EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL RESOURCES PLANNING BOARD
WASHINGTON, D. C.

APR 17 1943

Mr. Marriner S. Eccles
Chairman, Board of Governors
Federal Reserve System
Room 2046, Federal Reserve Building
Washington, D. C.

Dear Mr. Eccles:

At the request of the National Resources Planning Board, Mr. David McCord Wright of the University of Virginia, prepared a brief statement concerning the burden of the national debt. It was the Board's thought that this document might be a useful publication in the pamphlet series, "After the War". The Board also felt that it might lend some further understanding to the problem of war finance. I should appreciate your judgment on two questions: (1) Is this the type of document which the Board should publish and (2) do you have any general or specific suggestions in regard to the document, if it should be decided that such a pamphlet should be issued?

Sincerely yours,

Tom Blaisdell

Thomas C. Blaisdell, Jr.
Assistant Director

Enclosure

EXECUTIVE OFFICE OF THE PRESIDENT
NATIONAL RESOURCES PLANNING BOARD
WASHINGTON, D. C.

APR 22 1943

Mr. Marriner S. Eccles
Chairman, Board of Governors
Federal Reserve System
Room 2046, Federal Reserve Building
Washington, D. C.

Dear Mr. Eccles:

I have just reread my previous note to you regarding Dr. Wright's mamuscript entitled, "What About the National Debt?" I regret that I did not make sufficiently clear the fact that the document in its present form is little more than a first draft. In fairness to Dr. Wright, this should be taken into account when giving me your judgment.

Sincerely yours,

Tom Blaisdell

Thomas C. Blaisdell, Jr.
Assistant Director

WHAT ABOUT THE NATIONAL DEBT?

"Can we pay our present and prospective National Debt or even the interest on it? Can we bear, without impoverishment as a people, the burden of our present or future necessary taxation? These are questions which the continuance of the war and the exigencies of the time continually call up in the hearts ... of multitudes of our people." Not from yesterday's newspaper but from a pamphlet written in 1864 come these sentences. Yet everyone must feel how they echo the misgivings of many Americans today.

Eighteen hundred and sixty-four was a far gloomier year for the government of the United States than any the present crisis has yet brought to us. Final military victory was still in doubt. The public debt was soaring. There was widespread distrust of the solvency of the Federal Government. A defeatist spirit was rampant. Under these circumstances a young New Englander, David A. Wells, later a member of Lincoln's and Grant's administrations, set himself the task of reassuring his fellow countrymen concerning the National Debt. Wells did not make much resort to the flowery rhetoric of his day. He appealed, instead, to but two facts: The productive wealth of the United States, and the burden which other countries had successfully borne. From a statistical study of these he was able to make encouraging predictions which, though considered optimistic at the time, later generations have seen amply fulfilled. It is from his work that the opening sentences are taken.

Today although public credit is unshaken, and although sacrifices called for so far have been relatively small compared to those demanded by the North and South, we still find, as in earlier times, a widespread fear of the consequences of the National Debt. Of all the problems raised by the war

that of debt has probably most captured the attention of the majority of people.

It is of course a good thing, and a sign of the vitality of our democratic institutions, that the issue should be discussed so widely. But the problem is too important to be dealt with hastily, or with partizan bias. It must be faced not merely for its own sake, but also because there are other problems, more difficult and perhaps more important, which ought also to be receiving their share of attention. Let us, therefore, set ourselves soberly and seriously, and in as non-controversial a manner as possible, to examine the question of the National Debt.

We may begin our task by summarizing the basic principles regarding debt in general which are admitted by practically all writers. The special problems of the National Debt are only a part of a larger problem, the problem of debt as a whole. They must be viewed together and in relation to national wealth and income. Having obtained some background concerning the general problem of debt we may then discuss the National Debt. What exactly is its burden? What has it been in the past? What are the reasonable prospects for the future? How does it compare with the debts of other countries?

Debt, Credit and Production

Though we seldom stop to think of it that way, practically all students of modern society are agreed that the production of wealth and the production of debt are so closely interconnected today as to be practically inseparable. New concerns, of any size, are almost always commenced on borrowed money. Sometimes the necessary funds are obtained by selling stock and sometimes by

selling bonds, still more often by a combination of both methods. But while there are many important differences between the two methods, one common point remains: The creation of a money claim against wealth is an almost inevitable part of new investment. Even though money be not borrowed, accountants in setting up the books of a new venture, must make a debit charge against its assets.

Where, then, does the money come from to make these loans and investments? The primary source is found in the savings of business units and of the people. Each year, each month, each day, a certain amount of money is set aside to be invested, either directly or through the banks and other corporations. To the extent that this process is successful, it inevitably leads to more debt creation. A bank deposit is a debt owed by the bank to its depositors. A bond is a debt owed by a corporation to the bondholder. A share of stock is a claim of the stockholder against the assets and earnings of a corporation.

