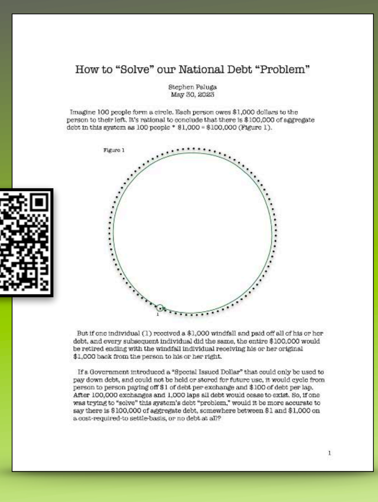
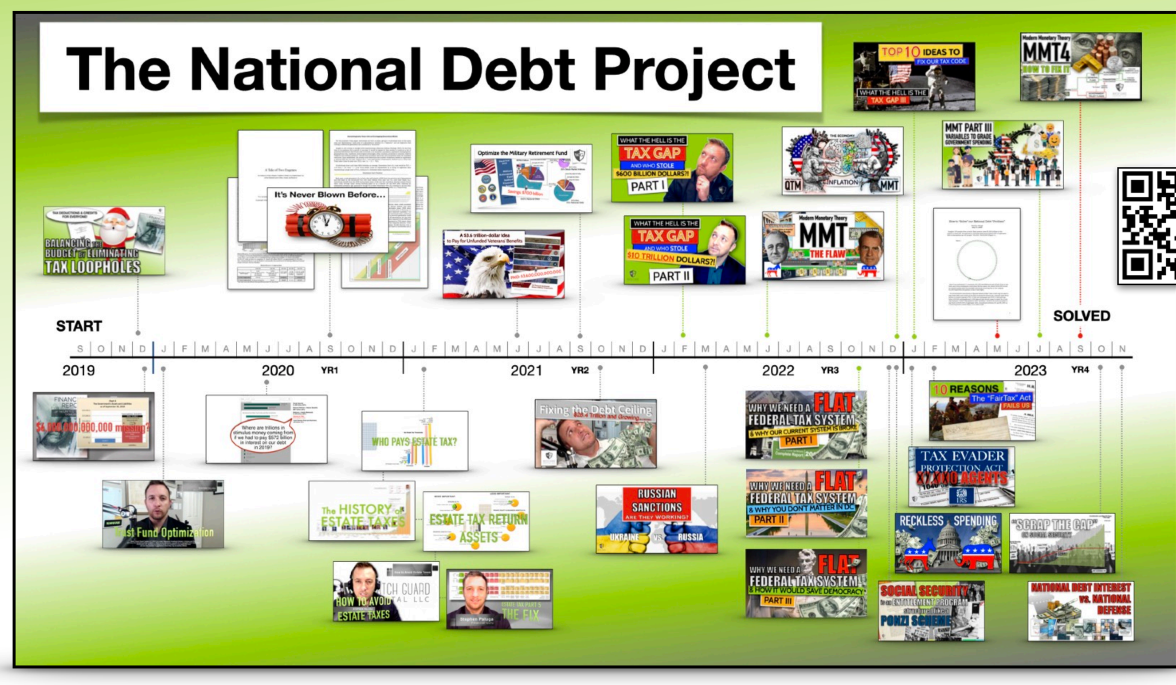


