

# United States Efficiency Audit

## A Systems Analysis of Recoverable Misallocation in U.S. Governance

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### Abstract

This report applies systems engineering methodology to quantify allocative inefficiency in U.S. governance across four dysfunction categories: direct spending waste, compliance burden on the private sector, policy-induced GDP loss, and system inefficiency. Using Monte Carlo simulation across ten components with OECD benchmarking, we estimate an aggregate efficiency gap of \$4.90T (95% CI: \$3.62T-\$6.50T) annually and recoverable capital of \$2.45T (95% CI: \$1.81T-\$3.25T) if U.S. performance converges toward OECD median efficiency. This categorization distinguishes direct budget waste from broader economic dysfunction, each requiring different solution pathways. We also translate the efficiency gap into QALY and VSL-equivalent welfare terms for interpretability.

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# 1 Executive Summary

This audit applies engineering systems analysis to federal resource allocation. Rather than treating all “waste” as equivalent, we identify four distinct categories of dysfunction, each requiring different solutions:

## 1.1 Dysfunction Category Breakdown

Category	Annual Cost	Mechanism	Solution Type
<b>Direct Spending</b>	\$1.01T (95% CI:	Federal budget	Budget reallocation
<b>Waste</b>	\$790B-\$1.30T)	misallocation	
<b>Compliance</b>	\$1.13T (95% CI:	Private sector	Simplification
<b>Burden</b>	\$775B-\$1.58T)	regulatory friction	
<b>Policy-Induced</b>	\$1.56T (95% CI:	Market constraint	Policy reform
<b>GDP Loss</b>	\$1.05T-\$2.18T)	policies	
<b>System</b>	\$1.20T (95% CI:	Structural design	System redesign
<b>Inefficiency</b>	\$1T-\$1.45T)	failure	
<b>Total Efficiency</b>	<b>\$4.90T (95% CI:</b>	(P5-P95 in variable	Multiple pathways
<b>Gap</b>	<b>\$3.62T-\$6.50T)</b>	output)	

This categorization matters: calling the entire efficiency gap “federal spending waste” invites justified

criticism because only direct spending waste is budget allocations. The remainder reflects compliance burdens, policy-induced GDP losses, and system inefficiency that require different remedies.

## 1.2 Aggregate Metrics

Metric	U.S. System	OECD Benchmark	Gap
<b>Discretionary Efficiency</b>	40.5% (95% CI: 23.8%-53.5%)	75-85% <sup>a</sup>	~34-44 pp
<b>Governance Efficiency (GDP)</b>	83% (95% CI: 77.4%-87.4%)	90-95% <sup>b</sup>	~7-12 pp
<b>Recoverable Capital</b>	\$2.45T (95% CI: \$1.81T-\$3.25T)/year	N/A	if closed to OECD median
<b>Human Cost (QALY equivalents)</b>	49.0 million QALYs (95% CI: 36.2 million QALYs-65.0 million QALYs)	N/A	N/A
<b>Human Cost (VSL equivalents)</b>	357 thousand people (95% CI: 264 thousand people-475 thousand people)	N/A	N/A

<sup>a</sup> OECD benchmark derived from comparative per-capita spending analysis: peer nations (Germany, France, UK, Canada, Australia) achieve comparable outcomes with lower discretionary waste rates<sup>95</sup>.

<sup>b</sup> OECD governance efficiency benchmark: peer nations achieve comparable median income growth and HALE outcomes with total governance-related losses of 5-10% of GDP rather than 17%.

## 2 Interpretation Note

The “human cost” figures are **economic equivalents**, not epidemiological mortality counts. Dividing the efficiency gap by VSL (\$13.7M) or QALY threshold (\$100K) yields a measure of foregone welfare, not literal deaths prevented.

**Methodological Note:** Subsystem losses are estimated independently and treated as additive. While some overlap may exist (e.g., housing costs affect health via stress, incarceration overlaps with drug enforcement), excluded categories (state/local inefficiency, implicit subsidies, behavioral effects) likely offset any potential overstatement.

The efficiency gap represents capital that could fund the 1% Treaty (\$27.2B/year) 180:1 (95% CI: 133:1-239:1) times over.

## 3 System Specifications

### 3.1 Designed Function

The federal government’s designed function is to convert fiscal inputs (federal outlays and imposed compliance burdens) into citizen welfare. We measure this conversion efficiency using two terminal outcomes:

1. **After-tax real median income growth:** measures economic welfare delivery
2. **Median healthy life years (HALE):** measures health and longevity delivery

### 3.2 Why Two Metrics Are Sufficient

These two outputs capture all upstream factors that matter:

Upstream Factor	Manifests in Income	Manifests in Healthy Life
Security/Safety	Crime costs, property loss	Violence, injury, chronic stress
Environment	Disaster costs, remediation	Respiratory disease, cancer
Freedom	Economic choice, mobility	Health decisions, reduced stress
Social Trust	Lower transaction costs	Mental health, social support
Education	Human capital, productivity	Health literacy
Infrastructure	Productivity, opportunity	Access to care, environmental health

These are not omissions. They are *upstream variables* that manifest in terminal outcomes. Measuring income + health implicitly captures everything that affects citizen welfare.

### 3.3 Input-Output Measurement

**Total System Input (federal outlays baseline for efficiency rating):** \$6.80T annually

Context (not additive):

- Federal revenue: \$4.9T<sup>132</sup>
- State/local revenue attributable to federal mandates: ~\$1.3T<sup>133</sup>
- Tax compliance burden: ~\$546B (95% CI: \$450B-\$650B)<sup>115,134</sup>

**Efficiency Metric:** Output per dollar of input, benchmarked against OECD peer nations with comparable development levels.

For cross-country comparability, the efficiency rating uses federal outlays as the input baseline. Compliance burdens are treated as losses rather than additional inputs.

These contextual figures imply a combined fiscal and compliance footprint in the several-trillion-dollar range, but the efficiency rating uses federal outlays to keep the denominator comparable across OECD systems.

## 4 Methodology

### 4.1 Category Framework: Why Distinctions Matter

Not all inefficiency is created equal. A dollar misspent in the federal budget requires a different remedy than a dollar consumed by tax compliance or a dollar of GDP lost to zoning restrictions. We organize dysfunction into four categories by **mechanism** and **solution pathway**:

**Direct Federal Spending Waste (\$1.01T (95% CI: \$790B-\$1.30T))**

Actual budget allocations flowing to low-value uses. This is traditional “government waste”: military overspend, corporate welfare, drug war enforcement, fossil fuel subsidies, agricultural subsidies. The

solution is **budget reallocation**-redirect these dollars to higher-return uses without increasing total spending.

Think of military spending: the \$615B (95% CI: \$500B-\$750B) “overspend” above strict deterrence baseline represents federal dollars that could fund disease eradication treaties instead of maintaining 750 overseas bases<sup>135</sup>.

### **Compliance Burden (\$1.13T (95% CI: \$775B-\$1.58T))**

Private sector resources consumed by government-imposed compliance requirements. Tax compliance costs \$546B (95% CI: \$450B-\$650B) annually. This is not federal spending. The total includes 7.9 billion hours of lost productivity plus out-of-pocket filing costs. Regulatory red tape adds \$580B (95% CI: \$290B-\$1T) in procedural friction without corresponding safety benefits.

The solution is **simplification**. Compare current U.S. tax system to the FairTax proposal: a national consumption tax would eliminate filing for most citizens, instantly recovering most of that compliance waste. Similarly, streamlining redundant regulations (keeping safety standards but removing paperwork friction) would recapture much of the regulatory burden.

### **Policy-Induced GDP Loss (\$1.56T (95% CI: \$1.05T-\$2.18T))**

Economic output that *would exist* but for policy constraints on markets. Housing/zoning restrictions prevent workers from moving to high-productivity cities, costing \$1.40T (95% CI: \$500B-\$2T) annually in foregone GDP<sup>113</sup>. Tariffs cost another \$160B (95% CI: \$90B-\$250B) through deadweight loss.

The solution is **policy reform**. Japan’s zoning system allows by-right development with minimal restrictions-the optimal comparison point showing what’s possible when government stops blocking private construction. Removing trade barriers would immediately expand economic output.

### **System Inefficiency (\$1.20T (95% CI: \$1T-\$1.45T))**

Fundamental design failures where the system architecture itself prevents efficiency. Healthcare exemplifies this: \$1.20T (95% CI: \$1T-\$1.50T) in administrative waste not from bad management but from fragmented payment systems, lack of price transparency, and perverse incentives built into third-party payment structures.

The solution is **system redesign**. Compare to Singapore’s model: catastrophic coverage (government) + mandatory Health Savings Accounts (individual) + full price transparency. Or Switzerland’s regulated competition model where consumers choose insurers annually with real prices. Singapore achieves better outcomes at 4-5% of GDP, Switzerland at 11.8%, versus America’s 18%.

### **Why This Categorization?**

Lumping all \$4.90T (95% CI: \$3.62T-\$6.50T) together as “federal spending waste” is misleading and tactically foolish. Critics can correctly point out that zoning restrictions and tax compliance aren’t “federal waste” in the traditional sense. But separately categorized, each claim becomes defensible:

- \$1.01T (95% CI: \$790B-\$1.30T) in direct budget waste? Documented line-by-line.
- \$1.13T (95% CI: \$775B-\$1.58T) in compliance burden? Tax Foundation + Competitive Enterprise Institute data.
- \$1.56T (95% CI: \$1.05T-\$2.18T) in GDP loss from bad policy? Peer-reviewed economics (Hsieh & Moretti, Yale Budget Lab).
- \$1.20T (95% CI: \$1T-\$1.45T) in healthcare excess? JAMA, PGPF, international comparisons.

Each category points to specific remedies, making this analysis actionable rather than merely accusatory.

## 4.2 Engineering Loss Categories

We categorize resource losses using engineering terminology rather than political language. This framework adapts standard engineering efficiency analysis (where system losses are classified by mechanism rather than blame) to government resource allocation:

Loss Category	Definition	Examples
<b>Friction Losses</b>	Administrative overhead exceeding minimum necessary (analogous to mechanical friction converting useful work to heat)	Healthcare billing complexity, tax compliance burden
<b>Leakage</b>	Fraud, improper payments, unverified expenditure	Medicare improper payments, unaudited DoD assets
<b>Parasitic Load</b>	Bureaucracy maintaining itself rather than serving function	Redundant agencies, regulatory capture
<b>Transmission Loss</b>	Efficiency loss in federal → state → local → citizen transfer	Grant administration overhead, unfunded mandates
<b>Idle/Standby Loss</b>	Capacity maintained but unused	Excess military bases, redundant weapons systems
<b>Conversion Inefficiency</b>	Policy intent failing to achieve stated outcome	Drug interdiction not reducing use
<b>Negative Work</b>	Policies producing net harm rather than benefit	Incarceration increasing recidivism

## 4.3 Aggregate Efficiency Gap Calculation

The Aggregate Efficiency Gap (AEG) sums losses across all categories:

$$\text{AEG} = \sum_i \text{Friction}_i + \sum_j \text{Leakage}_j + \sum_k \text{Parasitic}_k + \sum_l \text{Transmission}_l + \sum_m \text{Idle}_m + \sum_n \text{Conversion}_n + \sum_o \text{Negative}_o$$

We employ Monte Carlo simulation to generate confidence intervals, recognizing uncertainty in loss estimates (particularly where data opacity exists, such as the DoD’s inability to audit 61% of assets).

## 5 Methodological Note: Additive Categories

Subsystem losses are estimated independently and treated as additive. While some overlap may exist (housing costs affect health via stress, incarceration overlaps with drug enforcement), excluded

categories (state/local inefficiency, implicit subsidies, behavioral effects) likely offset any potential overstatement.

## 5.1 Valuation Standards

- **Value of Statistical Life (VSL):** \$13.7M (US Department of Transportation)<sup>19</sup>
- **Quality-Adjusted Life Year (QALY):** \$100K (medical cost-effectiveness standard)<sup>59</sup>

## 6 Direct Federal Spending Waste

**Total: \$1.01T (95% CI: \$790B-\$1.30T) annually**

This category represents actual federal budget allocations flowing to demonstrably low-value uses. Unlike compliance burdens or GDP losses, these are dollars the federal government directly controls and could reallocate tomorrow with congressional action. The solution pathway is straightforward: **budget reallocation** from current uses to higher-return alternatives.

### 6.1 Components

Component	Annual Cost	Optimal Comparison
Military overspend	\$615B (95% CI: \$500B-\$750B)	Strict Deterrence doctrine (\$285B baseline)
Corporate welfare	\$181B (95% CI: \$150B-\$220B)	Zero subsidies (market allocation)
Drug war	\$90B (95% CI: \$60B-\$150B)	Portugal decriminalization model
Fossil fuel subsidies	\$50B (95% CI: \$30B-\$80B)	Zero subsidies (market pricing)
Agricultural subsidies	\$75B (95% CI: \$50B-\$120B)	New Zealand model (ended all farm subsidies 1984) <sup>136</sup>

Every dollar here comes from taxpayers and goes somewhere. The question is not whether to spend it, but *what* to spend it on. Redirecting \$615B (95% CI: \$500B-\$750B) from maintaining 750 overseas bases to funding disease eradication treaties doesn't require new revenue-just different priorities.

**Platonic Ideal:** New Zealand eliminated all agricultural subsidies in 1984<sup>136</sup>. Farm productivity increased. Why? Subsidies had encouraged marginal land cultivation and overproduction. Without them, farmers specialized in comparative advantages. The U.S. spends \$75B (95% CI: \$50B-\$120B) annually doing precisely what New Zealand proved counterproductive.

**Detailed subsystem analysis follows in:** [Subsystem Audit: Defense](#), Subsystem Audit: Justice, Subsystem Audit: Subsidies

## 7 Compliance Burden on Private Sector

**Total: \$1.13T (95% CI: \$775B-\$1.58T) annually**

These costs don't appear in the federal budget. They represent private sector resources consumed by government-imposed requirements: calculating taxes, filing paperwork, navigating regulatory



red tape. The solution pathway is **simplification**-streamlining processes to reduce friction while preserving necessary functions.

## 7.1 Components

Component	Annual Cost	Optimal Comparison
Tax compliance	\$546B (95% CI: \$450B-\$650B)	FairTax system (consumption tax, no filing)
Regulatory red tape	\$580B (95% CI: \$290B-\$1T)	Evidence-based regulation (eliminate procedural friction)

**The Tax Compliance Absurdity:** Americans spend 7.9 billion hours annually calculating taxes<sup>115</sup>. That's \$546B (95% CI: \$450B-\$650B) in total compliance costs. What do we get for this? The privilege of determining what we owe the government-a calculation the IRS must verify anyway.

### Platonic Ideal: FairTax System

The FairTax proposes a national retail sales tax replacing income/payroll/corporate taxes. Most citizens would never file taxes. Businesses collect at point of sale (like state sales taxes already do). Complexity collapses from 75,000-page tax code to a single rate.

