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The Contextual Backdrop for Deficit Spending in American Political Thought

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A. Introduction

"Think what you do when you run in Debt; You give to another, Power over your Liberty" (Franklin, 1758, p. 58).

The public debt and deficit spending have not always been perilous issues within our nation's economic well-being. America's founding fathers would likely not even be able to comprehend the astounding amount of debt that our nation has cultivated over the past century. Benjamin Franklin's *Poor Richard Improved* touches the subject of debt briefly amongst his other philosophical understandings of both life's and government's properties. Franklin states in "The Way to Wealth", a selection from *Poor Richard Improved,* "Be industrious and free; be frugal and free. So rather go to bed supperless than rise in Debt" (Franklin, 1758, p. 59). He implies, as did many early influential American leaders, that to be in debt is to be without liberty. When in debt, the creditor will then have power over the debtor and, as Benjamin Franklin states, "Creditors have better memories than debtors" (Franklin, 1758, p. 59).

Over the past century, our nation has assumed a reputation for borrowing and for spending money that it does not possess. There has been public debt since before the United States was founded. The American Revolutionary War generated a debt that some of our founding fathers, namely Alexander Hamilton, believed would be good for the nation's economic health and would help to get the nation on its feet, as long as it was not an excessive amount. In 1776, the word trillion was scarcely used, but, as the public debt of our nation has risen, our government has realized the true meaning of a trillion.

This paper intends to analyze the thought regarding public debt and deficit spending from our nation's early years to its most recent. Through evaluating the thoughts and behaviors of not only influential American leaders and legislators, but also the public opinion, this paper will demonstrate the thought process behind the simple terminology of "debt" and the rationale and processes involved in the deficit and government spending and budgeting.

B. Rationale of Public Debt

In Alexander Hamilton's *First Report on the Public Credit*, he supports public debt by stating, "Exigencies are to be expected to occur, in the affairs of nations, in which there will be a necessity for borrowing. Loans in time of public danger, especially from foreign war, are found an indispensable resource even to the wealthiest of them" (Hamilton, 1790, p. 297). Hamilton rationalizes public debt mainly by referencing the cause of war; how foreign hostilities call heavily for borrowing and deficit spending; and how, in the end, the money gained by this process is an "indispensable resource" that can be utilized by the government and citizens of the United States to stabilize the economy. These views, in Hamilton's time, did not consider that the public debt would ever rise to such an amount as the United States' government has realized today. Part of Alexander Hamilton's rationale of the public credit was that it should not reach excessive amounts and that neither the government nor the people would strive to have it reach a ghastly amount. In the aforementioned report, Hamilton also states, "[The treasury secretary] ardently wishes to see it incorporated, as a fundamental maxim in the system of public credit of the United States, that the creation of debt should always be accompanied with the means of extinguishment" (Hamilton, 1790, p. 27). Hamilton wrote his *First Report on the Public Credit* only after the American government's first realization of major debt following the end of the American Revolutionary War and the Treaty of Paris. Ironically, Hamilton called the debts that the United States incurred following the Revolutionary War the "price for liberty," which is quite contrary to Benjamin Franklin's belief that, when one obtains debt, he gives another power over his liberty (Johnson and Kwak, 2012, p. 15). During the war, America's credit was terribly poor and the government could no longer afford to sufficiently fund American soldiers, which led to the devastation at Valley Forge in the winter of 1777-1778 (Johnson and Kwak, 2012, p. 15). This reputation of bad credit proved to be a major problem of Alexander Hamilton's rationale for the public credit. Even when having borrowed in small amounts, a nation would no longer be able to borrow when necessary (times of war) if it could not prove that it has the capabilities to repay its debts.

Essentially, the only commendable rationale for public debt is the possible and likely necessity of borrowing in times of war and depression. Although laudable, this theory was met with disapproval by Thomas Jefferson, who feared that Alexander Hamilton's tactics as treasury secretary and beliefs would call for a larger government that held more power over the people than necessary. In his Second Inaugural Address in 1805, Jefferson states:

> [Revenue] enables us to support the current expenses of government, to fulfill contracts with foreign nations, to extinguish the native right of soil within our limits, and to apply such a surplus to our public debts the revenue thereby liberated may, be applied, in time of peace, to rivers, canals, roads, arts, manufactures, education, and other great objects within each state. In time of war, increased as the same revenue will be increased by population and consumption, and aided by other resources reserved for that crisis, it may meet within the year all the expenses of the year, without encroaching on the rights of future generations, by burdening them with

> the debts of the past. War will then be but a suspension of useful works, and a return to a state of peace, a return to the progress of improvement (Jefferson, 1805, p. 357).