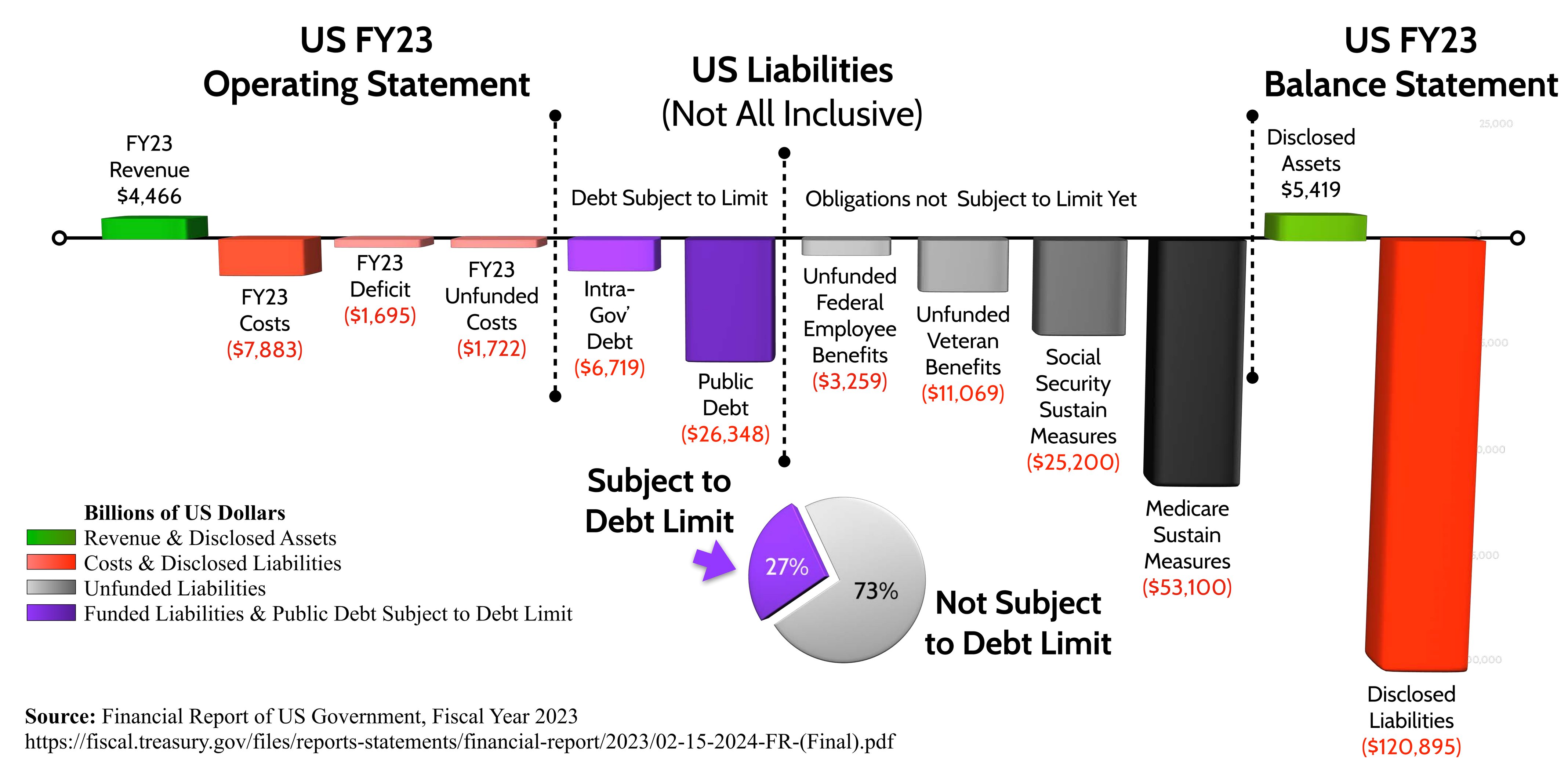
How to “Solve” Our National Debt “Problem”

Stephen Paluga
Watch Guard Capital



INTRODUCTION: In 2019, I started a project to model the entire spectrum of possibilities that could be taken to solve our National Debt problem. Unfortunately, the first step indicated that our Government Trust Funds share eerily similar mechanics to Ponzi schemes. Additional steps invalidated my understanding of monetary theory and a large portion of the investment principles used by the Financial Industry to collectively manage our life savings. Empowered by four years and thousands of hours of intense National Debt research, I finally asked, “what happens if I put the system in “reverse” and paid off “Special Issued Treasury Debt” with equally “Special Issued Currency” thats velocity far exceeded the rate of which National Debt was compounding?” When all the debt disappeared, I knew I had “solved” the National Debt “problem” but found a new one.