Would this be optimal? Perhaps not perfectly-consumption taxes have their own distortions. But compared to the *current* system where middle-class families spend 13 hours filing returns and \$273 on preparation<sup>115</sup>, almost any simplification recovers massive waste.

The regulatory red tape figure (\$580B (95% CI: \$290B-\$1T)) represents procedural friction *without corresponding safety benefits*. We're not arguing against workplace safety regulations or environmental standards. We're identifying paperwork requirements that don't improve outcomes-the administrative equivalent of demanding triplicate forms in three different formats.

**Detailed subsystem analysis follows in:** Subsystem Audit: Regulatory and Tax Compliance

## 8 Policy-Induced GDP Loss

**Total: \$1.56T (95% CI: \$1.05T-\$2.18T) annually**

These losses represent economic output that *would exist* but for government policy constraining markets. Not spending, not compliance-forgone GDP. Workers who can't move to high-productivity cities because housing is illegal to build. Trade gains evaporated by tariffs. The solution pathway is **policy reform**: remove the constraints.

### 8.1 Components

Component	Annual Cost	Optimal Comparison
Housing/zoning restrictions	\$1.40T (95% CI: \$500B-\$2T)	Japan's by-right zoning system
Tariffs	\$160B (95% CI: \$90B-\$250B)	Free trade (zero tariffs)

**The Zoning Stranglehold:** Government prevents builders from building where people want to live. High-productivity cities like San Francisco and New York have demand for millions more housing units. Zoning restrictions make construction illegal. Result? Workers stuck in Akron when they would be more productive in San Jose. Hsieh & Moretti<sup>113</sup> estimate large GDP losses from restrictive zoning in high-productivity cities; subsequent revisions lowered the point estimate substantially. We use a conservative annual cost of \$1.40T (95% CI: \$500B-\$2T).

**Platonic Ideal: Japan’s Zoning System**

Japan allows by-right development with minimal restrictions. National zoning law supersedes local NIMBY vetoes. Outcome? Tokyo, a city of 14 million, has stable housing costs despite population growth<sup>137</sup>. Build more houses, prices don’t spike. Obvious? Apparently not in America, where cities prefer aesthetic purity to economic dynamism.

**Tariffs:** The Yale Budget Lab estimates U.S. tariffs reduce long-run GDP by 0.6%, approximately \$160B (95% CI: \$90B-\$250B) annually<sup>114</sup>. Tariffs protect specific industries while raising prices for everyone else. The costs are diffuse (everyone pays more for washing machines), the benefits concentrated (appliance manufacturers lobby to keep protection). Classic public choice failure.

**Detailed subsystem analysis follows in:** Subsystem Audit: Regulatory and Tax Compliance, Subsystem Audit: Subsidies

9 System Inefficiency

**Total: \$1.20T (95% CI: \$1T-\$1.45T) annually**

This category represents fundamental design failures where the system architecture itself prevents efficiency. Not bad management-bad *structure*. Healthcare exemplifies this: fragmented payment systems, zero price transparency, third-party payment everywhere, perverse incentives baked into the model. The solution pathway is **system redesign**: change the architecture.

9.1 Components

Component	Annual Cost	Optimal Comparison
Healthcare administration	\$1.20T (95% CI: \$1T-\$1.50T)	Singapore model (catastrophic + HSAs)Switzerland model (regulated competition)

**The Healthcare Labyrinth:** The U.S. spends 18% of GDP on healthcare-\$5.3 trillion-and gets worse outcomes than nations spending 10-11%<sup>138</sup>. The delta isn’t care quality. It’s administrative friction: billing complexity, fragmented systems, no price transparency.

**Why This is System Inefficiency, Not Direct Spending Waste:** Healthcare’s \$1.20T (95% CI: \$1T-\$1.50T) waste isn’t federal spending that could be reallocated. It’s private spending (55% of total healthcare) flowing through a systemically broken structure. You can’t “budget reallocate” your way out of third-party payment incentive problems.

**Platonic Ideals: Singapore and Switzerland**

**Singapore (most cost-efficient):** Catastrophic coverage (government) + mandatory Health Savings Accounts (individual) + full price transparency. Patients pay directly for routine care, see real prices, make cost-conscious decisions. Government covers disasters. Result: 4-5% of GDP on healthcare, outcomes matching or beating the U.S.<sup>139</sup>

**Switzerland (more politically feasible):** Universal coverage through regulated private competition. Citizens choose insurers annually. Real price signals. Insurers compete on efficiency. Result: 11.8% of GDP (2023), excellent outcomes<sup>140</sup>.

Singapore is clearly superior on cost-efficiency (4-5% vs 11.8% of GDP), both achieving comparable health outcomes. But Switzerland’s model may be more politically viable in Western democracies-it’s closer to existing insurance systems, just with actual competition and price transparency.

Both systems use **competitive market mechanisms** rather than single-payer rationing. The U.S. has neither competition nor single-payer-we have the worst of both: third-party payment hiding prices, employer-based insurance trapping workers, no cost transparency anywhere.

Singapore spends less than half what Switzerland does (as percentage of GDP) while achieving similar outcomes. That’s the optimal target. Switzerland demonstrates you can achieve excellent outcomes at 11.8% of GDP with private competition-still 35% cheaper than America’s 18%.

Detailed subsystem analysis follows in: [Subsystem Audit: Healthcare Administration](#)

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## 10 Subsystem Cross-Reference

The following subsystem audits provide detailed component breakdowns. Each subsystem maps to one or more dysfunction categories:

Subsystem	Primary Category	Components
<b>Defense</b>	Direct Spending Waste	Military overspend (\$615B (95% CI: \$500B-\$750B))
<b>Healthcare Administration</b>	System Inefficiency	Healthcare system waste (\$1.20T (95% CI: \$1T-\$1.50T))
<b>Justice and Prohibition</b>	Direct Spending Waste	Drug war (\$90B (95% CI: \$60B-\$150B))
<b>Regulatory and Tax Compliance</b>	Compliance Burden + Policy-Induced GDP Loss	Tax compliance (\$546B (95% CI: \$450B-\$650B)), Regulatory red tape (\$580B (95% CI: \$290B-\$1T)), Housing/zoning (\$1.40T (95% CI: \$500B-\$2T))

Subsystem	Primary Category	Components
<b>Subsidies and Transfers</b>	Direct Spending Waste + Policy-Induced GDP Loss	Corporate welfare (\$181B (95% CI: \$150B-\$220B)), Fossil fuel subsidies (\$50B (95% CI: \$30B-\$80B)), Agricultural subsidies (\$75B (95% CI: \$50B-\$120B)), Tariffs (\$160B (95% CI: \$90B-\$250B))

## 11 Subsystem Audit: Defense

### Direct Federal Spending Waste

In the core model, defense contributes \$615B (95% CI: \$500B-\$750B) annually through military overspend above the strict deterrence baseline. The Department of Defense operates as the largest discretionary expenditure node, with annual spending of approximately \$900 billion<sup>141</sup>. Current spending exceeds the next nine nations combined<sup>142</sup>.

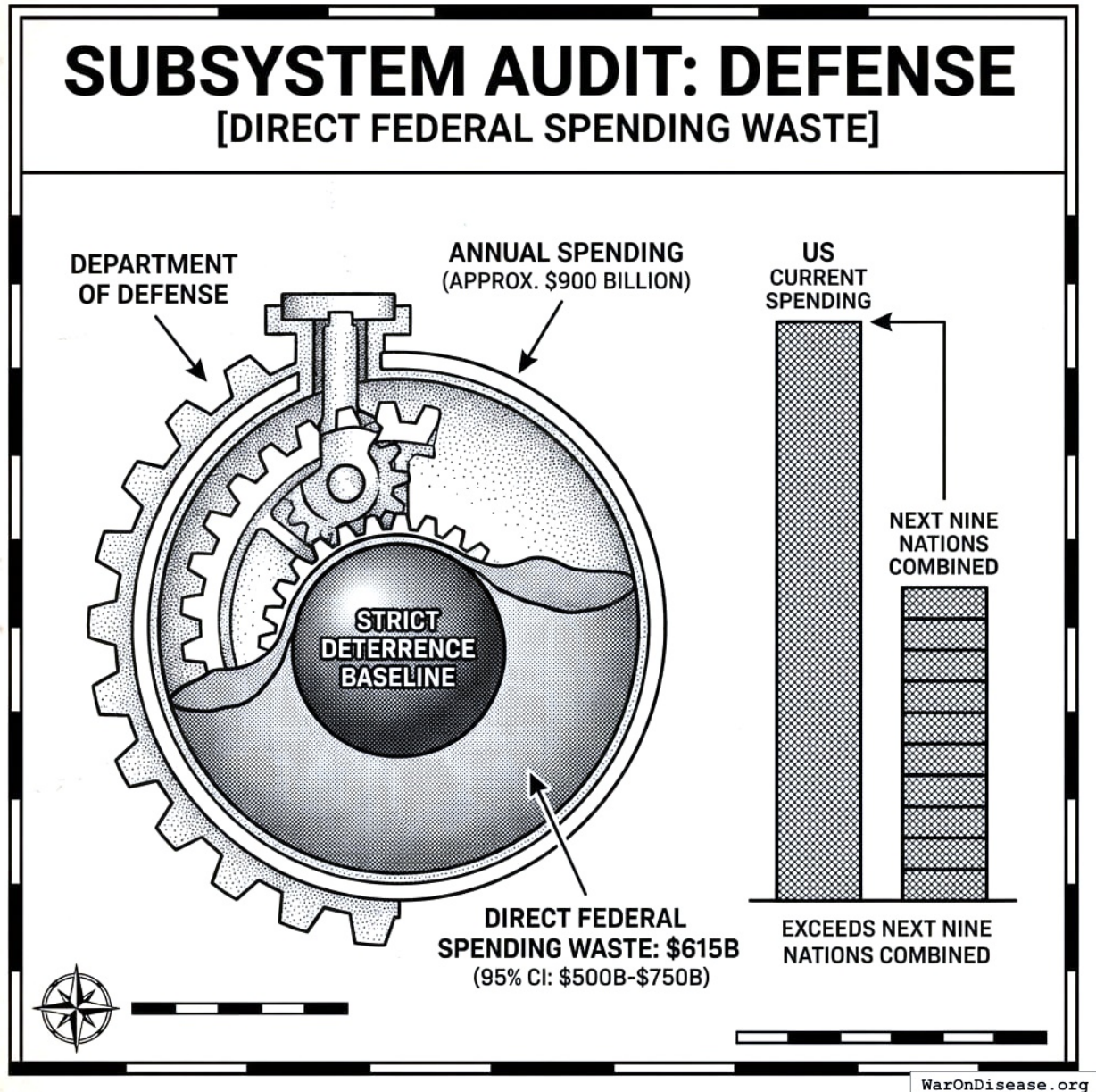


Figure 1: America spends more on defense than the next nine countries combined. Apparently nine countries aren't enough to feel safe.

### 11.1 Loss Category: Leakage (Audit Failure)

In November 2024, the Pentagon failed its seventh consecutive audit<sup>143</sup>. The DoD was unable to account for 61-63% of its \$3.8 trillion in assets (dollar-weighted)<sup>144</sup>, approximately \$2.5 trillion in property, equipment, and inventory with unknown location, condition, or existence status.



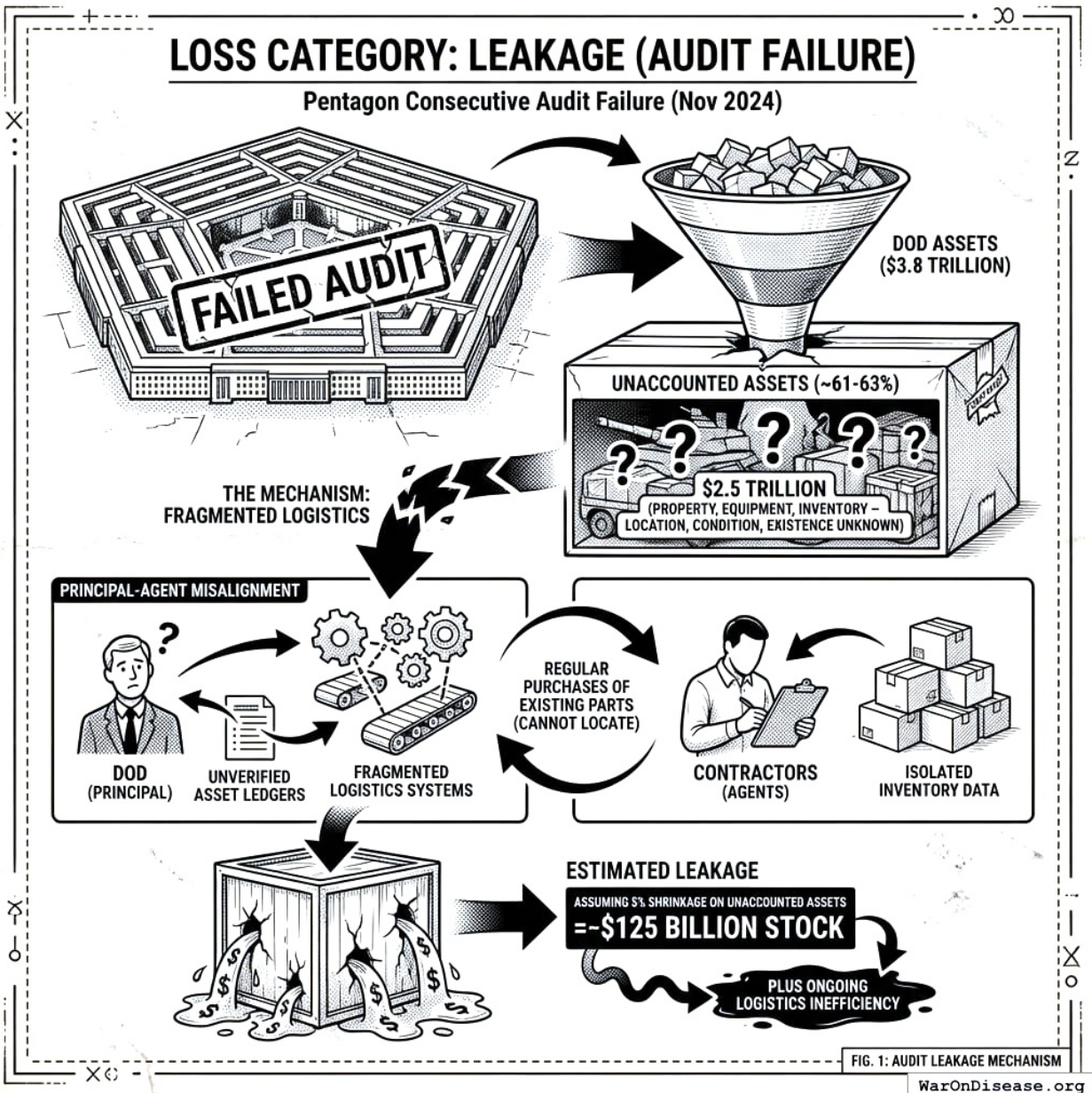


Figure 2: The Pentagon owns \$3.8 trillion in stuff. They can't find \$2.5 trillion of it. That's like losing 63 percent of your house.

