Federal Debt, Taxes, and National Independence

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Not until several weeks ago did I realize that the arcane subject of Federal government debt had become a subject of cocktail party debate. I suppose that the cause of the heated debate was a discussion of the “de facto” bankruptcy of New York City. (For two years New Yorkers have been helpless observers of one of the most remarkable economic spectacles of our time – the financial immobilization of the richest city on earth.)

The friendly debate, of which I was a passive observer, occurred in one of the fashionable intellectual salons of New York – between the hostess and one of her guests. The issue was put very simply: does the insolvency of New York City have any relevance for the deficit-ridden national government in Washington. The argument was a lively one. Our hostess quoted Nobel Prize winner Paul Samuelson to the effect that any analogies between household debt, business debt, and municipal debt, on the one hand, and Federal government debt, on the other hand was entirely inappropriate. Her guest, animated by her convictions as a hardworking career woman, responded that she did not care if Paul Samuelson, even Alexander Hamilton, had instructed her host on economics. She (the guest) knew that no matter who the individual or what the governmental agency, if one spends more money than one takes in during a sufficiently long period of time, one will run out of resources to consume, fools to borrow from, and then go bankrupt quietly or with a bang.

The intense debate ended not with a bang but a whimper. Having exhausted themselves with rhetorical flourishes and measured homilies, some about independence and self-reliance (from those who were against debt), others on national security and economic welfare (from those who were for increasing the debt), the opponents departed into the night, certainly not much better informed about the facts.

The debate inspired me to check a few facts which are sufficiently dramatic for all of us to reflect upon. Let us start with the perspective of an historian who contemplates the entire two hundred years of the American Republic. In 1800 the federal budget outlay was $11 million, the tax burden was $2 per individual, and the national debt, after a long and laborious Revolutionary War, was $83 million. The Federal budget was in surplus. In 1850 the budget outlay was $40 million, the per capita tax had fallen to about $1.80, the national debt had been reduced to $63.5 million. The budget was in surplus. In 1900 the national budget was $521 million, the per capita tax burden $7, the total national debt $1.4 billion. The budget was in surplus. In 1950, after the deficit financing period of the Great Depression and the debt financing of the greatest world war of all time, the national budget was $43 billion, the per capita tax burden was $283, and the national debt had risen to $256 billion. The budget was in deficit $3.1 billion. Let us now move forward to the current fiscal year which ends in October 1977. The budget outlay will be $422 billion, the per capita tax burden almost $2,000. The national debt is headed toward $750 billion. The budget is in deficit almost $70 billion.

The figures themselves are not so startling as the exponential rise in the level of taxes for each American citizen which is the counterpart of the colossal national debt which we now must service. The pervasive and irresistible momentum of federal government expenditures should suggest to all of us, not just to my friends at the cocktail party, that the pristine and unmortgaged republic of 1800 is an increasingly insolvent and illiquid debtor.

What is the meaning of this crescendo of rising federal taxes and treasury debt? Does it affect each American citizen? Does the level of our national debt imply a loss of national independence, just as one's growing personal debt to one's banker naturally suggests one's increasing dependence upon him? First of all, we must understand that the rising level of treasury debt represents only the accumulated cash deficit of the government in Washington. It has nothing to do with the debt of the state governments, the municipal governments, or of the various government agencies within them, like sewer authorities and school districts. In a word, the Federal budget deficit is simply what the politicians in Washington spend over and above the taxes they collect from us in cash.

It took a century and a half, from 1800 to 1950, for the national government to accumulate its first $250 billion of debt. In the subsequent three decades (1950-1980) the U.S. Treasury will have more than tripled the level of debt accumulated in the previous one hundred and fifty years. (This sum does not include over $100 billion of federal government-guaranteed, so called, federal agency debt, most of which is never disclosed as an obligation of our national government). The increase in Federal spending is a sufficient explanation for the fact that per capita federal income taxes have almost doubled since 1970.

The U.S. government, the figures show, has spent more than it taxes in every year but one since 1965. In the three short years from 1976 to 1978 (according to Congressional Budget Committee estimates), the national government will increase its debt more than in the three decades from 1945 to 1975. And we remember that those three decades were the years of the Korean War, the Vietnam catastrophe and the big spending years of the New Frontier and the Great Society. If, by the way, some of your Republican friends suggest that the solution to our national debt and deficit problem is a prudent Republican president, you may point out to them that under Nixon and Ford we experienced only one year of treasury surplus (a tiny one) and seven years of deficit (huge ones). The combined deficits of the Nixon-Ford years were approximately five times the deficit of the Kennedy-Johnson years.