Debt Subject to “The Limit” is Only a Fraction of our Obligations

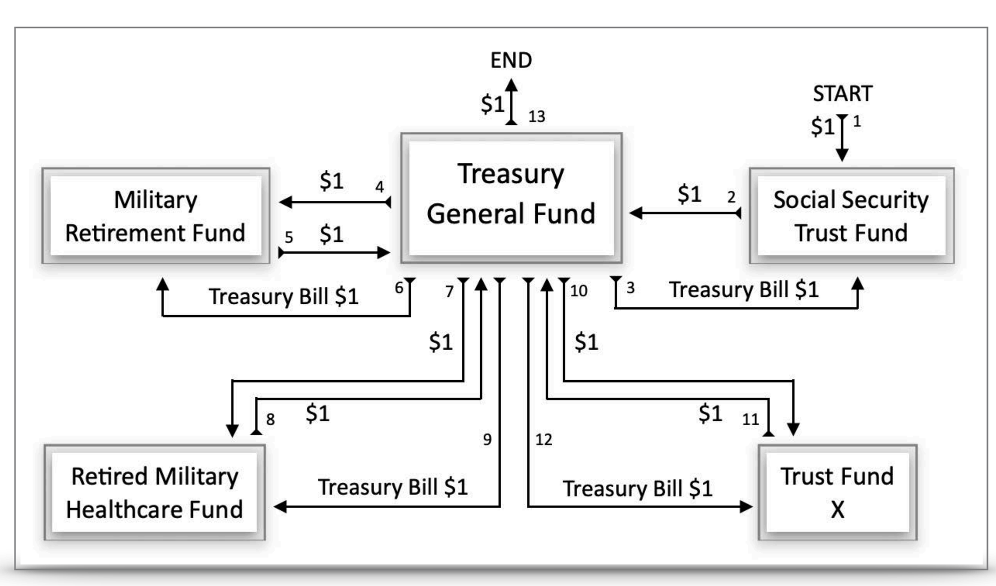


Source: Financial Report of US Government, Fiscal Year 2023
https://fiscal.treasury.gov/files/reports-statements/financial-report/2023/02-15-2024-FR-(Final).pdf

DEBT ABSTRACT: Government funds are being mislabeled as “assets” when they are, in fact, liabilities; Government costs are being mislabeled as interest expense and moved under the Department of the Treasury, which lacks transparency; improper discount factors are being applied to sustainability measures in programs such as Social Security and Medicare, which underrepresent the magnitude of demographic imbalances. However, we are only discussing a fraction of the “problem”.

Why are our Trust Funds Structured like Ponzi Schemes and not Sovereign Wealth Funds?

This is how our Trust Fund System was structured and “funded” after the United States went off the Gold Standard in 1971. The process is called “Intragovernmental Transfers” for trusts with dedicated revenues like Social Security, and “Liquidating Unfunded Obligations” for trusts without dedicated revenues like the Military Retirement Fund. This diagram explains how “Trust Funds” were able to be capitalized into existence with assets (national debt) while running consistent spending deficits. Follow the $1 collected for Social Security to see how it can create $4 of future “resources” and still be available today for general expenditures (Path: 1, 2, 4, 5, 7, 8, 10, 11, 13).



Discussion Questions

- If Social Security’s tax rate was increased to 100%, would the program be more sustainable?
- What’s the difference between benefits being “Funded” for the Military & “Unfunded” for VA?
- If “Special Issued Treasuries" had an extra 10x interest multiplier, would that fix anything?
- What's the impact on the Fed's balance sheet if we use “Special Issued Coins” instead of bonds for QE?