The mechanism: fragmented logistics systems where contractors record inventory data, creating principal-agent misalignment<sup>145</sup>. Without verified asset ledgers, the DoD regularly purchases parts it already owns but cannot locate.

**Estimated leakage:** Assuming 5% inventory shrinkage on unaccounted assets = \$125 billion stock, plus ongoing logistics inefficiency.

## 11.2 Loss Category: Conversion Inefficiency (F-35 Program)

The F-35 program exemplifies “concurrency”: producing aircraft before design completion. Results:

- Lifetime sustainment cost: increased from \$1.1T (2018) to \$1.58T (2023)<sup>146</sup>
- Availability rates: declining despite 44% cost increase<sup>146</sup>
- 2024 delivery delays: average 238 days late<sup>147</sup>

**Estimated conversion inefficiency:** \$15-20 billion annually in defect remediation and unflown flight hours.

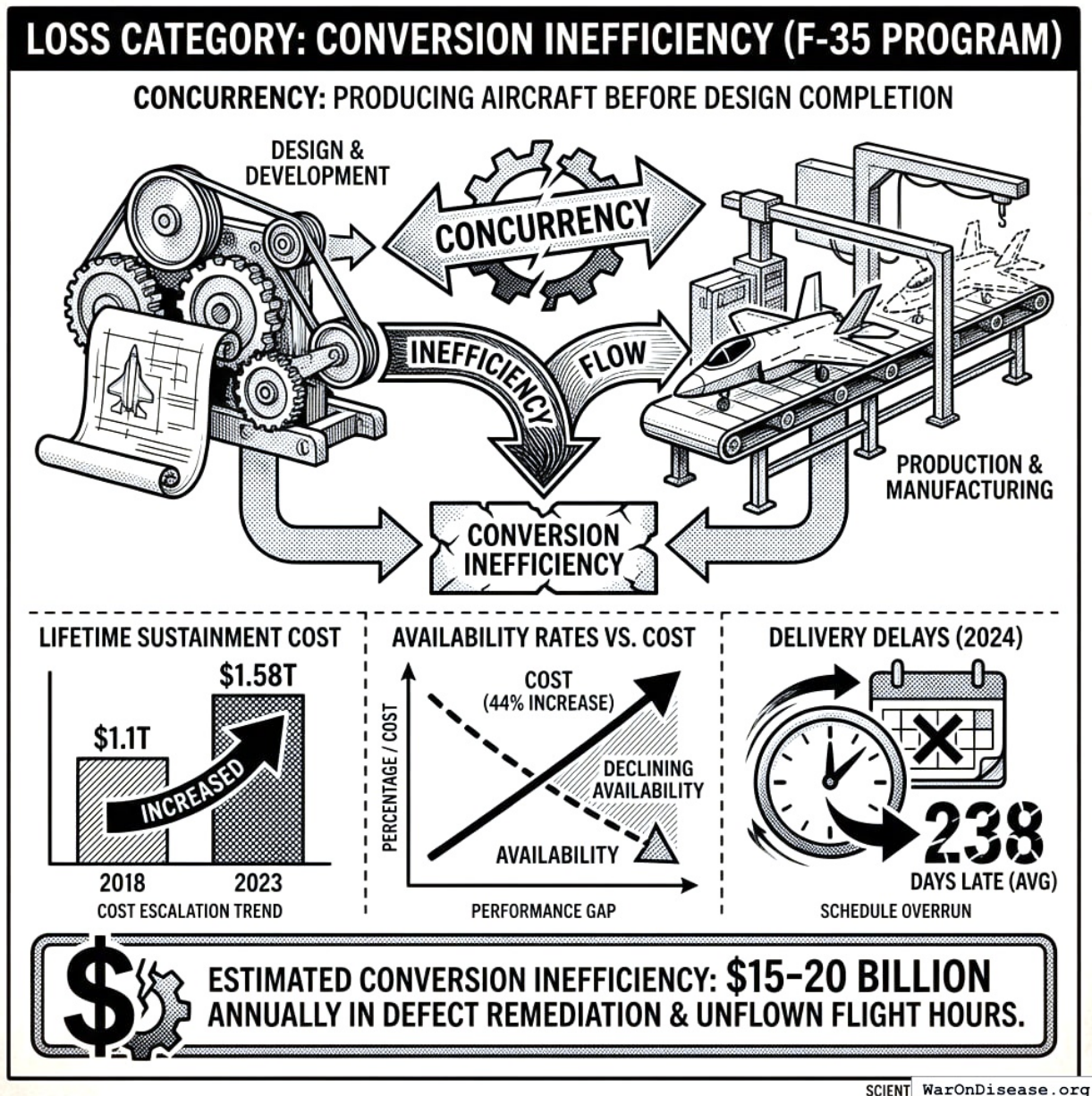


Figure 3: The F-35 costs more to maintain every year while working less and arriving late. It's the world's most expensive lemon.



### 11.3 Loss Category: Idle/Standby (Overseas Basing)

The U.S. maintains approximately 750 military bases in over 80 countries<sup>135</sup>, architecture designed for 1945 geopolitics.

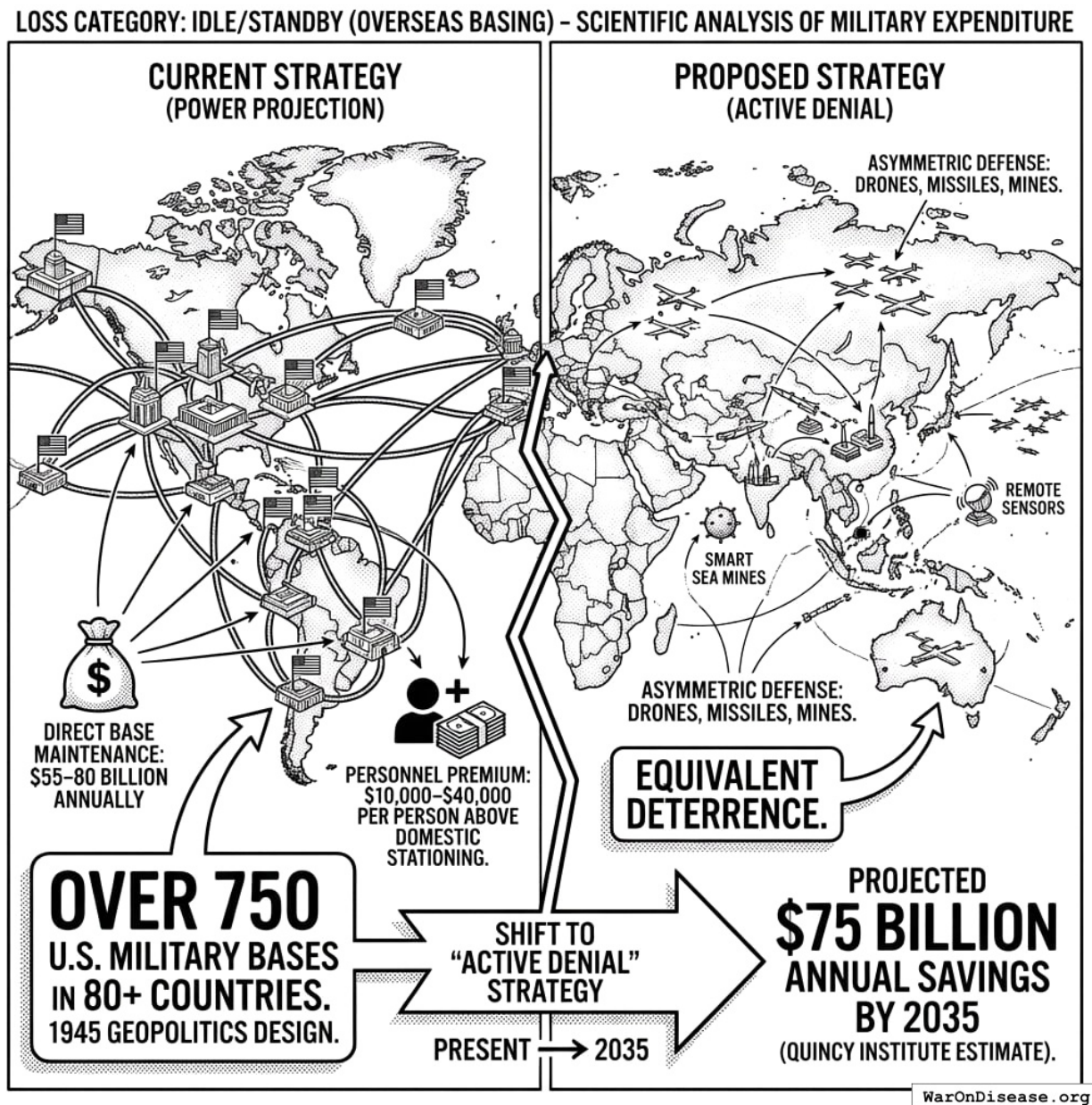


Figure 4: How much you spend maintaining bases in other countries versus how much you'd save by not doing that. Spoiler: a lot.

- Direct base maintenance: \$55-80 billion annually<sup>135</sup>
- Personnel premium: \$10,000-\$40,000 per person above domestic stationing<sup>148</sup>

The Quincy Institute estimates that shifting to "Active Denial" strategy (asymmetric defense via drones, missiles, mines rather than power projection platforms) could achieve equivalent deterrence at \$75 billion annual savings by 2035<sup>149</sup>.



11.4 Loss Category: Parasitic (Strategic Misalignment)

The “Overmatch” doctrine requires dominance in every theater simultaneously, creating unlimited spending requirements. The Congressional Budget Office projects defense costs will rise to \$965 billion by 2039<sup>150</sup>, driven by this refusal to rationalize legacy commitments. A rational optimization would focus on:

- Robust nuclear deterrent (submarine-based leg sufficient)
- Naval denial capabilities
- Asymmetric defense posture

Cutting the redundant ICBM leg and reducing bomber procurement would save \$15-20 billion annually<sup>151</sup>.

11.5 Defense Subsystem Summary

Measure	Value
Core modeled defense contribution	\$615B (95% CI: \$500B-\$750B)

The mechanism-specific estimates above (audit leakage, F-35 conversion losses, overseas basing, strategic misalignment) explain drivers of this overspend and should not be added as separate totals.

12 Subsystem Audit: Healthcare Administration

System Inefficiency

In the core model, healthcare system inefficiency contributes \$1.20T (95% CI: \$1T-\$1.50T) annually. U.S. healthcare consumes ~18% of GDP (\$5.3 trillion)<sup>152</sup> yet delivers health outcomes inferior to peer nations spending 10-11% of GDP<sup>138</sup>. The delta is not care quality. It is administrative friction.

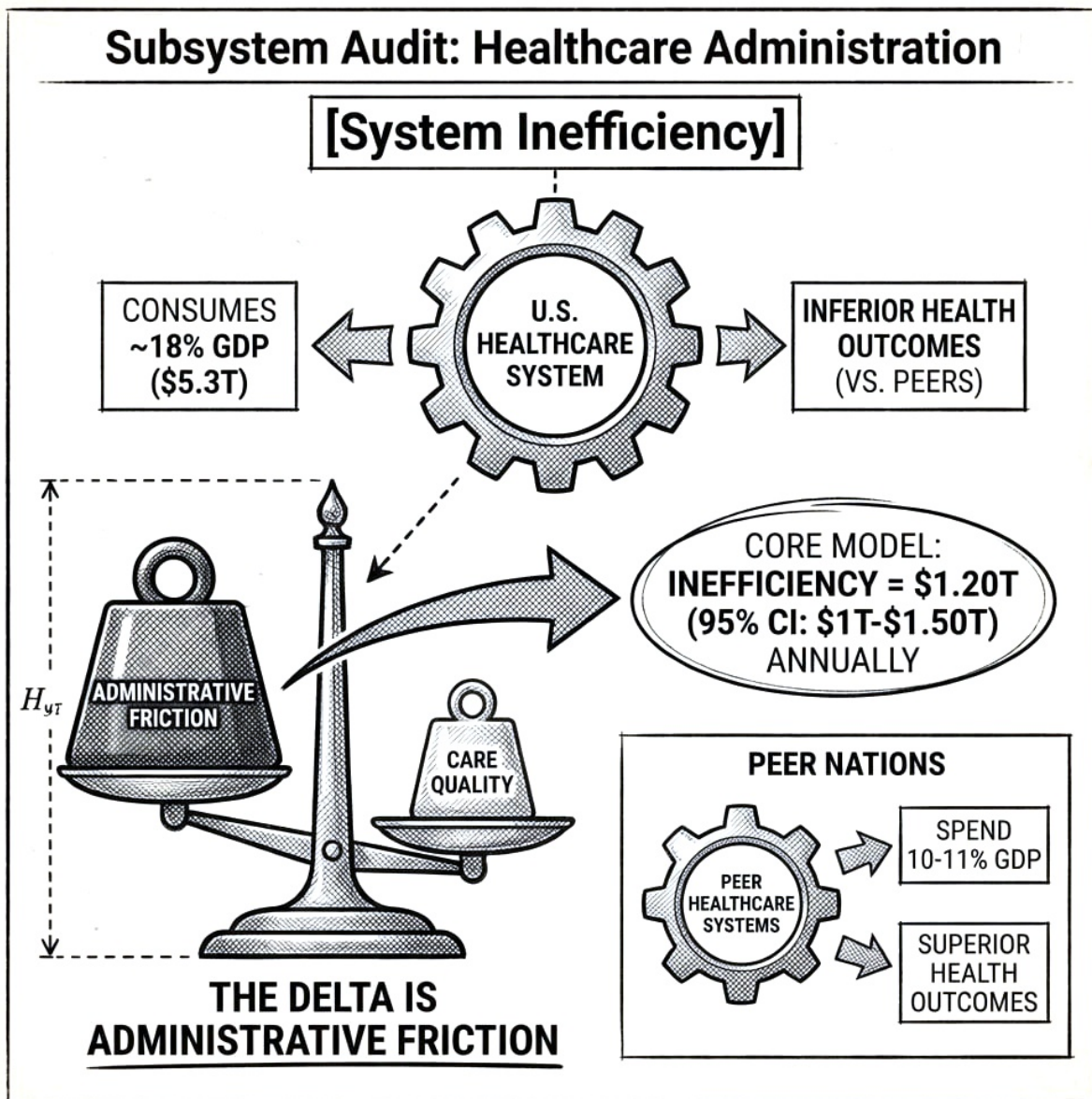


Figure 5: America spends \$1.2 trillion more on healthcare paperwork than other countries. You invented a trillion-dollar filing system.

### 12.1 Loss Category: Friction (Administrative Overhead)

The U.S. spends approximately \$1,000 more per person on administrative costs than the average wealthy OECD country<sup>138</sup>. With 335 million population:

**Administrative excess:** ~\$335 billion annually

A 2020 study found U.S. administrative spending at 34.2% of health expenditures versus 17% in Canada<sup>153</sup>. This overhead does not improve outcomes. It diverts resources from care to paperwork.

