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# A History of US Debt

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We are in debt. In fact, we are in a lot of debt. That is the narrative from world leading economists. Global Debt currently stands at over 320% of global GDP. As this is the case, I felt it worth exploring why we are in such a mess and what debt actually is, beyond the simple description of what is owed.

As a previous business owner and as somebody concerned with preserving wealth, I am also concerned how debt will impact the future of my family. I was raised believing that debt is a bad thing. I would hear my parents budgeting for the coming months ahead. My parents prided themselves on minimising debts and living to their means. The mortgage was the biggest liability, and my father would lecture me re how financial freedom was to own the roof over your head. If my parents had a surplus of savings, we had a family holiday, usually to Cornwall on the west coast of England. My parents were obviously good at managing the budget as most years they were in surplus and a holiday was booked. Credit cards and any other schemes that focused on debt were financial quick sand according to them, that would trap people into living beyond their means. Of course, my parents were obviously risk averse and never bought into using debt to leverage wealth.

For a government, debt is excess spending over revenues and it seems all governments are in the trap of excess spending. Japan has the highest debt to GDP ratio at 237% and close second is Greece at 181%. France, Spain, Italy, Portugal and many other European countries sit somewhere in between 100% and 140%. In comparison, Australia is at 41% of GDP, but if we take into account its population, this figure is not quite so peachy. Public debt impacts monetary policy, in turn this impacts consumer confidence which in turn can impact inflation. Debt is an investment. Current debt is structured across two asset classes – Treasury bonds and Sub-Prime Mortgages. What is scary is not the fact the Fed is printing more US $, it's the fact that the money being printed is being backed by bubbled asset classes that have no future value.

For this article, I will focus on US debt. The simple reason, the US drives the global economy and is the custodian of the global currency, the US$. The US is also (aside from Japan), the only country that has the luxury of printing away its global debt, as all its creditors issue the debt in US $. Keynesian economics to which most governments adhere to often under the guise of capitalism, believe that deficit spending can have a multiplier effect on the economy and this economic upside will pay off the deficit over time. This is true if your debt to GDP ratio is under 50% and labour and industrial sectors are being underutilised re productivity. When GDP to public debt ratios exceed 85%, this multiplier effect does not happen. Deficit spending at this point simply increases the deficit further with revenue usually being positioned towards socialist initiatives to retain government position.

After delving deeper into government debt, the topic is vast and complex. For this reason, I thought it would be handy for a quick refresh on a history of the US government and its debt management.

In 1789, the US was founded as a Nation and was already in debt ($43m) due to the revolutionary war (war of independence) where huge spending was required between 1775 – 1783. In 1790, Alexander Hamilton, one of the founding fathers, took on the debt and issued treasury bonds and tariffs to eat down the debt. This was the embryonic beginning of treasury securities.

John Adams, the second president kept the US in a cash surplus for 16 years (1796 – 1811) and debt held at a constant of $83m. Jefferson reduced it further to $65m. At this time, the US had a superior credit rating to any European country. The war of 1812 pushed government debt back to $127m under Madison, but policy was sound. Policies ensured national debt was reduced in times of peace.

From Munroe to Jackson, government budget in the US was managed so well that by 1837, the US deficit was zero. Jackson also eliminated the central bank replacing it with state banks. Revenue was attained to pay off deficits via capital revenue from government land sales. Jackson detested the power of the central banks.

By 1860, when Lincoln held office; the National debt was back up to $65m. Polk and the Mexican war was accountable for this. Texas was integrated into the US after Texas rebelled against the Mexican government. The US then went to war with Mexico as Texas was now part of the US. This government debt was a good thing for the US, as it allowed America to acquire many states including California.

The civil war was America's most costly. National debt increased 4000% from $65m to $2.7 billion. By 1893 under Harrison, this debt was down to $1.6 billion as US experienced substantial economic growth between 1865 and 1893. The Spanish war in 1898 drove US debt back to $2.1 billion and this pattern of increasing US debt continued.

World War 1 in 1917 exploded the US debt to $27 billion, with liberty bonds issued to the public to finance it. This was the public's first foray into securities. By 1929, the debt shrank again to $17 billion.

Roosevelt was the key change agent for government spending. In 1935, Roosevelt changed the pattern of clawing back deficits in times of peace and took public debt to $42 billion to counter the depression. This was the first adoption of what is now common socialist policy. Keynes (UK economist) influenced the US to break away from small government and true capitalism and embark on government expansion and social security. In 1941 – 1944, the Second World War happened, exploding the US public debt to 120% of GDP (from 50% in 1935), the highest debt recorded in US history. From $42 billion to $245 billion.

By 1969, the US Presidents/Government brought the debt to GDP ratio down to 38.6%. True economic growth and sound monetary policy achieved this with Presidents Truman, Eisenhower, Kennedy, and Johnson at the reins. Although economic growth declined, public debt was managed right up until Reagan came into power in 1981.

When Reagan got elected, US debt to GDP was around 32%. Reagan used the low public debt ratio to invest heavily in military spending (cold war), expanding the naval fleet and building antimissile technologies. Reagan took the deficit back up to 53% of GDP.

Bush became president in 1988 and midway through his term, US debt was at 60% of GDP. This ratio is as an indicator that the economy is stressed and measures should be taken to rein in spending. Bush attempted to do this by raising tax, something he said we would not do pre-election. In raising taxes he fell out of public favour.

Clinton from 1992 cut defense spending and raised tax, dropping the public debt to 56% of GDP. Reagan spent so much money on defense there was little requirement. Things get interesting from 2001 through to present day. Bush junior, Obama and Trump certainly have played a critical role in taking US debt to stratospheric levels.

In Bush's first term as president, the twin towers were attacked and the war on terror began. Defense and Intelligence spending escalated and with Iraq and Afghanistan, the public debt rose to 82%. It did not help that Bush also reduced taxes, adding to the deficit. Then, in 2008, the US was hit with the worst financial crisis since the great depression.

President Obama's administration, under the American Recovery and Reinvestment Act had to re stimulate the economy and bail out the financial sector. This increased the public debt by $830 billion, not including other public spending commitments. Obama's term pushed debt above 100% of GDP or in US$ terms $9 trillion to $20 trillion. This was caused again by Keynesian principles, with government believing incorrectly in the multiplier effect. More to note, this was not a time of war, which we can see from history, previous governments worked very hard to eat into the deficits when geopolitical turmoil was not a factor.

Which leaves us with Trump. From 2017, Trump has decreased taxes and increased spending further, even though through his election campaign, he criticised Obama re his socialist spending. Trumps tax cuts will negatively affect public debt by over $2 trillion in the next decade, spending on defense has increased deficits further. To add more to the table, domestic spending has risen significantly. This adds to a further deficit of over $300 billion. As of 2019, US debt is at 106% of GDP and forecasts to exceed 115% by 2021.

It seems tax payers, and more importantly, later generations are going to be saddled with these liabilities that have spiralled since 2001. Government's priorities are to expand, interfere in the private sector and retain power. Keynesian principles may have worked at a point in time, but with debt to GDP ratio's out of control, surely it is madness to keep doing the same thing expecting a different economic outcome. Argentina, Venezuela, Greece, Japan, there are no shortage of countries as examples of what not to do. Pensions and Student loans are another debt catalyst that will haunt the US economy, which we can explore another time.

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