One thing will be admitted by practically all economists: Unless the flow of money currently put aside for saving is lent out again or matched by an equivalent amount of investment - debt, deflation and unemployment are inevitable Money cannot be drained out of the economy without causing disturbance. This is no more than common sense.

There is another point. As our enormously productive machine civilization constantly increases its output, the amount of purchasing power in existence must increase or prices will fall. Because of the difficulty of adjusting profits and wages to such a price decline, many, if not most, economists feel that as output expands the money supply must also be permitted to grow. For this reason they advocate increases in bank credit. It was, indeed, to

help keep the amount of credit and the amount of production in approximate balance that the Federal Reserve System was first founded. Yet, after all, what is an increase in bank credit? It is an increase in bank lending - in other words an increase in debt.

Increased production, then, almost inevitably reflects itself in increased debt. Nine-tenths of the monetary purchasing power of the country is held in the form of bank deposits which are debts. Under our system monetary purchasing power can receive no important increase except through more bank lending - more debt. The history of increased production and increased wealth in the United States is largely the history of increased debt. In most cases the two are opposite sides of the same shield. As Professor Graham of Princeton writes, "If instead of asserting that credit is the life of trade we should assert that debt is, the one statement would be as true as the other though the latter does not sound quite so convincing." To sum up: Unless purchasing power currently put aside is re-invested, that is to say, used to create more debt, the industrial machine will break down in its tracks. Unless the quantity of credit is increased as real wealth rises, that is, unless debt is increased, disturbing price reductions must occur. Investment, wealth, and debt go hand in hand, ~~One seldom exists without the other.~~

Liquidating Debt

What has just been said may seem paradoxical to many people. "If," they ask, "you say that nearly all wealth is created in the form of debt, how can this debt ever be repaid?" Such a question is perfectly natural, but to answer it one has to make another statement, which, though it must be concurred in

by all economists, however conservative or radical, will probably appear even more striking than what has gone before. The total of debts as a whole can never be repaid without causing a collapse.

But it may well be objected, "Debt cannot be repaid? What nonsense! If I borrow from my bank I have to repay, and my repayment doesn't cause a collapse." Very true - but before giving up in disgust, let us try to see what is meant by the repayment of debt as a whole. It is indeed correct that you and I, Bill Smith and Joe Brown, the X Corporation and the Y Corporation, may repay our debts without causing a collapse. But all the Smiths and Browns, all the people and corporations in the United States cannot repay their debts, at the same time, without blowing up the whole economic system. In 1933 for example millions of people tried to draw out their bank deposits. That is to say they tried to collect debts owed them by the banks. To meet these obligations the banks in turn had to cash in on their assets - the debts owed them by borrowers. The result was an attempt to make a general debt collection. A ruinous scramble ensued in which all banks and businesses were engulfed and a banking holiday became essential.

In ordinary times when Bill Smith pays back his loan, Joe Brown takes out another. While some borrowers are repaying their loans, others are borrowing still more. For the system as a whole the two must roughly cancel each other out. IF THEY DO NOT, THERE WILL BE A DEPRESSION. As Dr. Charles O. Hardy of the Brookings Institute puts it, "No major fraction of the underlying transactions which are represented by short-term credit operations of all types could be liquidated except at the cost of a breakdown of the whole industrial order. In the field of 'commercial' lending just as in the capital market

a general liquidation is impossible."

Thus we come to a principle fundamental to the understanding of modern society. Not only is it true that wealth can hardly ever grow without an accompanying increase in the total of debt, but any attempt to repay debt in general is bound to fail or else to cause a collapse. If one corporation manages to pay off its debts to the banks another corporation will have to borrow an equivalent amount. Net shrinkage is impossible without danger to the general welfare. Similarly if the national debt is paid off at a time in which private debt is not increasing, or if it is paid off so fast that the funds collected cannot easily be absorbed by the capital markets, great maladjustment may ensue. Repayment under these circumstances may cause on the one hand a depression or on the other a speculative boom. There are not lacking writers who feel that the rapid repayment of a large part of the national debt after the first world war contributed measurably to the speculative frenzy of the nineteen twenties.

To sum up: The total of debt can never be reduced without causing a collapse. Government debt may be repaid with safety only if an equivalent amount of private debt stands ready to be created. If private debt cannot be created as fast as government debt is reduced, deflation and general insolvency are likely. On the other hand, if private debt is created too rapidly and carelessly, as government debt is repaid, a speculative bubble may ensue. The question thus arises - why should we pay off the National Debt?