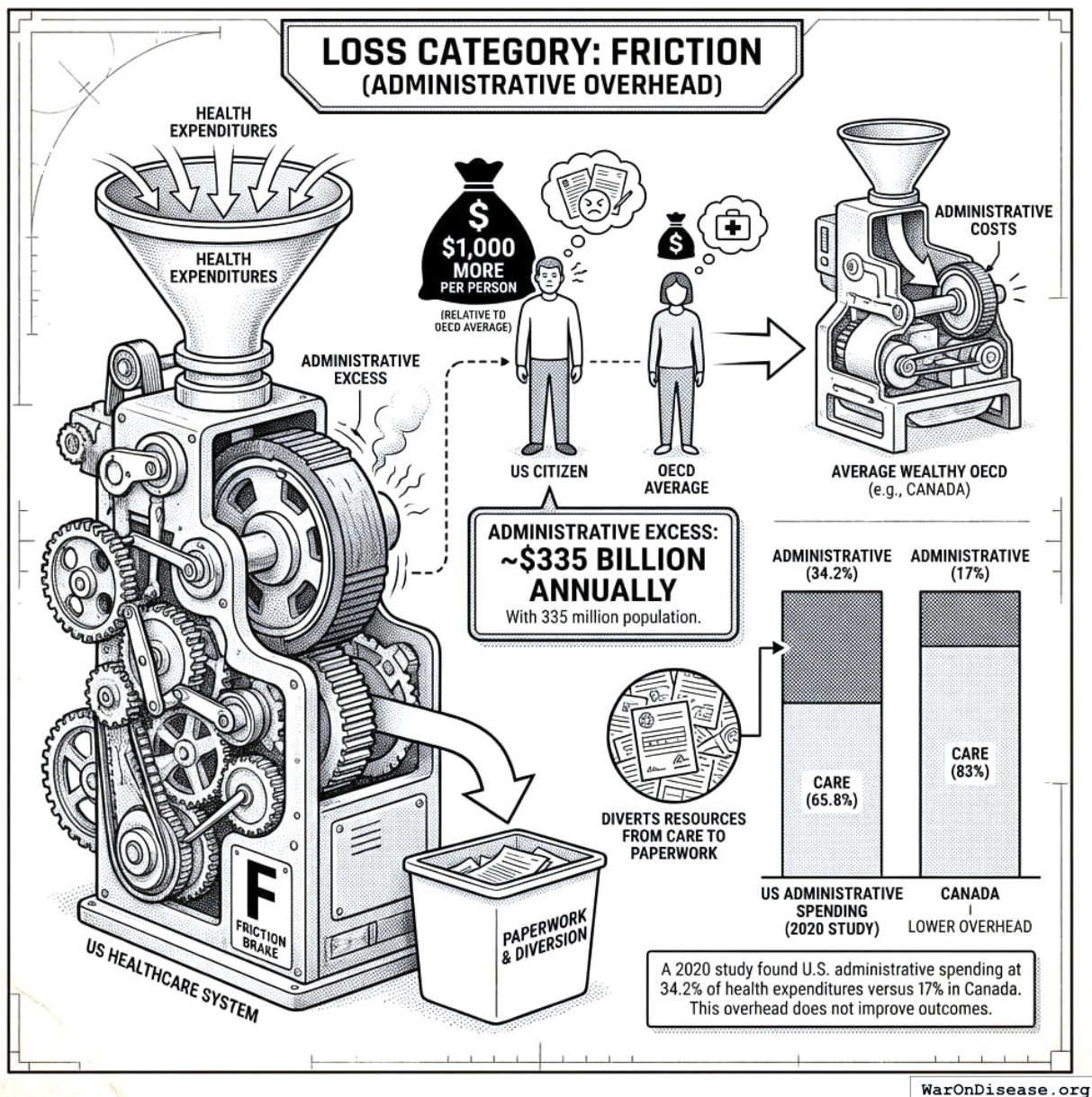


Figure 6: The U.S. spends twice as much on healthcare paperwork as Canada. Canadians get healthcare. You get invoices.

## 12.2 Loss Category: Leakage (Medicare Advantage Upcoding)

Medicare Advantage functions as a subsidy mechanism via “upcoding”: making patients appear sicker than they are to increase capitated payments.



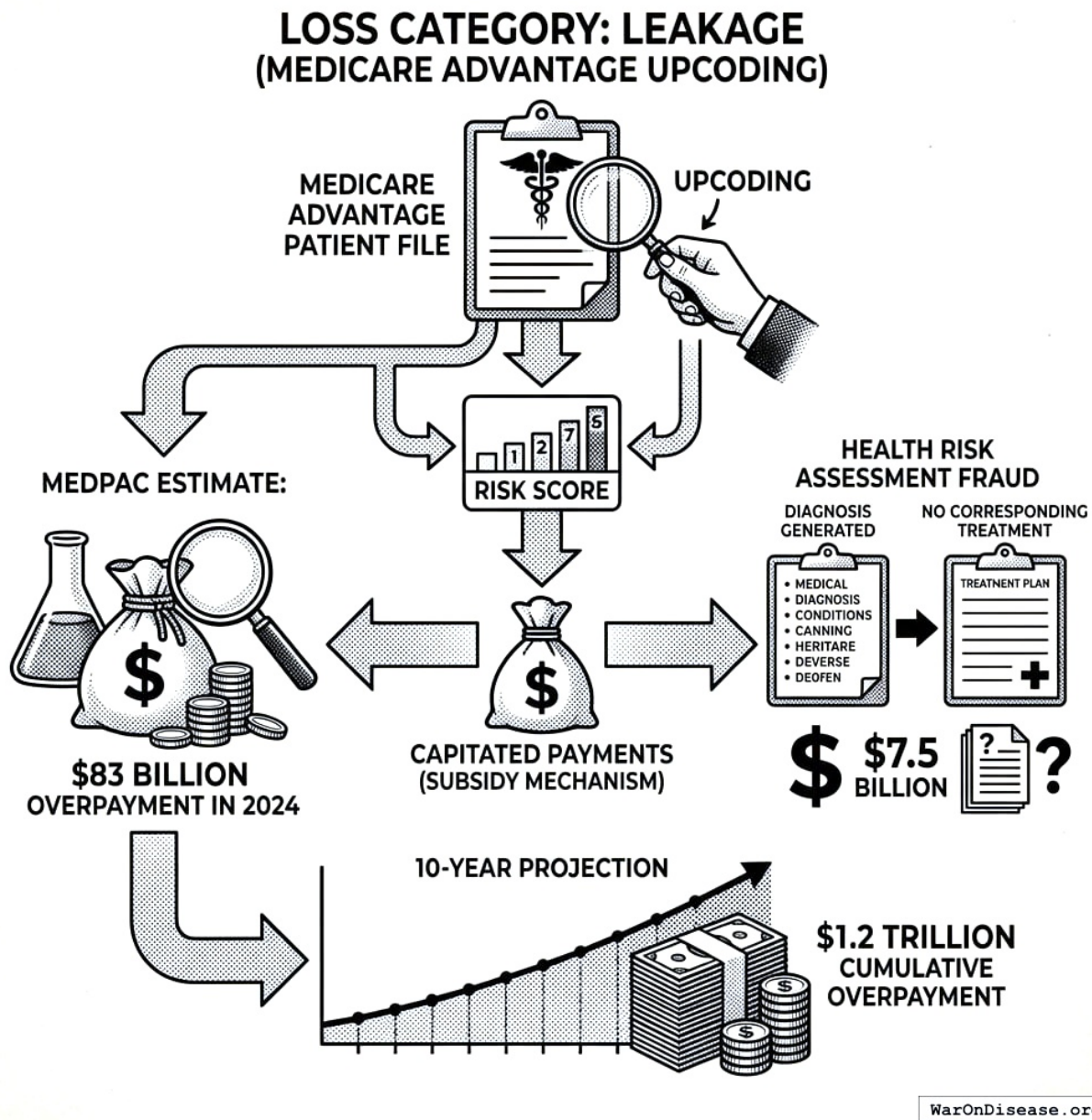


Figure 7: How much Medicare overpays insurance companies this year, how much is outright fraud, and how much it adds up to over a decade. It's a lot.

- MedPAC estimate: \$83 billion overpayment in 2024<sup>154</sup>
- 10-year projection: \$1.2 trillion cumulative overpayment<sup>155</sup>
- Health Risk Assessment fraud: \$7.5 billion from chart reviews generating diagnoses with no corresponding treatment<sup>156</sup>

### 12.3 Loss Category: Leakage (Improper Payments)

GAO estimates \$162 billion in improper payments government-wide in 2024, with 75% concentrated in Medicare and Medicaid<sup>157</sup>.

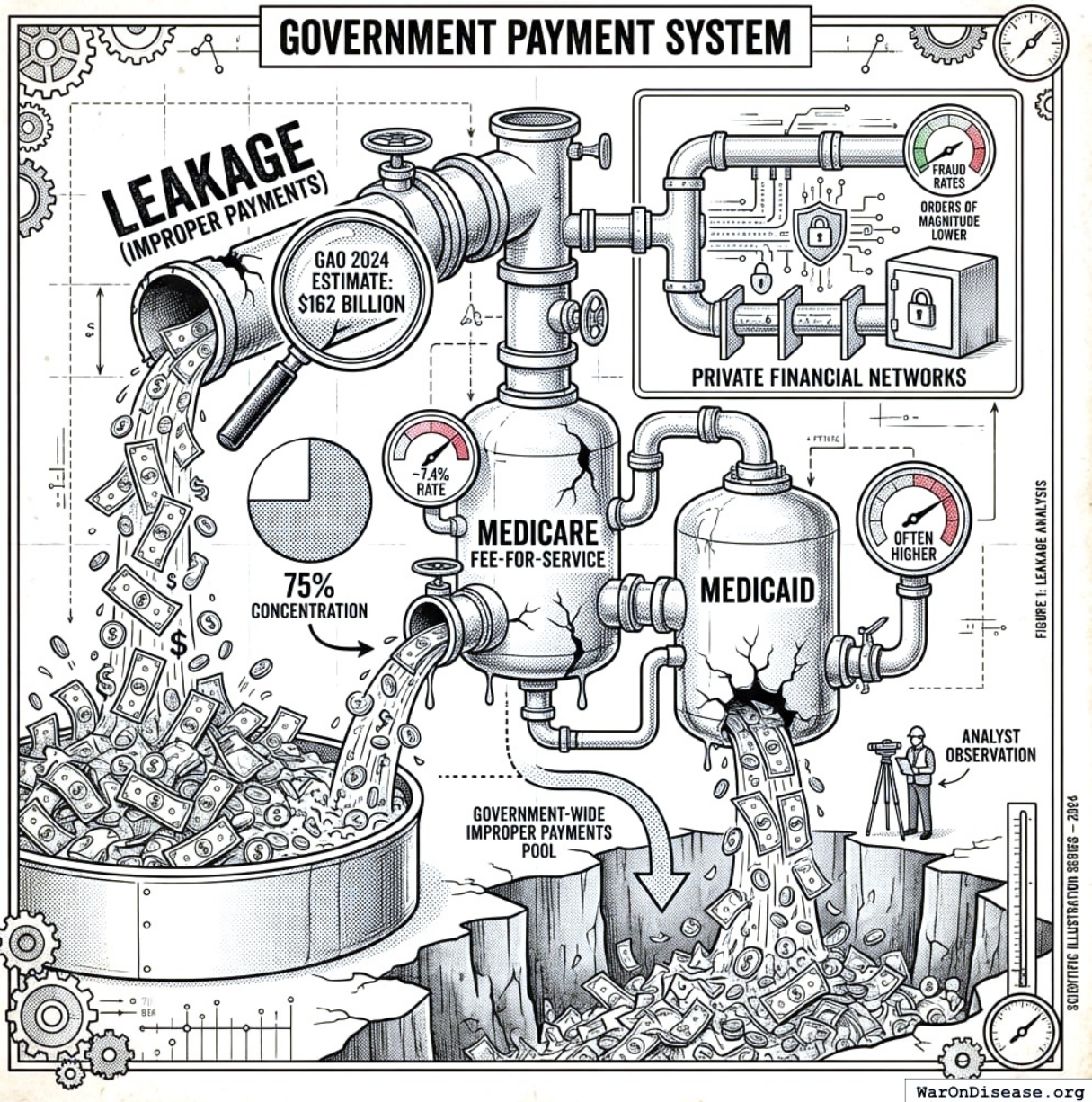


Figure 8: Three-quarters of government healthcare fraud happens in two programs. The private sector steals less, which is awkward.

- Medicare Fee-for-Service: ~7.4% improper payment rate
- Medicaid: often higher

Private financial networks operate with fraud rates orders of magnitude lower.

## 12.4 Healthcare Subsystem Summary

Measure	Value
Core modeled healthcare inefficiency	\$1.20T (95% CI: \$1T-\$1.50T)

The administrative and payment-fraud estimates above are key mechanisms within this broader system-level inefficiency.

## **13 Subsystem Audit: Justice and Prohibition**

### **Direct Federal Spending Waste**

In the core model, justice and prohibition contribute \$90B (95% CI: \$60B-\$150B) annually through direct drug war spending and associated direct losses. Broader incarceration externalities remain substantial but are treated as contextual estimates here to avoid overlap with other modeled categories.