Utilizing the reality of the occurrences subsequent to the American Revolutionary War and Valley Forge, Jefferson counteracts Hamilton's rationale by noting that if we simply use the means that, as a nation, we collect annually, our government would have the resources to develop our domestic infrastructure in times of peace and to sustain ourselves in times of war.

C. Behavior of Legislators

In the Constitution of the United States, 18 enumerated powers invested and entrusted in Congress appear. Included in these are:

> 1. To lay and collect taxes, duties, imposts, and excises, to pay the debts and provide for the common defense and general welfare of the United States.
> 2. To borrow money on the credit of the United States.
> 18. To make all laws which shall be necessary and proper for carrying into execution the foregoing powers and all other powers vested by this Constitution in the government of the United States, or in any department or officer thereof (U.S. Const., 1787, Art. I, Sec. 8).

Many of the enumerated powers are deliberately broad and allow for interpretation. Those that discuss the economic welfare of the United States are extremely broad. By vaguely allowing Congress the sole power to borrow money on behalf of the United States and its credit, this constitutional power unquestionably allows for varying interpretations of under what circumstances Congress should borrow money or deficit spend.

As of the past century, the lack of restriction within the second enumerated power vested in the Congress has led to a systematic overspending by the government. In 1798, in a letter to Virginia senator John Taylor, then Vice President Thomas Jefferson said:

> I wish it were possible to obtain a single amendment to our Constitution. I would be willing to depend on that alone for the reduction of the administration of our government to the genuine principles of its Constitution; I mean an additional article, taking from the federal government the power of borrowing. I now deny their power of making paper money or anything else a legal tender. I know that to pay all proper expenses within the year, would, in case of war, be hard on us. But not so hard as ten wars instead of one (Jefferson, 1798, p. 2).

Essentially, Jefferson suggested a balanced-budget amendment, which would serve to ensure that a state would not be able to spend more than its income. The system most similar to Jefferson's balanced-budget amendment in federal terms is the debt ceiling. The mechanism of a debt ceiling obtains the sole purpose as to limit the amount of public debt that can be issued by the Treasury. Occasionally, the debt ceiling is raised, allowing for further deficit spending by the government under the argument that it will avert economic ruin. This makes the mechanism of a debt ceiling different than that of a balanced-budget amendment due to the fact that an amendment to the Constitution would not allow for extensions or loopholes like the debt ceiling might.

D. Behavior of Presidents

Many American presidents, such as Franklin Delano Roosevelt, Ronald Reagan, and Barack Obama, have encountered the issue of the national deficit and government spending and held theories similar to those of Alexander Hamilton, Thomas Jefferson, or James Madison.

Following the stock market crash of 1929, the United States had come to realize the economic turmoil that would inevitably ensue. In 1932, Franklin Delano Roosevelt assumed the presidency on the platform that America's economic well-being would be the first item on his "to-do" list. He criticized President Herbert Hoover for his inability to balance the budget throughout his campaign to become president, but eventually discovered Keynesian economics. Keynesian economics, an economic theory formed by John Maynard Keynes, states that government spending can greatly aid a nation in progressing after an economic downturn. Dr. Barry Friedman described the economic theory that Roosevelt espoused in his fight to assume the presidency as

> providing the rationale for the federal government to spend the country out of a downturn in the economic cycle so that the cycle could be attenuated. Deficit spending would also be available in times of military emergencies, such as World War II. But John Maynard Keynes clearly expected that the government would pay off debt and/or build up a reserve during times of economic prosperity (Friedman, 1996, pp. 6-7).

The theory behind Keynesian economics is similar to those economic beliefs held by the nation's first secretary of the treasury, Alexander Hamilton. Hamilton believed that, as a nation, we should utilize our ability to deficit spend in times of war or economic turmoil and delay paying off the national debt in order to get back on our feet. While, generally, Hamilton's theory succeeds in the short term by allowing the nation's economy to stabilize, both Hamilton and Roosevelt's shared theory falls short when it comes to actually reaching the point of repayment. Roosevelt, following the Keynesian theory of economics when dealing with the Great Depression, indeed spent in order to hopefully regain the economic strength of the nation, and ultimately did succeed in ending the depression, but the spending portion of Keynesian economics did not end when the Great Depression did. Franklin Delano Roosevelt did not spend enough to quite get to the point of repayment.

Gradually, as Dr. Friedman stated, "presidents and Congress forgot about the part of Keynes' formula that prescribes paying off debt in times of economic prosperity" (Friedman, 1996, p. 7). Dr. Friedman explained how this carried on into the presidency of Ronald Reagan:

> "[He] perversely lowered taxes, opting to finance the military buildup by using the nation's charge account. From 1981 to 1986, the accumulated debt more than doubled from $994 billion to $2.1 trillion. Some conservative Republicans remarked on the ingenuity of Reagan in undermining the remnants of the New Deal and the Great Society by making it impossible for the Democrats to find the funds to develop those programs any further" (Friedman, 1996, p.7).

