Our Presidents and the National Debt

BY BURTON W. FOLSOM, JR.

During the last 75 years the United States has failed to balance its annual budget over 90 percent of the time. What's worse, the government has spent money so recklessly that we now owe over $8.2 trillion, and Congress recently raised the debt ceiling to $9 trillion.

Such a trend is ominous because a country's national debt is a mirror of its economic future and its national character as well. With our piles of IOUs, we borrow from the future to indulge the present. If we study our national debt, we can discover some generalizations that help us understand how our presidents and our national character have changed over time.

1. Our first presidents took the national debt seriously and handled it with courage and integrity.

Our nation began with dangerous financial liabilities. When we fought the Revolutionary War we borrowed over $75 million in cash and supplies from individual patriots, from all 13 colonies, and from France and Holland. Our Founders, led by President George Washington and his treasury secretary, Alexander Hamilton, were determined to establish the U.S. credit by passing a tariff and a whiskey tax that would generate the revenue to help retire our war debt.

Washington, in his Farewell Address, described public credit as "a very important source of strength and security." He recommended that we "use it as sparingly as possible, avoiding occasions of expense by cultivating peace. . . ." Avoid "the accumulation of debt. . . ," Washington urged, "by vigorous exertions in time of peace to discharge the debts which unavoidable wars have occasioned, not ungenerously throwing upon posterity the burthen which we ourselves ought to bear." Not only did Washington wage the war, serve as president, and help establish our institutions of liberty, but he urged his generation to pay off the national debt as well.

Our first seven presidents were committed to Washington's goal. They chipped away so steadily at the national debt that James Madison, one of those presidents and the "Father of the Constitution," lived to see the entire debt eradicated. In fact, by his death in 1836, the United States had actually begun running a surplus.

How to handle the national surplus became a political issue that President Andrew Jackson had to address. "It appears to me," Jackson said, "that the most safe, just, and federal disposition which could be made of the surplus revenue, would be its apportionment among the several states according to their ratio of representation."

When Jackson's suggestion became law, the effect was immediate and nationwide. The residents of the Michigan Territory, for example, frantically clamored for statehood so that they would be eligible to scoop up some of the overflow from the federal treasury. Washington's dream of a creditworthy nation had become a reality.

2. Wars have spiked the national debt.

The national debt has not increased slowly; instead, it has increased sharply during major wars, starting with the Civil War. The earlier wars—the Revolutionary War, the War of 1812, and the Mexican War—all created small jumps in the national debt, but the presidents who followed them all whittled down those debts quickly. In the Civil War, however, the national debt skyrocketed from $60 million to $2.7 billion—more than a 45-fold increase, which is the greatest proportional leap of any war in U.S. history.

Interestingly, in the 50 years after the Civil War, from 1866 to 1916, the presidents were committed to restoring American credit, and the national debt was slashed from $2.7 billion to $1.2 billion. But World War I sent the debt spiraling again, this time to $24 billion by 1920.

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World War II added another digit to the nation's debt, which leaped from $43 billion to $259 billion from 1940 to 1945.

Those war debts have had a strong impact on U.S. tax policy. The income tax was introduced in America during the Civil War, but it was removed shortly after the war in 1872. After the Sixteenth Amendment was passed in 1913, the new income tax had a top marginal rate of 7 percent. But five years later, in the midst of World War I, the top rate was hiked to 77 percent. It was lowered in the 1920s, but during World War II the marginal tax rate jumped to 90 percent. President Franklin Roosevelt also introduced the idea of withholding income (proposed by a Treasury staff that included a young Milton Friedman) and forcing the employers to do the paperwork.

3. Most presidents have run surpluses, not deficits.

In fact, from 1791 to 1931, we had annual surpluses over 70 percent of the years. After the Civil War, for example, we ran surpluses for 28 straight years. Oddly, those presidents who obtained the most dramatic surpluses have often been those most condemned in the leading presidential polls. In Arthur Schlesinger's 1962 poll, four of the bottom five presidents—Coolidge, Pierce, Grant, and Harding—secured budget surpluses in each of their 20 total years as presidents. Under Franklin Pierce, for example, the entire national debt was cut almost in half. Under Harding and Coolidge, the national debt was almost slashed by one-third.

On the other hand, Lincoln, Wilson, and Franklin Roosevelt, whom Schlesinger's historians ranked among the top four presidents, broke all records for budget deficits. It is astonishing but true that these three presidents incurred more debt in their administrations than the entire national debt of $259 billion in 1945. In other words, of the first 32 presidents, under 29 of them we had a budget surplus of $4 billion; under Lincoln, Wilson, and Roosevelt we had a budget deficit of $263 billion.

Granted, they were war presidents, but that is a key point. Yet Washington had fought a major war, and as president he wanted to pay off the debt from that war in his generation. Lincoln, Wilson, and Roosevelt did not do that and do not seem to have had any ambition to do so.

Modern presidents, those who have served since the 1962 poll, are eager to secure their place in history. They may realize that fame and adulation are no longer given to those who "use [public credit] as sparingly as possible." Perhaps the slogan of the modern presidents could be, "It is better to have spent and lost than never to have spent at all."

4. Regardless of war or political party, modern presidents have tended to double the national debt about every nine years.

Even as late as post-World War II (1945–1960) the national debt increased at less than 1 percent per year. But since the Kennedy era and the Schlesinger poll, we have had four Democratic and five Republican presidents. Under these nine men, the national debt has doubled almost five times, from $289 billion in 1961 to a newly proposed ceiling of $9 trillion. Whether the issue has been hurricanes, farm subsidies, or medical care (none of which is a subject for federal aid, according to the Constitution), all these presidents have spent first and asked questions later.

Should that pattern of doubling the national debt every nine years continue—and there are very few politicians who wish to stop it—our debt by the end of the 21st century will increase to about $9 quadrillion, or (even if the U. S. population triples) about $10 million per person.

In discussing public debt, Washington said that congressmen needed to bear responsibility for retiring the debt, and "that public opinion should cooperate" as well. Will we heed the advice of this thrifty president and demand accountability from our elected officials?