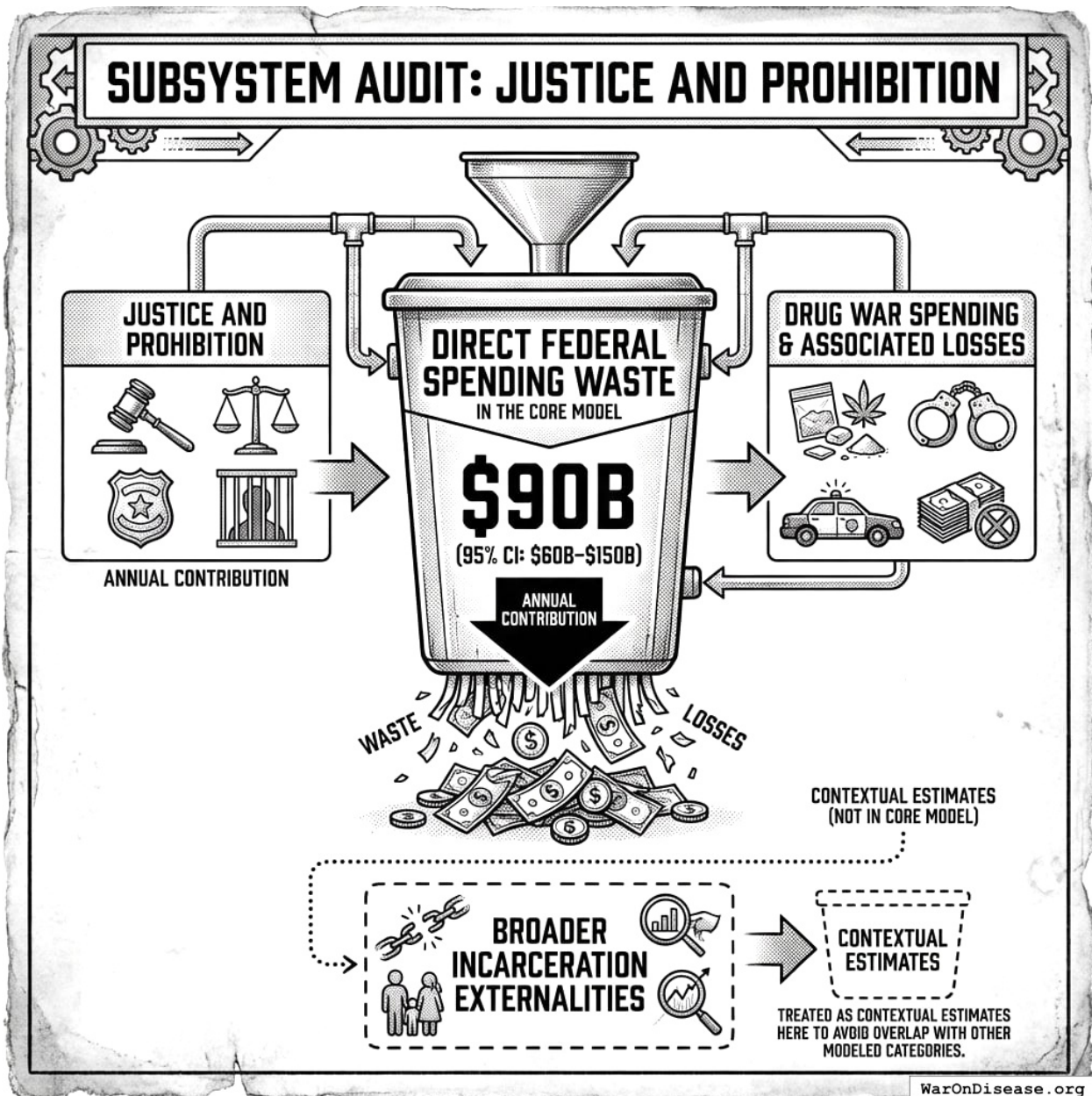


Figure 9: You spend \$90 billion a year locking people up for drugs. Maybe \$60 billion. Possibly \$150 billion. Nobody's counting carefully.

### 13.1 Loss Category: Conversion Inefficiency (Drug Prohibition)

The federal drug control budget for 2024: nearly \$45 billion<sup>158</sup>. Total expenditure since 1971: over \$1 trillion<sup>159</sup>.

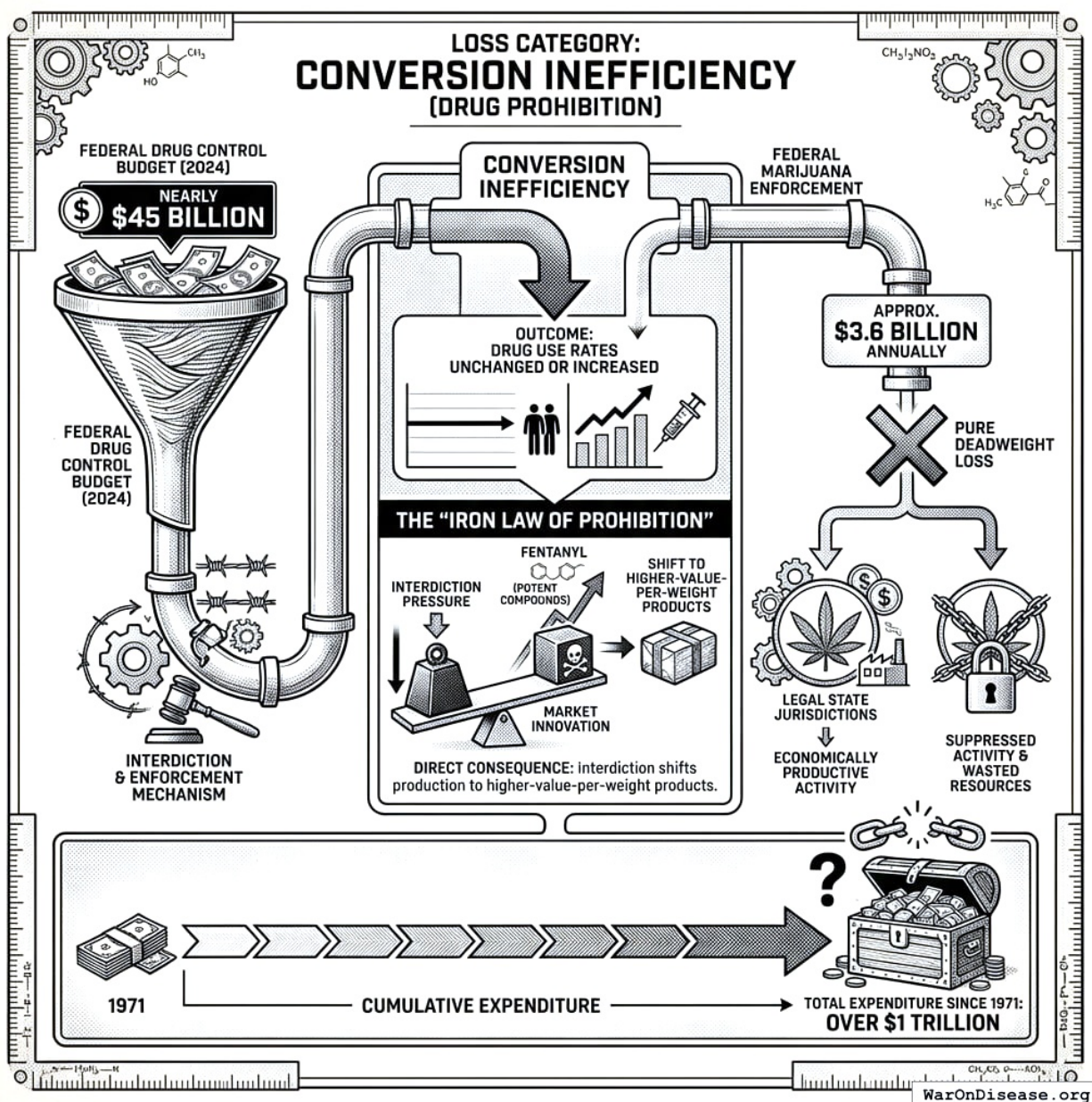


Figure 10: Money spent fighting drugs goes up. Drug use stays the same. Drug strength goes up. You're losing to chemistry.

**Outcome:** Drug use rates unchanged or increased<sup>160</sup>. The market has innovated toward more potent compounds (fentanyl). This is a direct consequence of the "Iron Law of Prohibition," where interdiction shifts production to higher-value-per-weight products.

Despite state legalization, federal marijuana enforcement continues at approximately \$3.6 billion annually<sup>161</sup>, pure deadweight loss on activity that is economically productive in legal jurisdictions.



### 13.2 Loss Category: Negative Work (Mass Incarceration)

The U.S. incarcerates at rates unmatched in the developed world, removing prime-age workers from the labor force and degrading human capital.

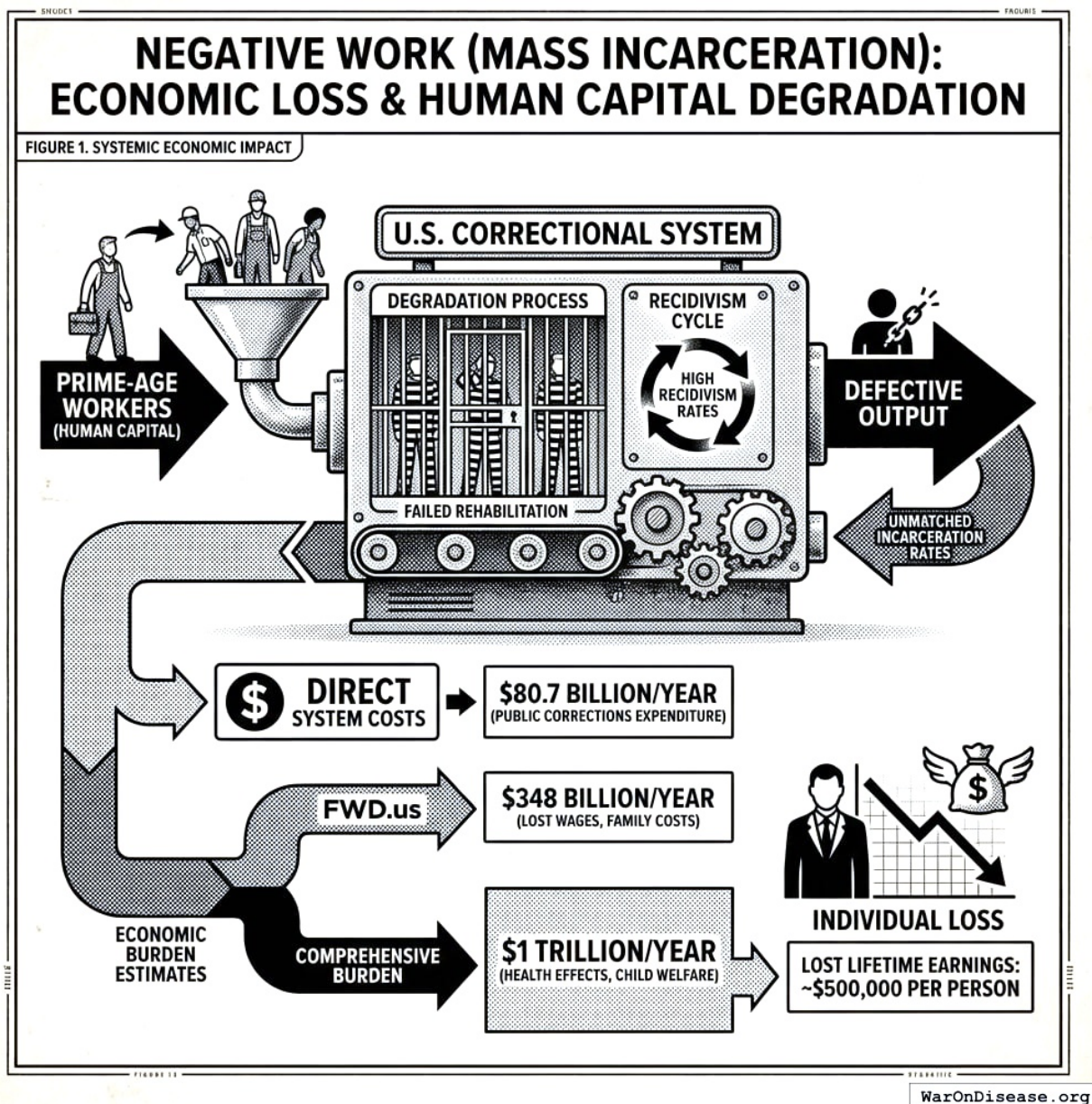


Figure 11: What prisons cost the government versus what they cost everyone when you add up all the broken families and lost jobs.

**Direct system costs:** \$80.7 billion in public corrections expenditure<sup>162</sup>

**Economic burden estimates:**

- FWD.us: \$348 billion annually (lost wages, family costs)<sup>163</sup>

- Comprehensive burden (including health effects, child welfare): \$1 trillion annually<sup>164</sup>

Lost lifetime earnings per incarcerated person: approximately \$500,000<sup>162</sup>. The system fails at rehabilitation. High recidivism rates mean the “correctional” investment yields defective output.

### 13.3 Loss Category: Leakage (Civil Asset Forfeiture)

Civil asset forfeiture allows property seizure without criminal conviction. FY 2024 Treasury Forfeiture Fund: \$2.26 billion processed<sup>165</sup>.

This mechanism incentivizes revenue-generating enforcement over public safety, introduces property rights uncertainty, and constitutes wealth transfer from productive activity to bureaucracy.

### 13.4 Justice Subsystem Summary

Measure	Value
Core modeled justice/prohibition contribution	\$90B (95% CI: \$60B-\$150B)

*Note: The incarceration burden estimates above reflect broader societal externalities and are presented as contextual evidence rather than additive components in the core aggregate model.*

## 14 Subsystem Audit: Regulatory and Tax Compliance

### [Compliance Burden + Policy-Induced GDP Loss]

In the core model, this subsystem maps to three major components: tax compliance (\$546B (95% CI: \$450B-\$650B)), regulatory red tape (\$580B (95% CI: \$290B-\$1T)), and housing/zoning misallocation (\$1.40T (95% CI: \$500B-\$2T)). Together they represent a substantial unrecorded subtraction from national output.

### 14.1 Loss Category: Friction (Tax Compliance)

Americans spend 7.1-7.9 billion hours annually complying with the tax code<sup>134</sup>.

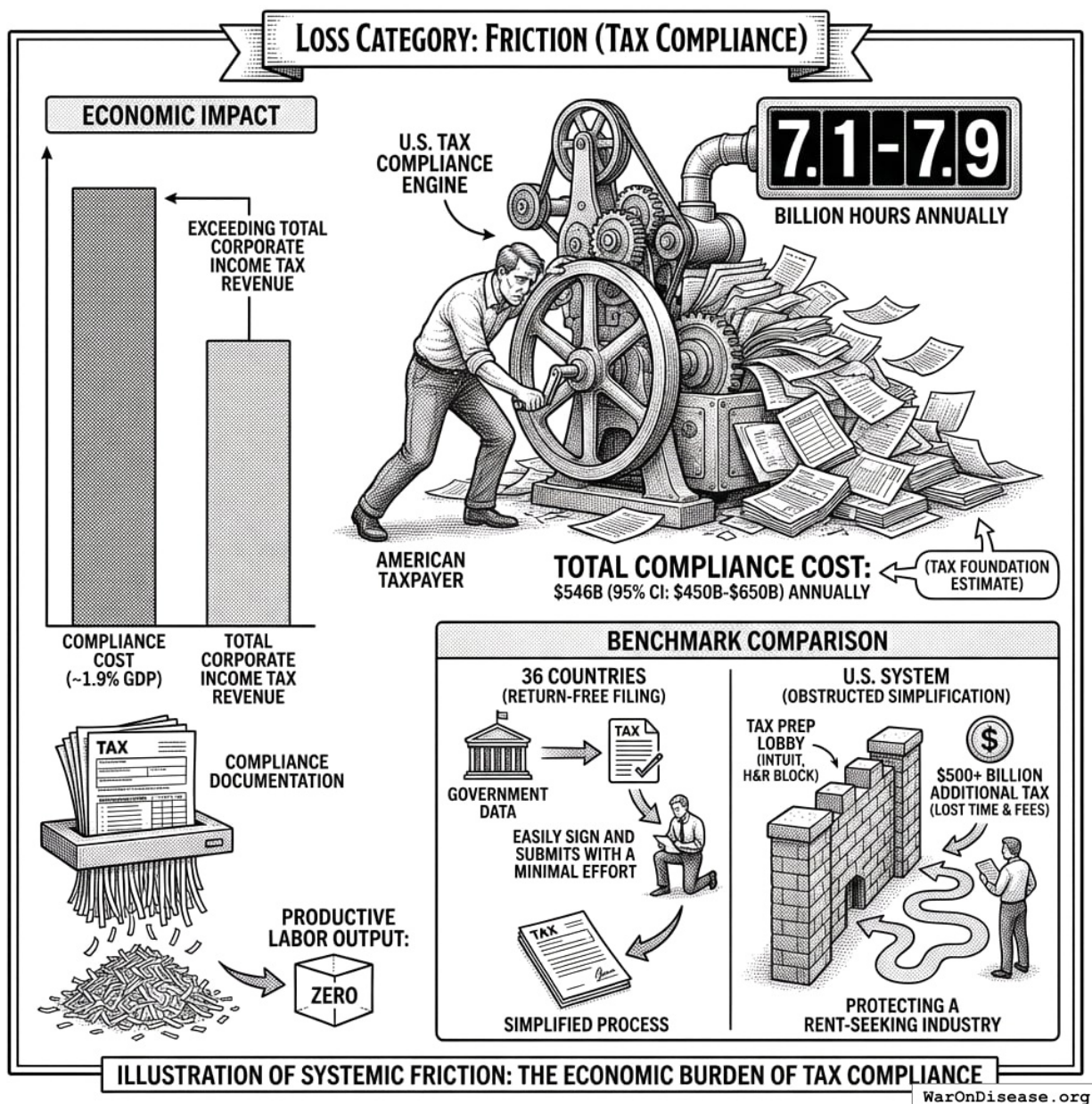


Figure 12: Americans spend \$546 billion a year figuring out their taxes. That's more than corporate taxes raise. You built a very expensive puzzle.

