aggregate does not mean everyone's balance sheet is healthy individually, however, and it doesn't fully mitigate the seriousness of issues with the Federal deficit, the underfunding of Social Security, the cost of Medicare, or wealth inequality. It also does not change the fact that U.S. federal debt relative to GDP has grown to an unacceptable level, which is well documented. However, a balance sheet perspective does make it clear that, as a country, we have the means to deal with these issues. Of course, effectively dealing with them may involve tapping into sources that hold more wealth along with adjustments to both Social Security and Medicare funding.

Having the means is not the same as having the desire or the political will to solve problems. As Winston Churchill once stated, "The U.S. can be counted on to do the right thing, but only after all other possibilities have been exhausted".

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