President Reagan took a route during his presidency that might have been similar to the actions of Alexander Hamilton in regards to strengthening the nation militarily following several wars in the past century. In Hamilton's words, he found that "loans in time of public danger, especially from foreign war, are an indispensable resource, even to the wealthiest of [countries]" (Hamilton, 1790, p. 297). Similar to the fault in Roosevelt's dealings with national debt and deficit spending, Reagan, in an attempt to increase stabilization within the economy and establish a peace in the minds of Americans, effectively doubled the national debt, leaving our nation with a stronger military, but only added to the issue of debt that worries Americans now. Thomas Jefferson and James Madison both agreed with Alexander Hamilton that in case of an emergency the United States would need to be able to borrow if necessary. But it seems that only Jefferson and Madison remembered that a nation can borrow only with good credit.

President Barack Obama came into office in the middle of an economic recession. According to Bob Woodward, an American investigative journalist and author, "unemployment was at 7.2 percent and rising, and the economic situation was threatening to get worse with the financial system in full-blown crisis" (Woodward, 2012, p. 5). But, having utilized the economic turmoil that had surrounded the United States for a year before the end of his campaign as a platform for election, Obama came into office with a plan. "He wanted Congress to quickly pass an economic stimulus package in the range of $800 billion to $1.3

trillion" (Woodward, 2012, p. 5). Woodward explains President Obama's 2008 stimulus package:

> "It would include some tax cuts—sweet music to the Republicans—and some investment, such as spending on roads, buildings, and other job-creating projects. In addition, they had to 'build in medium- and long-term fiscal discipline' to tame the growing federal deficit" (Woodward, 2012, p. 5).

In the description Bob Woodward provides, President Obama took a route that was also similar to one that Alexander Hamilton might have taken in the same situation. Unfortunately, over the past century, many American presidents have assumed the office in a time of economic downturn and, with a Keynesian state of mind, have had to resort to extreme deficit spending in hopes that it would re-stabilize the American economy. But, also over the past century, the criteria for government spending have grown less strict and more open to interpretation. Government entitlements began in the 1930s due to the Great Depression. With so many Americans living in poverty, the government felt obliged to lend a helping hand. Franklin Delano Roosevelt, in his 1944 State of the Union address to Congress, established a "second Bill of Rights" that fell more along the lines of individual economic well-being. A few of these "rights" included "the right to earn enough to provide adequate food and clothing and recreation, the right of every family to a decent home, the right to adequate medical care and the opportunity to achieve and enjoy good health, the right to adequate protection from the economic fears of old age, sickness, accident, and unemployment, and the right to a good education" (Roosevelt, 1944, p. 1191). The rights that Roosevelt stated in this address are for exactly what he intended the social-welfare program and government entitlements to be for: a temporary aid, not a lifetime crutch. Unfortunately, President Roosevelt's ideas surrounding the general welfare seemed to be expanded upon and loosely interpreted somewhere along the line. Nicholas Eberstadt, in his book *A Nation of Takers: America's Entitlement Epidemic*, shows how the entitlement program and the willingness of Americans to accept handouts have changed over the past century.

> Although many Americans in earlier times were poor—before the twentieth century, practically everyone was living on income that would be considered penurious nowadays—even people in fairly desperate circumstances were known to refuse help or handouts as an affront to their dignity and independence (Eberstadt, 2012, p. 24)

Eberstadt noted throughout his book how under any given president, regardless of political affiliation, the entitlement programs only grew. He compared the early American economic system to now by stating:

> The United States is at the verge of a symbolic threshold: the point at which more than half of all American households receive, and accept, transfer benefits from the government. From cradle (strictly speaking, from before the cradle) to the grave, a treasure chest of government-supplied benefits is open for the taking for every American citizen—and exercising one's legal rights to these many blandishments is now part and parcel of the American way of life (Eberstadt, 2012, p. 25).

In regards to the economic situation in the years of our nation's founding fathers, it would be hard to believe that they would have supported such entitlements. Of course, they believed in defending the general welfare of the commonwealth of Americans but they also believed in hard work and individual prosperity. Unfortunately, more modern presidents have assumed these entitlement payments as an unavoidable aspect of government budgeting. Eberstadt, in regards to President Obama's platform of "an economium to the new lifelong procession of entitlements" throughout his 2012 reelection campaign, declared that "entitlements and social welfare programs are no longer reluctantly defended, but instead positively celebrated as part of the American dream: and the promise to not only defend these but to increase their scope still further is offered as a positive reason for Obama's reelection" (Eberstadt, 2012, p. 26). The United States' presidents over the past century have certainly strayed from various economic ideals that our founding fathers held. One would think, had the founding fathers thought it such a magnificent priority to maintain the majority of Americans on government entitlements, that they might have written it in the Constitution.