The answer usually given, of course, is that we pay off the National Debt in order to avoid the burden it entails. Yet just what is this burden? How does it compare with other burdens? Before we can go any further we must

understand these problems.

Disadvantages of Debt

As we study the disadvantages of private and public debts we will find that they have many points in common. For example, unwise private debt-investment may result in a waste of resources. While it is true that production practically always entails debt, it is not true that debt always entails production. The distrust of public debt is in large part inherited from the days of despotic and extravagant kings and emperors. In the seventeenth and eighteenth centuries, for instance, huge sums were diverted by the reigning monarchs from productive uses into the prosecution of vainglorious wars, the erection of costly palaces, and the pensioning in luxury of a horde of courtiers. This is the kind of National Debt with which Adam Smith was familiar.

But it is quite unwarranted to put the debts of the modern democracies incurred during the Great Depression in the same class as those royal debts. The difference lies first in the source from which the labor was drawn, and second, in the type of project upon which the money was spent.

When Louis XIVth built the great palace of Versailles and kept all Europe in a turmoil of war he took labor and resources away from productive use and wasted them. There was no unemployment in his time. But when the United States government, after 1930, incurred debt to put idle men to work, no resources were taken from private industry. Had the men not been paid by the government, they would not have been paid at all. King Louis took men who were already busy and put them to work on palaces. We took men already idle and kept them from starving to death. It must not be forgotten that the private collapse came before the public debt.

Private debt-investment was not being created; therefore public debt-investment had to be brought in to help fill the gap. We have seen that if anywhere in the system a large block of purchasing power is withdrawn without offsetting expansion, then idleness and deflation will spread from the depressed industry through the entire economy. An offsetting volume of public spending may be thought of as the disinfectant which prevents this deflationary disease from ravaging the whole body politic.

It follows that even if none of the money spent by the Federal government during the depression had been used for productive purposes, it would still have served a useful purpose. It would have prevented further deflation, it would have protected private homes, private banks, private investments. It would have kept mortgages from being foreclosed, prices from collapsing, private business from insolvency. King Louis' debt represented money used to destroy national production. Our debt, even had none of it created new wealth, would represent money used to protect and preserve national production.

But of course money spent by the Federal government during the depression was not poured out on the ground. We built no Versailles. Instead, we created a mass of productive wealth which, as will be shown shortly, will be an aid to national production for generations to come. Then we may conclude that the creation of public debt during the depression, even had it all been spent unproductively, was overwhelmingly and undeniably necessary to protect private debt and private industry. We see further that this debt was not all mere waste like Versailles but on the contrary that it added greatly to the national wealth. There is therefore no parallel between the wasteful debts of the monarchies and those incurred by the democracies in times of unemployment.

Another disadvantage sometimes involved in private and public debt is the danger of inflation. If the banks lend excessively to private borrowers, or to the government, inflation sometimes results. But there is no more reason to connect the public debt, by itself, with inflation than there would be to call all private bank loans inflationary. Both are only inflationary if they cause an increase in the total volume of spending. Nor is that sufficient to bring on inflation. It is only under the conditions existing toward the end of a boom, or during a war, when people are trying to spend faster than goods are being produced, that private and public borrowing from banks may cause inflation.

On the other hand both private and public debt do entail disadvantages. These center around the question of interest. In the last few decades there has been a trend in private corporate finance toward financing through bonds rather than stocks. In so far as this has resulted in the creation of a number of fixed money claims it imposes a rigidity on the economy. Even in the case of stocks, however, profits and losses are to some extent computed with reference to capital values so that the difference is one of degree. Public debt interest acts in somewhat the same way as private interest though some writers feel that the rigidity imposed is less. But public debt does not appreciably alter the fact, which would be true even without it, that a modern society cannot safely permit violent swings in prices in either direction because of the effect on private debts and production.

There still remains the question of interest payments and taxes. It is sometimes argued that, since the taxes for interest on an internally held public debt are mere transfer payments, they therefore impose no burden on

society. The money is taken from one pocket, as it were, and put back into another. While this principle will serve as a fair first approximation, it is not wholly correct. The two pockets may not belong to the same person. The man who pays taxes cannot be sure that he will get back from the government an equal amount of interest on his bonds. The more widely it is possible to diffuse the holding of bonds the less the redistribution of wealth involved. Generally speaking, however, it would seem that the existence of a large amount of government debt tends to favor the wealthy and business classes since it tends to redistribute income in their favor. Hence it tends to encourage saving. It is certainly not true that the existence of government debt would cut down on the amount of money available for investment. For the money taken in by taxes must find its way back to the bondholder almost at once.

