National Debt and Deficit--by George Gillow

Many people, including some politicians, don't know the difference between the National deficit and debt. Here is an explanation:

- The **deficit** occurs each fiscal year when Federal government spending is greater than revenues (income such as taxes). When spending is less than revenues that is considered to be a **surplus**.

- The deficit adds to the total **debt** each year. So for every year where there is a deficit, the debt grows. Although there have been a number of years in US history where there has been a surplus, there **almost always** has been a debt since 1789.

There are two components of the National debt. They both add up to the total debt:

1. **Public Debt**. This debt is held by individuals and organizations who buy US Treasury Bonds, Bills and Notes. Anyone can purchase these Treasury securities. Some examples of the owners of the Public Debt include retirement funds, investment funds, foreign governments (China has purchased about $1.3T in Treasury Bills and the United Kingdom has 1T) and individuals such as grandparents who buy US Treasury Bonds for their grandchildren. The total public debt is about $12T of the National Debt

2. **Inter-government Debt:** This is debt the Federal Government owes to itself. This debt is about $5T of the National Debt. For example, the Social Security Administration invests its surpluses in US Treasury Bonds. These are special interest bonds, but similar to what you and I can purchase.

Here is a brief history of the debt:

1. The USA first had a debt the day George Washington was first inaugurated. The US was required under the new Constitution to assume $75M in debt, mostly from the Revolutionary War. In 1790 Secretary of Treasury Alexander Hamilton started the new Nation into borrowing by selling $20,000 worth of bonds.

    - It's interesting that the Continental Congress did not have enough money to pay soldiers during the Revolutionary War. So many of them were paid with bonds instead. Some of these bonds were never claimed and they are still on the books as part of our current $17T debt.

2. Except for one year (1834), during the administration of Andrew Jackson, there has **always** been a **debt**. That year the US Treasury held more money than what was owed in treasury securities.

3. There have been surpluses at times, but not enough to pay off or even substantially reduce the debt. Recent surpluses occurred during the Truman, Eisenhower, Johnson and Clinton Administrations, but only for part of the terms.

4. The debt rose steadily after 1834 and reached $1T when Jimmy Carter left office in 1981.

    - The debt increased significantly during wars (mainly Civil, WWI and WWII) then decreased after the wars, but never came down to pre-war levels.

5. The debt rose to $2.8T in 1989 when Ronald Regan left office.

6. The debt rose to $4.0T the next four years when George H. W. Bush left office.

7. The debt rose to $5.6T the next 8 years when Bill Clinton left office.

    - How could that be when Clinton and the Republican Congress boast about surplus budgets and no deficit? Well, that was only part of the 8 years and also during the entire time the Inter-government debt rose. The Social Security Administration continued to invest in Treasury Bonds.

8. The debt rose to $11T the next 8 years when George W. Bush left office.

9. The debt today is almost $17T.

10. As a percentage of GDP, the debt fell from 122% after WWII to 33% in 1980. It has been rising exponentially for 30 years and is now 103% of GDP.

Paying off the Debt:

So a question is why can't the Federal Government just print up $17T and pay off the debt? The answer is that **it can** under Article I, Section 8, Clause 5 of the Constitution which states that the Government has the power "To coin money" ("coin" here used as a verb). The problem is that with such an infusion of money into the economy hyperinflation would occur. The price of bread would go up to $100 a loaf in a few weeks and $1000 a loaf in a few months.

- However, Quantitative Easing (QE) is a way that money is created as permitted by the Constitution. The FED creates money and uses it to purchase Treasury Bonds. The argument is that in a poor economy there is less risk of inflation. Also, the money can be extinguished when the bonds are paid back, further reducing the risk of inflation.

If all of a sudden there were a Balanced Budget Amendment to the Constitution, the following is the type of scenario that would have to be done:

1. Reduce all spending by about 15%. That is **everything:** Defense, Social Security, Medicare, Medical, NASA, FBI, CIA, FEMA, FDA, Courts, Jails, food stamps, Center for Disease Control, etc.--Everything! This gets about half way there.

2. Increase upper end tax rates to a much more progressive value of 50% to 60% and eliminating tax loopholes.

3. Doing some magic to create a lot of high paying jobs, so more taxes are paid by middle income people.

Even with all of the above, it would be difficult to balance the budget! If, for example, there were no tax increases and no spending cuts, then it would take something like creating 30 million new high paying jobs where each salary was high enough to result in $20,000 in Federal taxes per employee.

So it's not too promising that we will get to a balanced budget anytime in the next decades or likely in any of our lifetimes.

Now to end on an optimistic note:

America is still very strong. Here are some points:

1. America has hard working people who keep the day to day infrastructure working. Water systems, food delivery (grocery stores have what we need), drug stores, electrical power distribution are all working every day for us.

2. As outrageous as the National debt is at 103% of GDP it is lower than in the late 1940s and the 122% of GDP at end of WWII.

3. Taxpayers service the National debt. But due to lower interest rates this is about the same % of tax dollars as in the late 1990s.

4. Quantitative Easing (QE) is a way to mitigate deficit spending without too much impact on inflation.

5. There is over 7% unemployment (greater if you count those underemployed or who have given up). However, the vast majority of Americans are employed.

6. There is a lot of technical innovation going on the US (lots described in MITs magazine “Technology Review") that will ultimately help the economy.

7. The United States economy is still the strongest in the world.

A book on the debt by Robert Wright is "One Nation Under Debt: Hamilton, Jefferson and the History of What We Owe".

The US Treasury website shows debts over the years at:
http://www.treasurydirect.gov/NP/debt/current