This Three-Step Plan to “Solve” the National Debt “Problem” is the Inverse of what Created It

STEP 1 Un-liquidate Funded Obligations

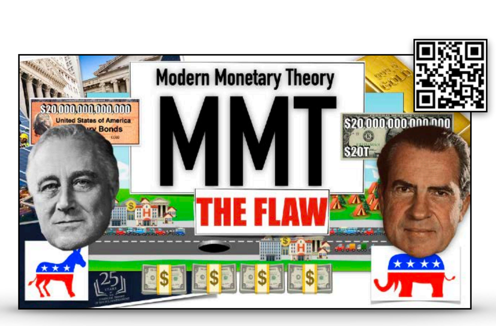
Any Trust Funds “capitalized” with non-dedicated resources during years of deficit spending were done so by cycling the same dollars through multiple trusts. These balances are omitted from Government balance sheets as they simultaneously represent an asset and a liability; thus, they either don’t exist or don’t materially change the Government’s ability to honor obligations. Purchase this debt in increments of $0.1 trillion and move the underlying expenses back to agency budgets. As it is proven that there is no material change in the Government’s fiscal position, retire all “Trust Funds” without dedicated tax revenues.

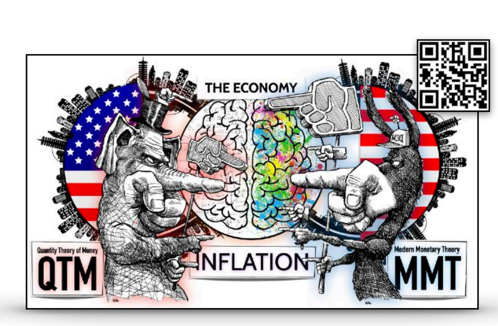
STEP 2 Reverse Intragovernmental Transfers

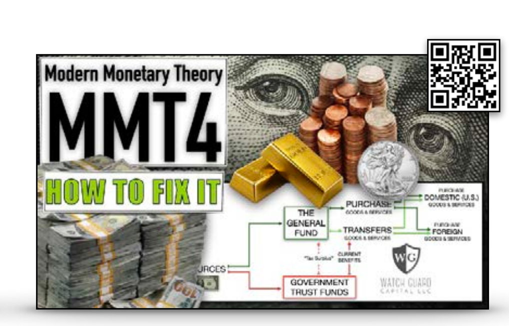
While Trust Funds with dedicated revenues, such as Social Security and Medicare, are mathematically similar to those without, the public’s perception of their existence is much stronger. Redeem this debt in increments of $0.2 trillion and invest in anything besides “Special Issued Treasury Debt” (e.g., TSP’s C & S Funds). As it’s proven that sustainability increases with a higher rate of return, retire all remaining “Special Issued Treasuries” and guarantee benefits will be paid regardless of investment returns during periods of market volatility, similar to the Government’s willingness to pass Stimulus Acts in periods of economic uncertainty.

STEP 3 Simplify the Tax Code & Close the Gap

Tax all incomes uniformly and restrict the number of itemizable deductions/credits to limit tax code complexity. Index and cap aggregate itemized deductions/credits, not including standard deductions, to a designated number such as 33% of the previous year's tax revenues, and review and replace as often as the politicians enacting them to reduce lobbyist and special interest group influence. These measures will increase tax enforceability and help close the $0.7 trillion+ in illegally unpaid taxes (Tax Gap). Use the additional tax revenue to retire debt while also reducing future debt issuances and associated interest expenses.







CONCLUSION: Since national debt is the result of imbalances between taxes collected and taxes spent, and could be paid down to zero and retired if so desired, the first step to “solve” our national debt “problem” is admitting that we don’t actually have a national debt problem, we have a political problem. If pressed for the single most important thing we could demand from our politicians to “solve” our national debt “problem,” it would be to implement a simplified and transparent Unified Tax Code where “special” tax rates, “special” deductions, and “special” credits are the exception and not the standard. A Tax Code in which general tax revenues are used for general expenditures, and dedicated tax revenues for dedicated purposes or invested for future dedicated purposes, not in “Special Issued Treasuries” that are subject to the Debt Limit. If “Special Issued Treasury Debt” is an intergenerational sleight of hand, debt from Quantitative Easing Operations the result of market manipulation (stabilization), and debt from the Tax Gap the cost of being complicit and turning a blind eye to historic levels of tax evasion, then an overwhelming majority of our current national debt is the result of fraudulent activities and our society would be better served if Congress started imposing Fraud Limits instead of Debt Limits.