The rate of increase in the national debt and the speed with which government spending is rising caused me to do some careful checking of these trends among informed circles, where one had every reason to expect clearheaded answers. From what I could learn at academic conferences and at the highest levels in Washington, politicians today (as well as some fashionable university and government economists) seem to regard the national debt as a national good. In their computer models these economists have reduced the federal budget and the federal debt to an abstraction which one manipulates without regard to the people who are paying the bill.

Who pays the bill on the national debt? Who is paying the interest on the promissory notes which our government issues to its bankers? Who will repay this debt when the notes and bonds mature? Consider the following facts. The interest charge on the national debt in 1968 was $15.4 billion. In January 1977 the annual interest charge on the national debt had risen to $40.7 billion. The interest on the federal debt is now almost 40% of the entire national defense budget, that is to say, 40% of all the money spent on the Western world's largest military establishment. But that is not all. Before you become outraged by the view that working and middle class American taxpayers are laboring to pay the interest to rich American taxpayers who own the debt, allow me to disturb you with a few more not very well known statistics. During the past three decades, foreign ownership of U.S. government debt has risen exponentially from a paltry $200 thousand in December 1939 to over $100 billion as of December 1976. Eighty percent of this debt is readily marketable whenever these foreign governments and individuals choose to cash them in. Of the $100 billion there are $22 billion in so called non-marketable securities owned by foreign governments. In a word, one sixth of our entire national debt is now held by non-Americans.

Now, at the same cocktail party where I observed the intense debate over our national debt, I overheard an historian make the comment that it was precisely this process of increasing foreign indebtedness which accompanied the drawn-out disintegration of the British Empire. I remember his admonition to the effect that though some revolutionaries may gloat over the demise of an Imperial England, we should not ignore the causes of England's decline. He reminded us that it was no more than four months ago that the International Monetary Fund rescued the collapsing British pound with a $4 billion loan. More important than its collapse, I thought at the time, was the cause of the pound's decline, a cause which was widely commented on in the newspapers. The pound sterling collapsed because the Arab oil sheiks and other foreigners decided to sell on the market their huge holdings of British government debt securities and sterling cash balances – for dollars, marks, yen and Swiss francs. It is true that a century of British budgetary deficits inspired this loss of confidence. Whatever, the once glorious British Empire was prostrate before her former vassals, the Middle Eastern oil bankers, now the owners of much of the English national debt.

The inescapable point is, of course, that America, too, is quietly losing her independence to her unnamed foreign bankers. Not only are we transferring the hard-earned taxes of our working people to foreigners, in order to pay the interest and principal payments on the national debt which the foreigners own. More important, we are transferring an even larger part of the total debt itself to these foreign creditors. We are mortgaging the Republic to strangers and governments over whom we have no control, and whose loyalty, when it counts, we can never be sure of. You see, in the long run, the nice academic distinctions between personal debt and national debt are inane. John Maynard Keynes, the great English economist and advocate of government deficit spending, once said (in response, perhaps, to plain people who objected to certain government policies because of their negative long run consequences): “Gentlemen, in the long run we are all dead”. Dead indeed! And so, one might add, is Imperial England, largely as a consequence of Keynes’ policy of deficit spending.

It seems that politicians and economists have mesmerized all of us into believing that our escalating national debt may be safely ignored, despite the evidence to the contrary of England and of New York. Even a cursory look at the debilitation of almost any debt-ridden institution or individual suggests that growing personal debts mean loss of personal freedom. If an individual becomes increasingly beholden to his creditors because his debts are rising faster than his income, he loses his capacity to act without consulting his bankers. If a national government spends more than it taxes (and if it borrows the shortfall from its own rich citizens and rich foreigners), the nation not only impoverishes its working people by taxing it to pay the interest, but such a nation will ultimately forfeit its sovereignty. Debt-ridden citizens increasingly lose their freedom and their self-esteem. Debt-ridden nations lose their sovereign independence.

Today, we have merely banished the debtor’s prison, not the consequences of bankruptcy.