"Our Federal Debt is Pure Bubble" Balance Sheet Analysis

I have created balance sheets for "Tom and Jerry", their "island government", and their "central bank" for before, immediately after, and one year after the destructive hurricane (below). Also included is an "Alternate…" balance sheet for each entity one-year after the hurricane.

The first three balance sheets reflect full government ownership of the bridge along with its power to tax Tom and Jerry to reconstruct the bridge. The presumption is that during the construction year Tom and Jerry are acutely aware they are being taxed and also aware the tax collected will be utilized to repay the bond throughout the year. RESULT: The tax is visible to all parties, and following the bridge reconstruction the island returns to its original "steady state".

The "Alternate-One Year AFTER the Hurricane…" balance sheet assumes the government does not collect a tax during the year and effectively concedes ownership of the bridge to Tom and Jerry. If the bond is "backed" by the government's bridge asset, then Tom and Jerry could simply cash in the bond, own the bridge and go their merry way. If the bond is "backed" by a government fiat currency with no intrinsic or contractual value, then any attempt for Tom and Jerry to cash in their bond would be met with an issue of worthless currency. Further, there is absolutely no difference to Tom and Jerry whether they own the bridge or their "government" owns the bridge. It is a critical necessity for their survival. If all that is visible to Tom and Jerry are their two 1/2-Man Yr. bonds in their hands, they will erroneously believe the bonds represent buying power for an incremental future stream of goods and services, which is completely bogus.

"Government" Balance Sheet for "Tom and Jerry's Island"…

BEFORE the Hurricane:

Assets	Liabilities & Net Wealth
1-Bridge	0
	1-Bridge (Net Wealth)

IMMEDIATELY AFTER the Hurricane:

Assets	Liabilities & Net Wealth
0-Bridge	0
1-Man Yr. Constr' Lbr Tax (Pres Value)	1-Man Yr. Bond (Pres. Value)
	0- (Net Wealth)

One Year AFTER the Hurricane (bridge reconstruction complete):

Assets	Liabilities & Net Wealth
1-Bridge	0
	1-Bridge (Net Wealth)

Alternate-One Year AFTER the Hurricane (bridge reconstruction complete):

Assets	Liabilities & Net Wealth
1-Bridge	1-Man Yr. Bond (Pres. Value)
	0- (Net Wealth)

Next are the complementary balance sheets for "Tom & Jerry".

"Tom & Jerry's" Balance Sheet…

BEFORE the Hurricane:

Assets	Liabilities & Net Wealth
10 oz.-Gold	
2-Man Yr. Salary (Pres Value)	
	10 oz.Gold +2 Man-Yr Sal. (Net Wealth)

IMMEDIATELY AFTER the Hurricane:

Assets	Liabilities & Net Wealth
10 oz.-Gold	
2-Man Yr. Salary (Pres Value)	1-Man Yr. Bridge Tax (Pres Value)
	10 oz.Gold +1 Man-Yr Sal. (Net Wealth)

One Year AFTER the Hurricane (bridge reconstruction complete):

Assets	Liabilities & Net Wealth
10 oz.-Gold	
2-Man Yr. Salary (Pres Value)	
	10 oz.Gold +2 Man-Yr Sal. (Net Wealth)

Alternate-One Year AFTER the Hurricane (bridge reconstruction complete):

Assets	Liabilities & Net Wealth
10 oz.-Gold	
2-Man Yr. Salary (Pres Value)	
1-Bridge	
	1-Bridge +10 oz.Gold +2 Man-Yr Sal (Net Wealth)

Finally, the balance sheet for the Treasury/Central Bank

"Treasury/Central Bank" Balance Sheet…

BEFORE the Hurricane:

Assets	Liabilities & Net Wealth
1-Man Yr. Bond (Pres. Value)	1-Man Yr. Currency (Salary)
	0- (Net Wealth)

IMMEDIATELY AFTER the Hurricane:

Assets	Liabilities & Net Wealth
0	0
	0- (Net Wealth)

One Year AFTER the Hurricane (bridge reconstruction complete):

Assets	Liabilities & Net Wealth
1-Man Yr. Bond (Pres. Value)	1-Man Yr. Salary (Currency)
	0- (Net Wealth)

Alternate-One Year AFTER the Hurricane (bridge reconstruction complete):

Assets	Liabilities & Net Wealth
1-Man Yr. Bond (Pres. Value)	1-Man Yr. Salary (Currency)
	0- (Net Wealth)

CONCLUSION:

The "balance sheet" approach confirms the "Austrian Enginomic" assertion that the magnitude of any Federal debt is purely an illusion of wealth.

The folly of a bond issuance in this example is that Tom, Jerry, and the government are one in the same. Why would Tom and Jerry effectively issue themselves bonds when they already own the bridge backing the bonds through their ownership of government??? Why delude themselves into believing the bonds represent incremental future buying power when that is not the case???

Assumptions:

1. All labor produces goods and services that are immediately consumed with the sole exception of the bridge. i.e. no residual value or inventory.
2. No capital goods are on the island.
3. The 10 oz. of Gold existing on Tom and Jerry's balance sheet is simply of recognition of existing wealth that does not change throughout the entire process.