**Total compliance cost:** \$546B (95% CI: \$450B-\$650B) annually (Tax Foundation estimate)<sup>115,134</sup>

This is approximately 1.9% of GDP, exceeding total corporate income tax revenue. The labor produces nothing but compliance documentation.

**Benchmark comparison:** Thirty-six countries use "Return-Free Filing" where governments pre-fill returns with data already in their possession<sup>166</sup>. The U.S. tax preparation lobby (Intuit, H&R Block) has successfully lobbied to prevent this simplification<sup>167</sup>, effectively taxing Americans an additional \$500+ billion in lost time and fees to protect a rent-seeking industry.



## 14.2 Loss Category: Friction (Housing/Zoning Misallocation)

Local zoning regulations artificially restrict housing supply in high-productivity cities, preventing labor mobility to productive clusters.

**Spatial misallocation cost:** Moderate estimates imply losses on the order of \$1.40T (95% CI: \$500B-\$2T) annually<sup>168,169</sup>. The full range spans \$500B to \$2T depending on modeling assumptions.

*Note: The original Hsieh-Moretti (2019) estimate of 36% GDP growth reduction was substantially revised downward by Greaney (2023). The figure used here reflects a moderate annualized estimate rather than the original upper bound.*

Federal policy subsidizes this dysfunction via mortgage interest deductions and infrastructure grants without upzoning requirements.

## 14.3 Loss Category: Idle (NEPA Permitting Delays)

The National Environmental Policy Act forces infrastructure projects into multi-year review. Average Environmental Impact Statement: 4.5 years.

**Delay costs:** \$100-140 billion annually in lost returns and capital efficiency<sup>170</sup>.

NEPA creates a “Green Paradox”: delaying clean energy projects (transmission, wind, geothermal) more than fossil fuel projects, undermining stated policy goals.

#### 14.4 Loss Category: Parasitic (Jones Act)

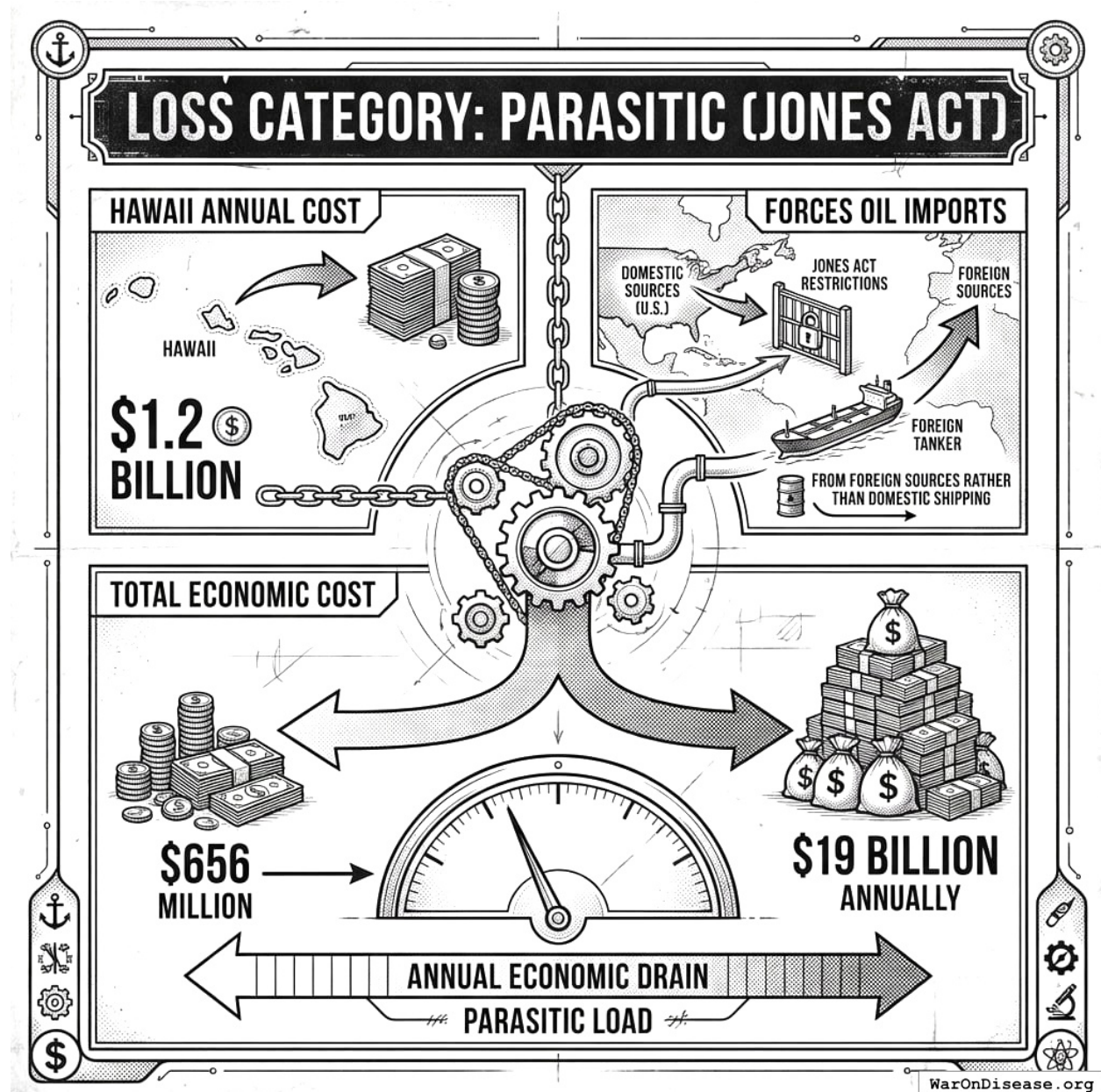


Figure 13: The Jones Act costs Hawaii more per person than anyone else because shipping things to islands on American ships is very expensive.

The Jones Act requires domestic shipping on U.S.-built, U.S.-crewed vessels. Results:

- Hawaii annual cost: \$1.2 billion<sup>171</sup>
- Forces oil imports from foreign sources rather than domestic shipping
- Total economic cost: \$656 million to \$19 billion annually<sup>172</sup>

#### 14.5 Regulatory Subsystem Summary

Core Modeled Component	Value
Tax compliance	\$546B (95% CI: \$450B-\$650B)
Regulatory red tape	\$580B (95% CI: \$290B-\$1T)
Housing/zoning misallocation	\$1.40T (95% CI: \$500B-\$2T)

NEPA and Jones Act estimates above are additional policy frictions discussed for context and are not separately added to the core model total here.

## 15 Subsystem Audit: Subsidies and Transfers

### [Direct Spending Waste + Policy-Induced GDP Loss]

In the core model, this subsystem includes corporate welfare (\$181B (95% CI: \$150B-\$220B)), fossil fuel subsidies (\$50B (95% CI: \$30B-\$80B)), agricultural subsidies (\$75B (95% CI: \$50B-\$120B)), and tariff-related GDP loss (\$160B (95% CI: \$90B-\$250B)).

#### 15.1 Loss Category: Parasitic (Fossil Fuel Subsidies)

Direct annual subsidies to fossil fuel companies: \$10-52 billion<sup>173</sup>.

This represents capital transfer to a mature, profitable industry, artificially lowering carbon-intensive energy costs relative to alternatives and slowing energy transition.

#### 15.2 Loss Category: Parasitic (Agricultural Subsidies)

Agricultural subsidies in 2024: \$9.3-30 billion<sup>174</sup>. Distribution is regressive. Top 10% of recipients received 65% of payments in 2024<sup>175</sup>.

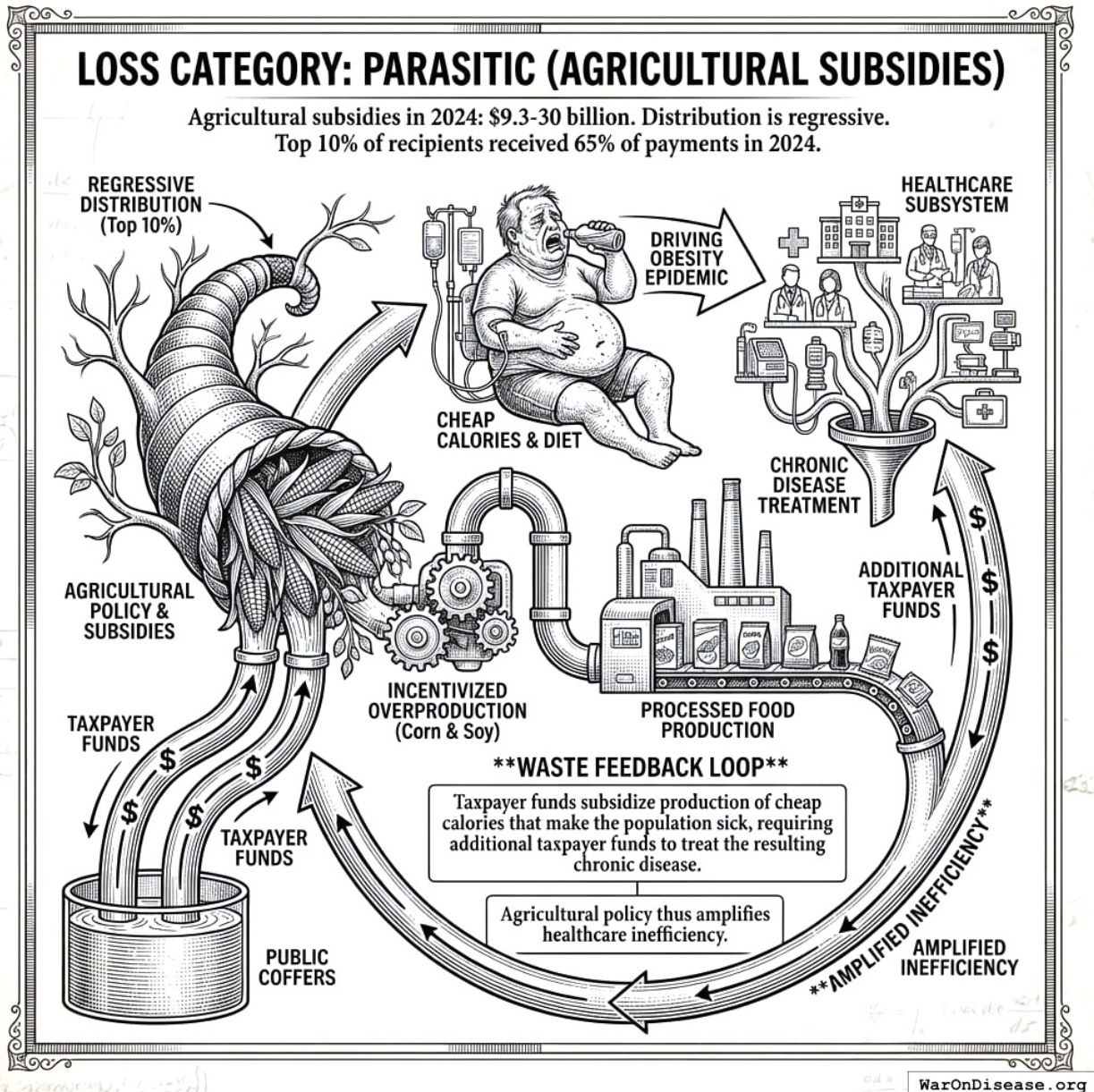


Figure 14: You pay farmers to grow corn. Corn becomes cheap junk food. Junk food makes people sick. You pay to fix the sick people. Loop complete.

The subsidy structure incentivizes overproduction of corn and soy, which form the backbone of the processed food diet driving the obesity epidemic. This creates a **Waste Feedback Loop**: taxpayer funds subsidize production of cheap calories that make the population sick, requiring additional taxpayer funds to treat the resulting chronic disease (see Healthcare subsystem). Agricultural policy thus amplifies healthcare inefficiency.



### 15.3 Loss Category: Negative Work (Tariffs and Corporate Welfare)

**Corporate welfare:** Cato Institute tallies \$181 billion annually in grants, loans, and credits to specific businesses<sup>176</sup>.