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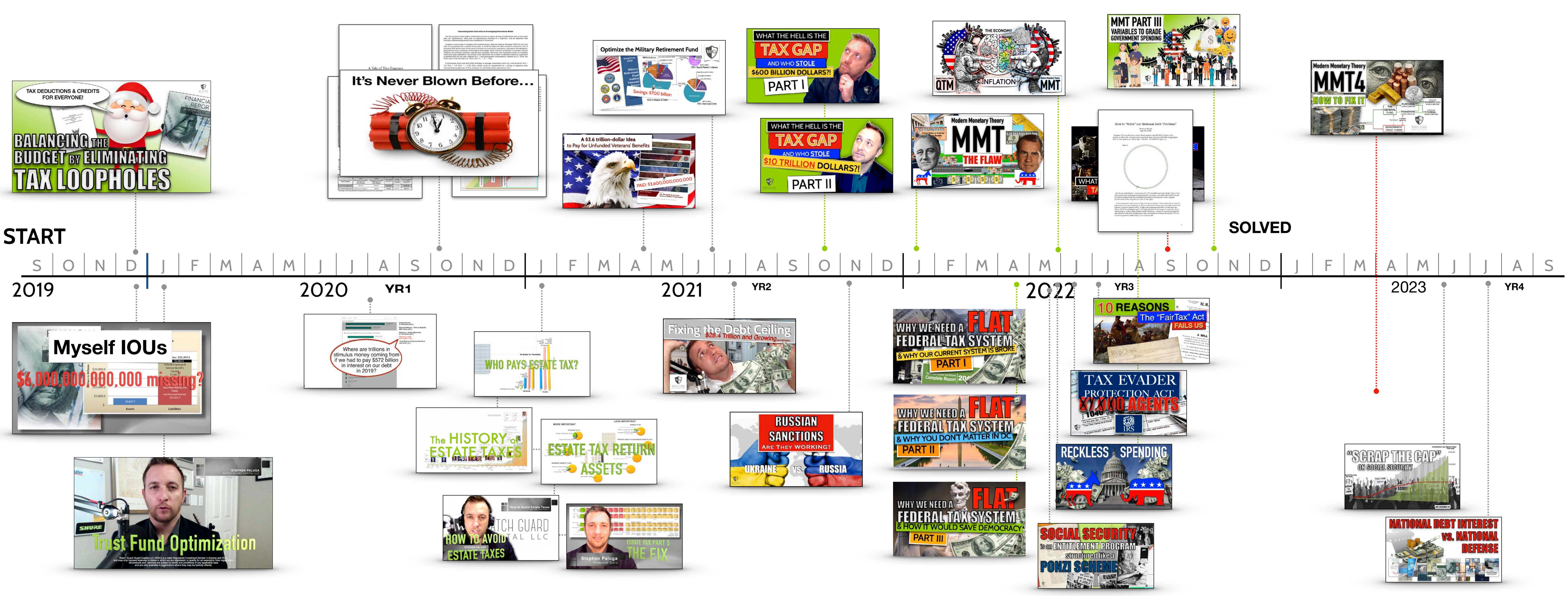
The National Debt Project Timeline



The inverse of “liquidating unfunded obligations” is “un-liquidating funded obligations,” an equally incomprehensible expression. Government Trust Funds that were “funded” with non-dedicated resources during years of annual spending deficits or negative operating costs, were done so by cycling the same dollars through multiple trusts. These balances are omitted from the Government’s balance sheet as tthey simultaneously represent both an asset and a liability. They either don’t exist or don’t materially change the Government’s ability to honor the underlying stated purpose. Every dollar eliminated from such a trust would “buy” a dollar of relief from

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