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America's Debt, Through the Eyes of the Founders

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The Founders of the United States wanted to establish a country that could endure for generations, and they understood that massive debt would endanger their project. They knew that managing public finances to force government to live within its means was the prudent thing to do.

They understood that it would sometimes be necessary for the country to run a deficit—for example, during times of war—and that this would lead to debt. They had recently come through their own revolution successfully in large part because they were willing to borrow heavily to pay their bills.

Still, the Founders generally disapproved of debt and believed that the amount the country owed should be limited.

The Birth of a National Debt. The U.S. was in debt even as it was being born. In 1776, the most important task facing the Founders was to win the Revolutionary War. If the colonists had been defeated, the leaders would have been executed ("We must all hang together, or assuredly we shall all hang separately," in Ben Franklin's memorable phrase[1]), and they would never have been able to secure the nation's independence. So they borrowed heavily to pay for the war.

After the failures of the Articles of Confederation, the Founding Fathers gathered in Philadelphia in 1787 and drafted the Constitution. It created a federated republic with powers allocated between the state governments and the national government. But it did not solve the problem of individual state debt. In 1789, the U.S. Treasury Department was formed, with Alexander Hamilton as the first Treasury Secretary.

Hamilton convinced Congress to assume all state debt that remained from the Revolution. That would require the new national government to run in the red, but Hamilton was not worried. "A national debt, if it is not excessive," he argued, "will be to us a national blessing."[2] By this he meant that, if interest on the debt were paid regularly, the country would begin to build a positive reputation. Stanford law professor Michael McConnell writes that such a debt "would become a kind of liquid capital—a 'blessing' in a world where gold and silver was costly to transport and use for transactions."[3] As investment flowed to the new U.S., capital would be created.

But Hamilton favored a limited, controllable debt. It should "be remoulded into such a shape as will bring the expenditure of the nation to a level with its income," he argued in 1790. "Till this shall be accomplished, the finances of the United States will never wear proper countenance."[4] Hamilton was especially worried about the crippling danger of interest payments. "Arrears of interest, continually accruing, will be as continual a monument, either of inability, or of ill faith and will not cease to have an evil influence on public credit."

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Hamilton vs. Jefferson. Thomas Jefferson, then serving as Secretary of State, vigorously opposed Hamilton's plan. He wanted strict limits on how much the government could borrow and for how long. The Secretary of the Treasury won that argument, and his plan proved effective.

Hamilton was able to issue federal bonds to cover the national debt, which he estimated at about $77 million. Because federal borrowing was limited, his system helped consolidate the debt and allowed the federal government to make its interest payments on time, thus building credit.

The value of the new federal bonds quickly increased. This helped move the country away from Jefferson's agrarian dream and toward the commercial republic Hamilton hoped it would become. Of course, it was also crucial to cut spending. That happened quickly, and by 1793, the government showed its first budget surplus.

Warnings About Excessive Debt. "There is not a more important and fundamental principle in legislation," James Madison said in a 1790 speech, "than that the ways and means ought always to face the public engagements; that our appropriations should ever go hand in hand with our promises."[5]

Madison was concerned for future generations, because the Founders aimed to pass along a thriving country. As the Preamble to the Constitution puts it: "to secure the Blessings of Liberty to ourselves and our Posterity."

Jefferson's Chance to Pay Down Debt. During Jefferson's presidency, the Treasury attempted to pay down some of its debt. Under Secretary Albert Gallatin, the amount the U.S. owed went as low as $45 million. This seemed in keeping with Jefferson's idea: "It is a wise rule and should be fundamental in a government disposed to cherish its credit, and at the same time to restrain the use of it within the limits of its faculties, never to borrow a dollar without laying a tax in the same instant for paying the interest annually, and the principal within a given term."[6]

But the Louisiana Purchase and the War of 1812 combined to increase the federal debt once again. Public debt soared from $45.2 million on January 1, 1812, to $119.2 million in 1815.

Old Hickory Rides In. Andrew Jackson was born in the generation that followed the Founding. He hated debt and vowed to pay off the entire national debt. By selling off land holdings and slashing spending, Jackson succeeded in 1835.[7]

His accomplishment did not last. First there was a massive national depression, then a series of wars that forced Washington lawmakers to borrow over the years. Still, defending the country is one of the national government's core responsibilities. It should run deficits when necessary to protect the homeland. In fact, the idea of a statutory debt limit arose during war.

In 1917, during World War I, Congress passed the Second Liberty Bond Act to allow the Treasury to sell long-term bonds. To make certain the debt did not grow out of control, lawmakers included a limit on how much the government could borrow. That limit would be raised a few years later, again during a war, when Congress voted to allow the debt to reach some $300 billion at the height of World War II.

Yet when the fighting stopped, the government always took steps to pay down debt. Large deficits in peacetime were frowned upon until relatively

1. Benjamin Franklin at the signing of the Declaration of Independence, July 4, 1776, quoted in "We Still Hold These Truths" quote database, http://www.westillholdthesetruths.org/quotes/102/we-must-all-hang-together (accessed October 8, 2013).
2. Alexander Hamilton, 1789, quoted in U.S. Department of the Treasury, "Our History," http://www.publicdebt.treas.gov/history/1700.htm (accessed October 8, 2013).
3. Michael McConnell, "What Would Alexander Hamilton Do?," Defining Ideas, July 22, 2011, http://www.hoover.org/publications/defining-ideas/article/86451 (accessed October 7, 2013).
4. Alexander Hamilton, "Report on Public Credit," January 9, 1790, quoted in "We Still Hold These Truths" quote database, http://www.westillholdthesetruths.org/quotes/632/it-is-of-the-greatest-consequence (accessed October 8, 2013).
5. James Madison, speech in Congress, April 22, 1790, quoted in "We Still Hold These Truths" quote database, http://www.westillholdthesetruths.org/quotes/627/there-is-not-a-more-important (accessed October 8, 2013).
6. Thomas Jefferson, letter to John Wayles Eppes, June 24, 1813, quoted in "We Still Hold These Truths" quote database, http://www.westillholdthesetruths.org/quotes/620/it-is-a-wise-rule-and (accessed October 8, 2013).
7. Robert Smith, "When the U.S. Paid Off the Entire National Debt (And Why It Didn't Last)," NPR, April 15, 2011, http://www.npr.org/blogs/money/2011/04/15/135423586/when-the-u-s-paid-off-the-entire-national-debt-and-why-it-didnt-last (accessed October 8, 2013).

recently. For example, excepting the World War II years, the U.S. ratio of debt to gross domestic product (GDP) was almost always below 50 percent until the end of the George W. Bush Administration. In just the past five years it soared to almost 75 percent of GDP and is expected to top 100 percent around the year 2028.[8]

Getting the History Right. As George Washington warned lawmakers in 1793, "No pecuniary consideration is more urgent, than the regular redemption and discharge of the public debt: on none can delay be more injurious, or an economy of time more valuable."[9]

As the country approaches, and smashes through, the debt ceiling once again, it would be wise to take Washington's words to heart. Rather than borrowing trillions more, the United States needs to begin paying down some debt before the burden becomes crushing.

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8. Amy Payne, "What You Need to Know About the Debt Limit," The Heritage Foundation, The Foundry, September 19, 2013, http://blog.heritage.org/2013/09/19/morning-bell-what-you-need-to-know-about-the-debt-limit/.
9. George Washington, message to the House of Representatives, December 3, 1793, quoted in "We Still Hold These Truths" quote database, http://www.westillholdthesetruths.org/quotes/category/budget (accessed October 8, 2013).