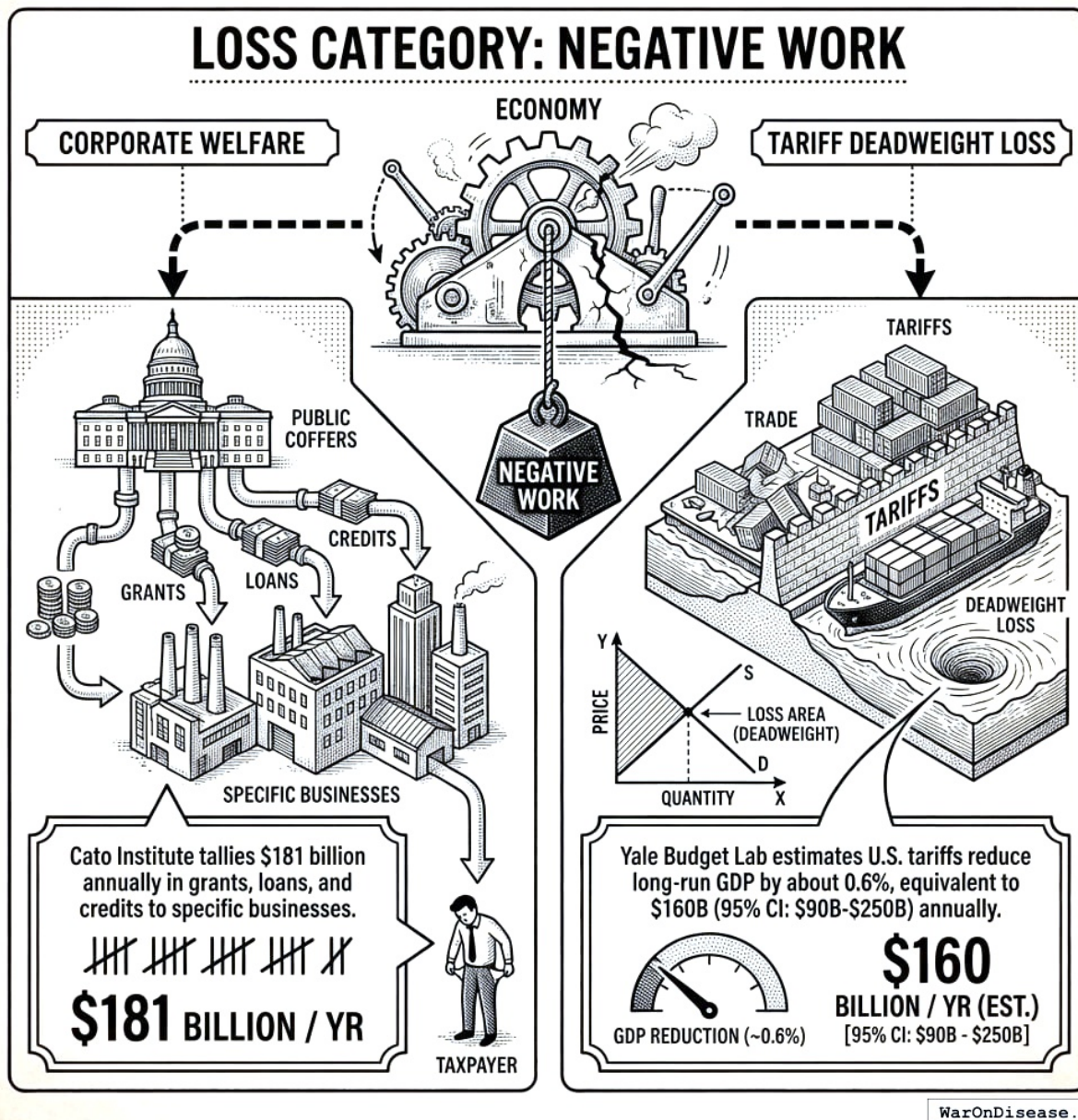


Figure 15: How much money vanishes when you give companies free money versus how much vanishes when you tax imports. Both numbers are sad.

**Tariff deadweight loss:** Yale Budget Lab estimates U.S. tariffs reduce long-run GDP by about 0.6%, equivalent to \$160B (95% CI: \$90B-\$250B) annually<sup>114</sup>.

### 15.4 Subsidies Subsystem Summary



Core Modeled Component	Value
Corporate welfare	\$181B (95% CI: \$150B-\$220B)
Fossil fuel subsidies	\$50B (95% CI: \$30B-\$80B)
Agricultural subsidies	\$75B (95% CI: \$50B-\$120B)
Tariff-related GDP loss	\$160B (95% CI: \$90B-\$250B)

## 16 Aggregate Efficiency Calculation

### 16.1 Monte Carlo Simulation Parameters

We model Total Efficiency Gap as the sum of ten core components, grouped into four categories, with Monte Carlo simulation accounting for correlated uncertainties.

Category	Mean (Model Output)	Notes
Direct Spending Waste	\$1.01T (95% CI: \$790B-\$1.30T)	Budget allocations that can be reallocated
Compliance Burden	\$1.13T (95% CI: \$775B-\$1.58T)	Private-sector compliance friction
Policy-Induced GDP Loss	\$1.56T (95% CI: \$1.05T-\$2.18T)	Foregone output from policy constraints
System Inefficiency	\$1.20T (95% CI: \$1T-\$1.45T)	Structural design failures
<b>Total Efficiency Gap</b>	<b>\$4.90T (95% CI: \$3.62T-\$6.50T)</b>	Aggregate modeled loss

### 16.2 Simulation Results

#### Aggregate Efficiency Gap (FY 2024-2025):

Percentile	Estimate
<b>Mean (Central)</b>	<b>\$4.90T (95% CI: \$3.62T-\$6.50T)</b>

*Note: The P5-P95 confidence interval is embedded in the variable output. Category means sum to the aggregate total, with Monte Carlo simulation modeling correlated uncertainties across components.*

**As percentage of GDP:** 17% (95% CI: 12.6%-22.6%)

#### Category Breakdown:

Category	Annual Cost	Solution Type
<b>Direct Spending Waste</b>	\$1.01T (95% CI: \$790B-\$1.30T)	Budget reallocation
<b>Compliance Burden</b>	\$1.13T (95% CI: \$775B-\$1.58T)	Simplification
<b>Policy-Induced GDP Loss</b>	\$1.56T (95% CI: \$1.05T-\$2.18T)	Policy reform
<b>System Inefficiency</b>	\$1.20T (95% CI: \$1T-\$1.45T)	System redesign
<b>Total</b>	<b>\$4.90T (95% CI: \$3.62T-\$6.50T)</b>	Multiple pathways

This breakdown clarifies that only direct spending waste represents traditional “federal budget waste” subject to reallocation. The majority reflects broader economic dysfunction requiring simplification (compliance burden), policy reform (policy-induced GDP loss), or structural redesign (system inefficiency).

### 16.2.1 Subsystem Uncertainty Distributions

The following figures show Monte Carlo distributions for key subsystem loss estimates:

## 17 Tax Compliance

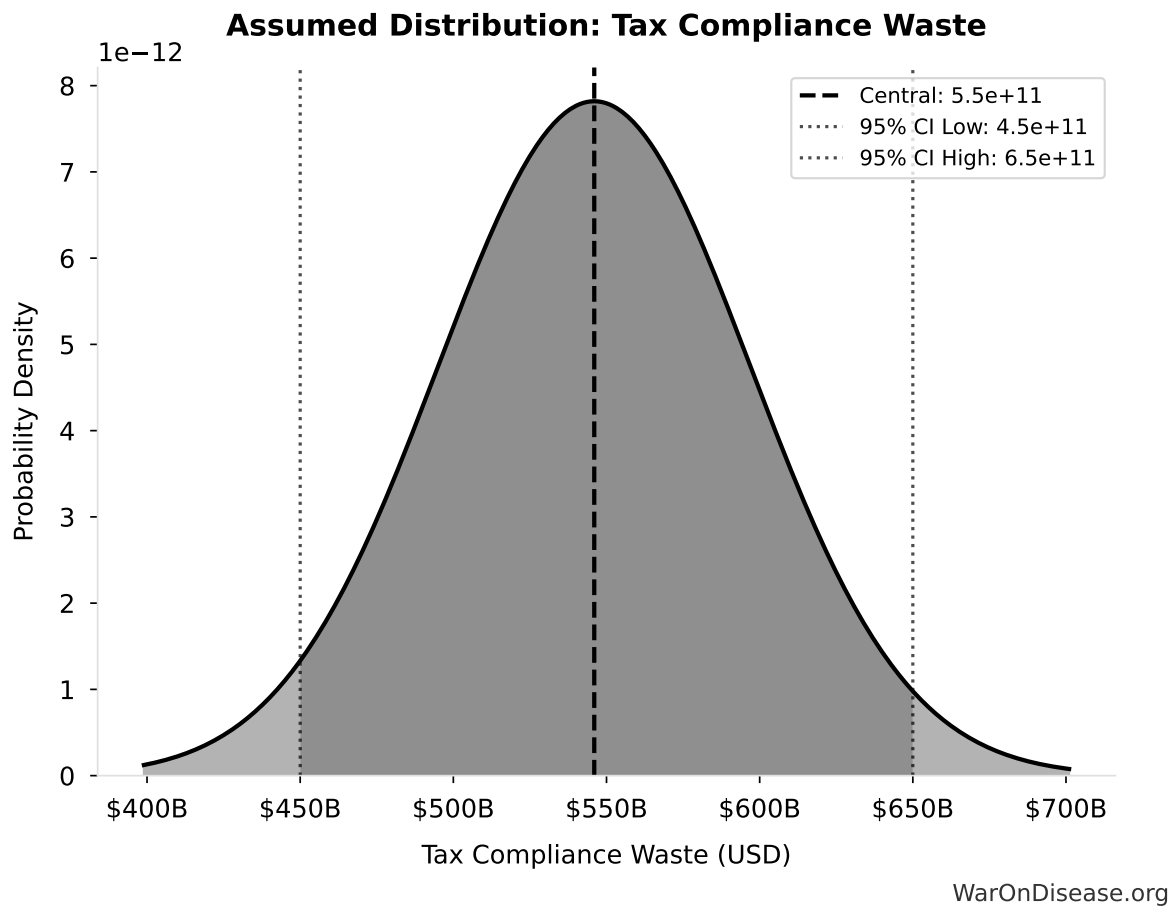


Figure 16: Probability Distribution: Tax Compliance Waste

*This chart shows the assumed probability distribution for this parameter. The shaded region represents the 95% confidence interval where we expect the true value to fall.*

## 18 Housing/Zoning

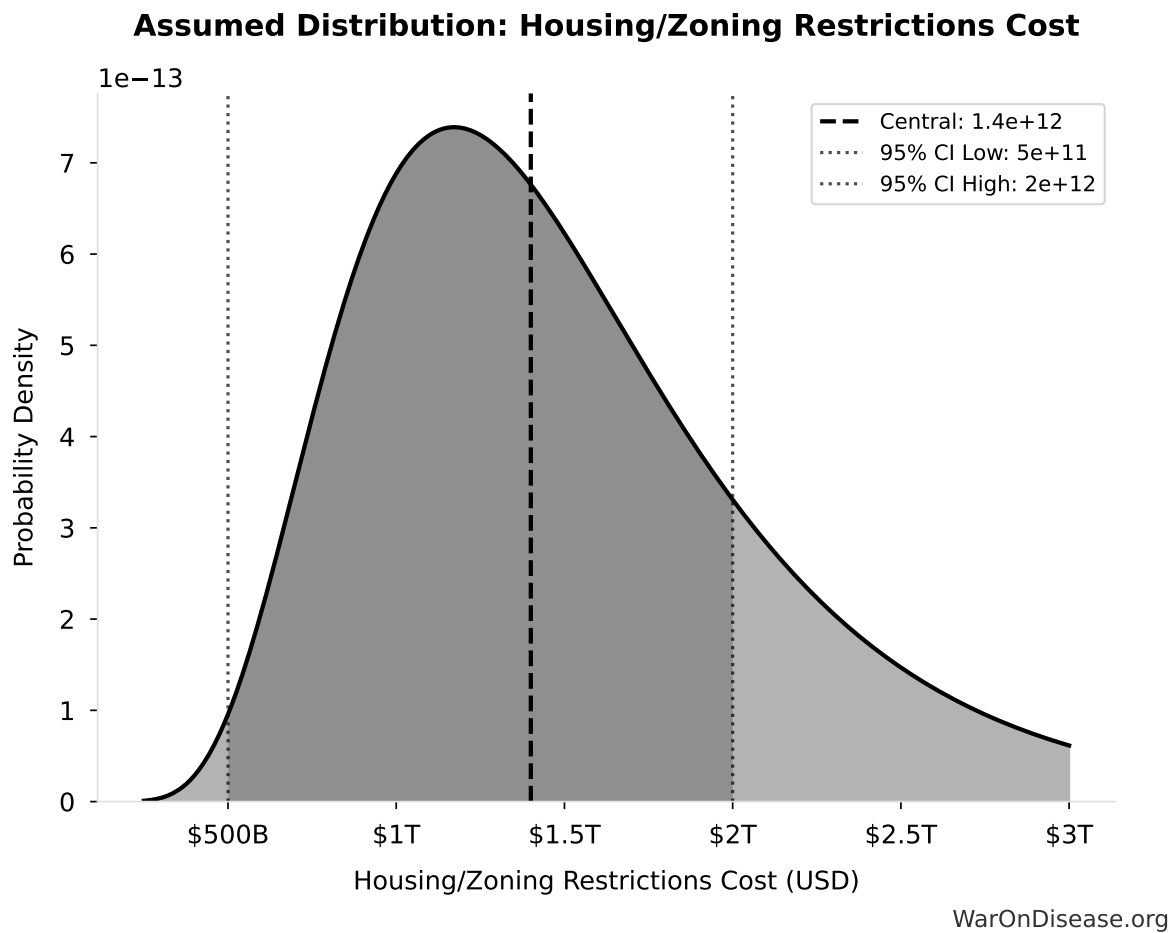


Figure 17: Probability Distribution: Housing/Zoning Restrictions Cost

*This chart shows the assumed probability distribution for this parameter. The shaded region represents the 95% confidence interval where we expect the true value to fall.*

## 19 Healthcare

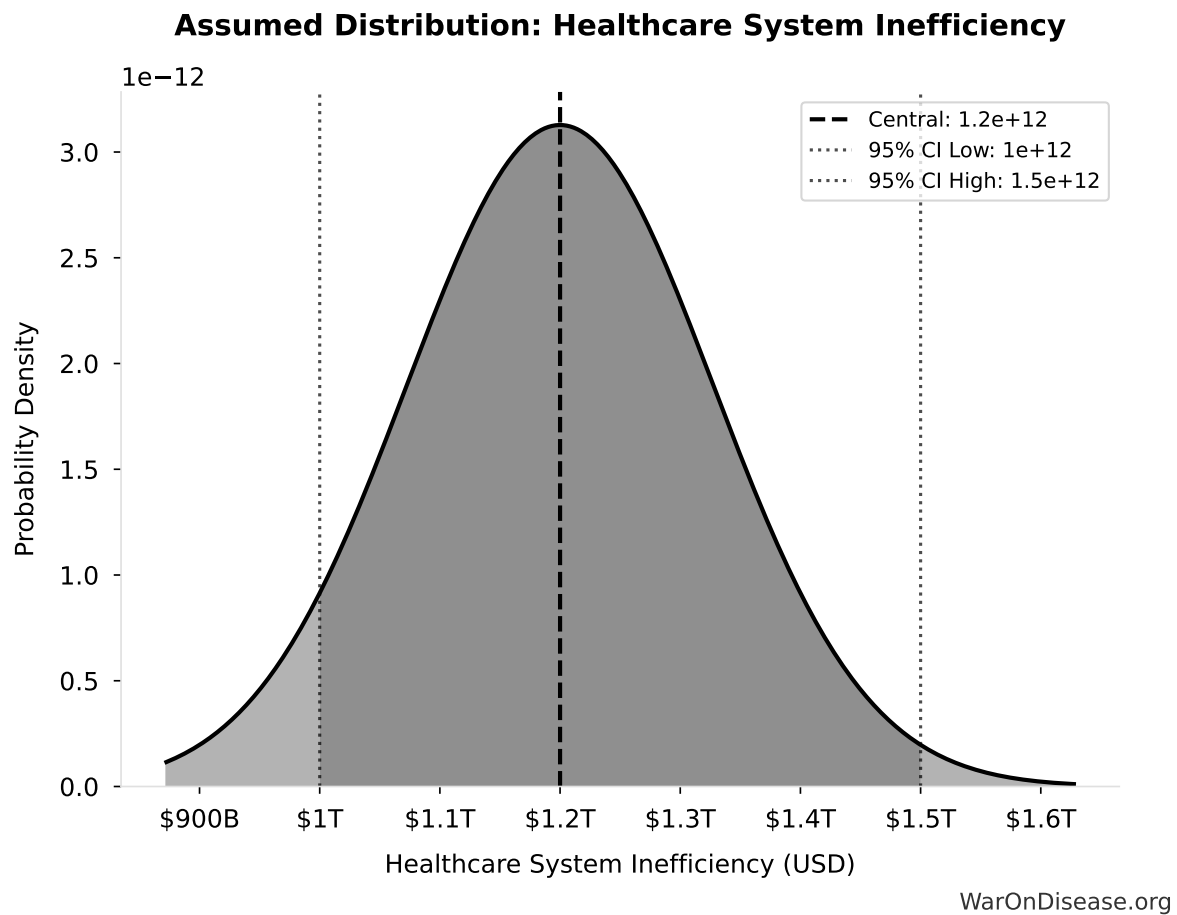


Figure 18: Probability Distribution: Healthcare System Inefficiency

*This chart shows the assumed probability distribution for this parameter. The shaded region represents the 95% confidence interval where we expect the true value to fall.*