E. Preferences of the Public

In reference to Nicholas Eberstadt's comparison of the willingness of Americans to accept economic defeat from the early twentieth century to the twenty-first, not only does that show how presidents have utilized government spending and put the national debt on the backburner for the "welfare" of the general public, but it also shows how the public interest has changed. As Eberstadt stated, in the twentieth century, accepting a handout was deemed shameful and many would simply refuse it, no matter how horrible their situation, simply because it was "an affront to their dignity and independence" (Eberstadt, 2012, p. 24). Now, government handouts have become not only acceptable, but expected, by a mass of the American population. This idea of being "entitled" to governmental aid was most certainly not what Alexander Hamilton, Thomas Jefferson, James Madison, or even Franklin Delano Roosevelt had in mind. Roosevelt intended for his social-welfare programs to simply allow the impoverished American people to get back on their feet, with a roof over their heads and food in their mouths, much like Hamilton's beliefs in regards to national debt. But, regrettably, those who had once strived for independence, especially economically, had grown dependent on governmental aid, and, as aid grew, so did the desires of those accepting it.

This aspect of public interest in regards to governmental deficit spending and aid has certainly been a factor in several presidential elections and reelections since the presidency of Franklin Delano Roosevelt. Many presidential candidates utilized the government entitlements and social-welfare programs as a way to gain voters. Since entitlements have become such a large portion of the government budget, those Americans who are dependent upon governmental aid have assumed an "out of sight, out of mind" stand on the issue of national debt and deficit spending. In other words, if the deficit spending is helping them in some way and if they are living comfortably, or, in some cases, exceptionally comfortably, then they choose not to think about where the rest of the nation's tax payer dollars are going or how high the national debt has risen, because, as of the moment, it does not hurt them. It only helps them.

F. Military Spending

Maintaining the strength of the military was and is an inarguable rationale for public debt, especially in times of war. Given that the spending is not over what is necessary this situation of public debt can aid a nation in the long run, according to the thoughts of Jefferson, Hamilton, and Madison. They all accepted that it would be inevitable, in some cases of war, that the United States would have to borrow money and, therefore, accumulate more debt. Yet, the amount of government deficit spending associated with military advancements is startling. Nicholas Eberstadt noted that in 2012 "overall national defense expenditures are running at over $700 billion a year—a level that not only dwarfs any other presumptive contemporary competitor, but accounts for close to half of all world-wide military expenditures, according to many analysts" (Eberstadt, 2012, p. 66). After the United States' involvement in both World Wars and the very expensive Cold War, the United States decided that it needed to continue to step up its military game and continue to advance its national defense. As I mentioned, President Ronald Reagan saw the need for military advancement as paramount once he assumed the presidency. His government spending on the military alone definitely added to his record of more than doubling the national debt. But, utilizing the rationale that our nation's defense was of utmost importance he, as well as many other presidents, increased government deficit spending on military resources.

Hamilton, Jefferson, Madison, and the general majority of early influential Americans decidedly agreed that national defense was of utmost importance, and that agreement only grew war after war, from president to president. But what is different between the theories of our early American presidents and influential political philosophers and more recent leaders is that early American thinkers acknowledged that borrowing should remain strictly for times of war and economic turmoil. When the nation was not in need, many believed that the tax payer dollars and other governmental profits should go strictly to paying off the national debt. Now, it seems that, even in times of peace and economic prosperity, the United States' government can find a reason to spend money that it does not have.

G. Conclusion

Thomas Jefferson, Alexander Hamilton, and James Madison held strong beliefs in regards to national debt, spending, and repayment and shaped the United States' history. From Franklin Delano Roosevelt and the New Deal to the now seemingly endless governmental welfare spending currently, the theories held by these political philosophers have been molded into those of modern influential American leaders, further constructing our governmental system. Economic theories are bound to change over time as revenue and job availability rise and fall. They are also up for interpretation in times of war or economic turmoil. Having had experienced several economic situations, both good and bad, the United States' political leaders have shaped the theories held by Hamilton, Jefferson, and Madison into their own. Loosely interpreting such solid theories allows room for error and constructs them into different ideas altogether. Hamilton, Jefferson, and Madison all agreed that the national defense was extremely important to the wellbeing of our nation, and that if need be, we should always find a way to fund it. But as times have changed, leaders have added onto that list extensively, changing the way that these basic economic theories function, and allowing the United States to accumulate a mountain of debt.

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