## 20 Drug War

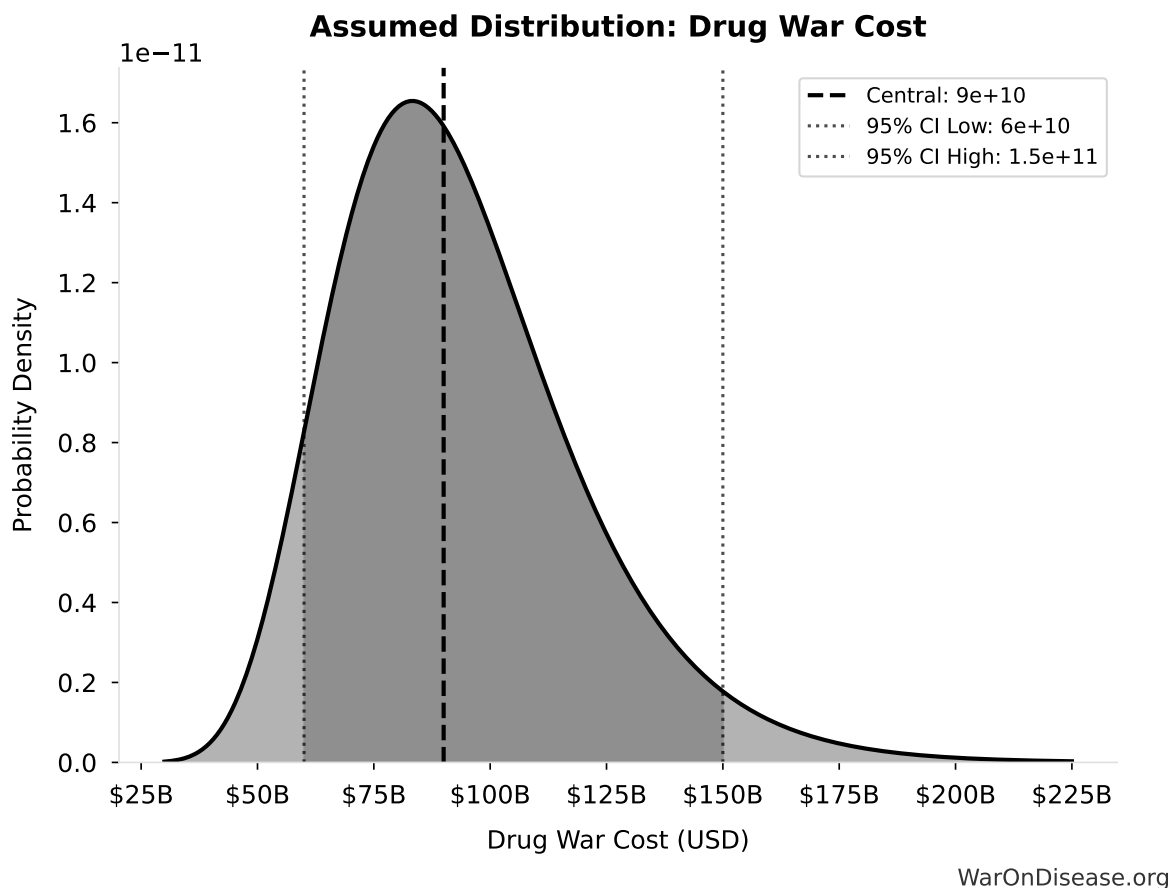


Figure 19: Probability Distribution: Drug War Cost

*This chart shows the assumed probability distribution for this parameter. The shaded region represents the 95% confidence interval where we expect the true value to fall.*

### 20.1 Efficiency Rating Calculation

We report two efficiency metrics using different denominators, each answering a distinct question:

**Discretionary Efficiency** (Cat 1 waste vs. discretionary spending): What fraction of fungible federal spending avoids direct waste?

$$\begin{aligned}
& E_{US, disc} \\
&= 1 - \frac{W_{cat1}}{Spending_{fed}} \\
&= 1 - \frac{\$1.01T}{\$1.7T} \\
&= 40.5\%
\end{aligned}$$

$$\begin{aligned}
& \text{where } W_{cat1} \\
&= W_{military} + W_{corporate} + W_{drugs} \\
&\quad + W_{fossil} + W_{agriculture} \\
&= \$615B + \$181B + \$90B + \$50B + \$75B \\
&= \$1.01T
\end{aligned}$$

This metric uses discretionary spending (\$1.7T) as the denominator because Cat 1 items (military overspend, corporate welfare, drug war, fossil/ag subsidies) are fungible policy choices. Some Cat 1 items (farm subsidies, tax expenditures) are technically mandatory or off-budget but represent actionable policy choices.

**Governance Efficiency** (total waste vs. GDP): How much of the economy is consumed by all four categories of governance dysfunction?

$$E_{US, GDP} = 1 - \frac{W_{total, US}}{USGDP} = 1 - \frac{\$4.9T}{\$28.8T} = 83\%$$

$$\text{where } W_{total, US} = W_{raw, US} \times US = \$4.9T \times 1 = \$4.9T$$

$$\begin{aligned}
& \text{where } W_{raw, US} \\
&= W_{health} + W_{housing} + W_{military} \\
&\quad + W_{regulatory} + W_{tax} + W_{corporate} \\
&\quad + W_{tariffs} + W_{drugs} + W_{fossil} \\
&\quad + W_{agriculture} \\
&= \$1.2T + \$1.4T + \$615B + \$580B + \$546B \\
&\quad + \$181B + \$160B + \$90B + \$50B + \$75B \\
&= \$4.9T
\end{aligned}$$

This broader metric captures all dysfunction categories (direct spending waste, compliance burden, policy-induced GDP loss, system inefficiency) relative to total economic output.

**OECD benchmark:** Peer nations achieve comparable outcomes with discretionary waste rates of 15-25% and total governance-related losses of 5-10% of GDP.

## 20.2 Human Cost Quantification (Economic Equivalents)

To contextualize the efficiency gap in human terms, we apply standard valuation thresholds. **These are economic equivalents, not epidemiological mortality counts.**

**Using VSL (\$13.7M):**

VSL-Equivalents = \$4.90T (95% CI: \$3.62T-\$6.50T) / \$13.7M = 357 thousand people (95% CI: 264 thousand people-475 thousand people)

**Using QALY threshold (\$100K):**

QALY-Equivalents = \$4.90T (95% CI: \$3.62T-\$6.50T) / \$100K = 49.0 million QALYs (95% CI: 36.2 million QALYs-65.0 million QALYs)

**Interpretation:** The efficiency gap represents foregone welfare equivalent to 49.0 million QALYs (95% CI: 36.2 million QALYs-65.0 million QALYs) annually. This does not mean 357 thousand people (95% CI: 264 thousand people-475 thousand people) die from inefficiency. Rather, the misallocated resources *could have* purchased health improvements of that magnitude if deployed at cost-effectiveness thresholds used in medical decision-making.

## 21 Reallocation Potential

If U.S. efficiency improved to OECD median (80%), approximately **\$2.45T (95% CI: \$1.81T-\$3.25T)** annually becomes available for reallocation.

For scale, the total efficiency gap (\$4.90T (95% CI: \$3.62T-\$6.50T)/year) implies the following coverage estimates.

### 21.1 Context Comparisons

Initiative	Cost Benchmark	Comparison to Annual Gap
1% Treaty funding	\$27.2B	180:1 (95% CI: 133:1-239:1) covered
Global disease R&D (current)	\$150B <sup>177</sup>	Annual gap remains multiple times larger
U.S. infrastructure backlog	\$2.6T total <sup>178</sup>	Comparable in scale to one year of the gap
Global poverty elimination	~\$175B <sup>179</sup>	Annual gap remains multiple times larger
Complete grid decarbonization	\$100B/year <sup>180</sup>	Annual gap remains multiple times larger

The efficiency gap is not abstract accounting. It represents real capacity currently unavailable for health, infrastructure, and security improvements.

### 21.2 Opportunity Cost in Healthy Life Years

Each dollar of wasteful spending has a concrete human cost: it could have funded pragmatic clinical trials that accelerate treatment discovery. Table 19 converts each waste category into DALYs that could be averted if redirected to ubiquitous pragmatic trials.



Table 19: Opportunity cost of wasteful U.S. government spending relative to the disease eradication program. The program costs ~\$784B total (\$21.8B/yr over ~36 years) to avert ~565B DALYs. Each waste category is compared against that annual funding requirement.

Category	Annual Waste	x Treaty Funding
Housing & Zoning Restrictions	\$1400B	64.3x
Healthcare Inefficiency	\$1200B	55.1x
Military Overspend	\$615B	28.3x
Regulatory Red Tape	\$580B	26.7x
Tax Compliance Burden	\$546B	25.1x
Corporate Welfare	\$181B	8.3x
Tariffs (GDP Loss)	\$160B	7.4x
Drug War	\$90B	4.1x
Agricultural Subsidies	\$75B	3.4x
Fossil Fuel Subsidies	\$50B	2.3x
<b>Total</b>	<b>\$4.9T</b>	<b>225x</b>

## 22 Structural Factors

Why do these losses persist despite apparent obviousness? Several structural factors explain system inertia:

### 22.1 Severed Feedback Loops

Government programs lack market feedback mechanisms. A private firm losing \$210 billion annually on inefficient logistics would face bankruptcy. Federal agencies face no equivalent selection pressure.

### 22.2 Principal-Agent Misalignment

Those administering programs (bureaucrats, contractors) have incentives misaligned with program objectives. Contractors profit from complexity; administrators expand headcount regardless of output.

### 22.3 Measurement Failure

Current accounting measures expenditure, not utility. A dollar spent equals a dollar of “activity” regardless of outcome. Without output measurement, optimization is impossible.

### 22.4 Monopoly Dynamics

Government services typically face no competition. Without competitive pressure, innovation lags and costs inflate. This is the standard monopoly outcome.

### 22.5 Time Horizon Mismatch

Political cycles (2-4 years) misalign with infrastructure and policy cycles (10-30 years). Long-term efficiency investments lose to short-term visible spending.

## 23 Confidence Intervals and Limitations

### 23.1 Estimate Confidence by Subsystem

Subsystem	Data Quality	Confidence
Healthcare Admin	High (OECD comparisons)	High
Tax Compliance	High (IRS data)	High
Defense Audit	Low (61% unaccounted)	Medium
Incarceration	Medium (direct costs clear, indirect estimated)	Medium
Housing Misallocation	Medium (model-dependent)	Medium
Drug War Opportunity Cost	Low (counterfactual)	Low

### 23.2 What This Analysis Excludes

- State/local inefficiency beyond federal mandates
- Implicit subsidies (unpriced externalities)
- Intergenerational costs (debt burden on future)
- Second-order behavioral effects
- International competitiveness losses

Including these factors would increase the efficiency gap estimate substantially.

### 23.3 Methodological Limitations

1. **Counterfactual uncertainty:** Some estimates require modeling what “would have happened” under alternative policies
2. **Attribution challenges:** Separating federal from state/local effects
3. **Valuation debates:** VSL and QALY thresholds vary by methodology
4. **Data opacity:** DoD audit failures mean some estimates are necessarily imprecise

## 24 See Also

For global perspective on governance efficiency and broader opportunity costs of political dysfunction, see [The Political Dysfunction Tax](#), which extends this analysis to estimate a Global Governance Efficiency Score of 30-52% and identifies \$101 trillion in annual unrealized potential from suppressed health innovation, migration restrictions, and lead poisoning remediation delays.

1. NIH Common Fund. NIH pragmatic trials: Minimal funding despite 30x cost advantage. *NIH Common Fund: HCS Research Collaboratory* <https://commonfund.nih.gov/hcscollaboratory> (2025)  
*The NIH Pragmatic Trials Collaboratory funds trials at \$500K for planning phase, \$1M/year. for implementation-a tiny fraction of NIH's budget. The ADAPTABLE trial cost \$14 million for 15,076 patients (= \$929/patient) versus \$420 million for a similar traditional RCT (30x cheaper), yet pragmatic trials remain severely underfunded. PCORnet infrastructure enables real-world trials embedded in healthcare systems, but receives minimal support compared to basic research funding. Additional sources: <https://commonfund.nih.gov/hcscollaboratory> | [https://pcorntest.org/wp-content/uploads/2025/08/ADAPTABLE\\_Lay\\_Summary\\_21JUL2025.pdf](https://pcorntest.org/wp-content/uploads/2025/08/ADAPTABLE_Lay_Summary_21JUL2025.pdf) | <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5604499/>*
2. NIH. Antidepressant clinical trial exclusion rates. Zimmerman et al. <https://pubmed.ncbi.nlm.nih.gov/26276679/> (2015)  
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*Infrastructure fiscal multiplier: 1.6 during contractionary phase of economic cycle Average across all economic states: 1.5 (meaning \$1 of public investment → \$1.50 of economic activity) Time horizon: 0.8 within 1 year, 1.5 within 2-5 years Range of estimates: 1.5-2.0 (following 2008 financial crisis & American Recovery Act) Italian public construction: 1.5-1.9 multiplier US ARRA: 0.4-2.2 range (differential impacts by program type) Economic Policy Institute: Uses 1.6 for infrastructure spending (middle range of estimates) Note: Public investment less likely to crowd out private activity during recessions; particularly effective when monetary policy loose with near-zero rates Additional sources: https://blogs.worldbank.org/en/ppps/effectiveness-infrastructure-investment-fiscal-stimulus-what-weve-learned | https://www.github.org/infrastructure-monitor/insights/fiscal-multiplier-effect-of-infrastructure-investment/ | https://cepr.org/voxeu/columns/government-investment-and-fiscal-stimulus | https://www.richmondfed.org/publications/research/economic\_brief/2022/eb\_22-04*

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