Leaving aside the question of income redistribution, it is true that the manner in which the taxes themselves are levied can present a greater or less friction. Thus if at some time conditions are such that it is desirable to increase consumption, taxes falling too heavily on consumption goods may have a bad effect. Vice versa if it is desirable to stimulate saving and investment, unwise taxation of profits may be adverse to expansion. But if taxes are carefully levied this friction may be greatly minimized. Only if a government sets itself to destroy the private economy would the taxes act as a serious discouragement.

One final problem should be mentioned. Both with private and public debt a return of prosperity accompanied by rising interest rates may at times induce changes in the market value of investments. The government will therefore have

to be prepared to take steps from time to time to maintain the value of its bonds. This task, of course, is by no means impossible but it does present a problem for the treasury authorities in time of boom. Since, however, it is precisely in time of boom that the treasury is strongest the problem must not be overstressed.

Summing up the disadvantages of the public debt we find that it is primarily a matter of tax-interest friction. Taxation does involve some redistribution of income and badly levied taxes can be a brake on expansion. But while it would be foolish to maintain that these frictions do not constitute a "burden," it is clear that the extent of this burden is nearly always enormously exaggerated. The burden of the debt is not 130 billion dollars but two and one-half percent of 130 billion. Nor is it even that much. Only that fraction of the two and one-half percent which does genuinely cause a friction is to be counted as a burden and since these payments are transfer payments this fraction need not be very high. To offset this friction, public debt-investment has created a mass of productive wealth whose contributions to the national income will continue for many years. Of course if, in addition to paying interest, we seek to retire the principal of the debt, tax friction is accentuated. We then come once more to question: When should the National Debt be repaid?

From what has been written it follows that it is by no means always a good thing to repay the National Debt nor is it always a bad thing to increase it. The desirability of reducing or increasing the National Debt must be determined with reference to the activity of private industry. If private debt-investment cannot absorb the flow of current saving, income maintenance by the government is absolutely essential to the stability of a capitalist economy. In consequence,

if there is large scale unemployment and private industry is not active it would be the height of folly to impose heavy taxes in an attempt to repay the National Debt. The "burden" avoided by reducing the debt would be so small compared with the burden added by doing so, that it would be foolish to force deliberate ruin and deflation upon our people.

In time of boom on the other hand the debt may be reduced, if one wishes to do so, but even here debt repayment as we have already seen is not always a good thing. Repaying the debt too rapidly may add to speculative excesses and lead to over-expansion. The burden of the public debt is nearly always tremendously over-exaggerated.

What is the Limit of the Debt?

As soon, however, as one admits the existence of any burden, no matter how slight, the question of a limit arises. Logically, it must be admitted that if enough pebbles are placed on the back of an elephant the back will eventually break. Many people therefore ask "Granted that the burden now is light, is there not some point at which it will become too heavy? If so when will we reach that point?"

This question is natural enough but it contains a suggestion which should be answered before coming to the main point. People who put the matter in this way are apt to feel that deficit financing necessarily implies an indefinite piling up of debt. This is by no means the case. In time of peace, deficit financing will only be resorted to when private-debt investment has ceased to occur on a sufficient scale. Until recently, when such a drop of private activity occurred, a panic deflation was likely whose end no man could see. Indeed, it is almost impossible to prove theoretically that a deflation will

ever come to an end. Extreme pessimism therefore is likely to carry the economy down to very low levels. But if it were well understood to be the definite policy of the government not to let the national income fall very appreciably, that fact, in itself, would be sufficient to prevent extreme swings of business. A relatively small amount spent before the slump got out of hand would save billions later on. Extreme financial conservatism is likely to result in that policy of "too little and too late" whose disastrous effects in battle have so hampered the democracies. If we guarantee the business man a reasonably stable market for his goods, that guarantee, in course of time, will be needed less and less. There is a natural tendency for a properly administered deficit policy to stabilize itself relative to the national wealth. But speaking entirely seriously, and with no desire to appear paradoxical, it remains true that a fear of debt which keeps us from spending enough, in time, may be the very thing which makes a large debt necessary later on. The crash of 1929 is a case in point.

Assuming, however, for purposes of argument that the debt should keep rising, when will it reach a limit? No mathematically precise answer can be given to this question. One cannot say that the "limit" is five hundred billion, or six, or three, or any other exact sum. The reason is that the friction of the debt largely depends on what is done with the money and what taxes are levied to pay interest. Furthermore the friction must always be looked at relatively to the national income. As income rises debt may rise. The matter cannot be mechanically estimated.

If we had an ideally perfect, frictionless, automatically adjustable tax system, an internally held debt would entail no burden at all. On the other

hand an unwise tax policy could engender a very great amount of friction. What we are likely to get is something in between. It must be granted that theoretically this friction might someday become intolerable. But the precise point cannot be estimated exactly. It will help us greatly, however, to see how large a source of friction the United States and other countries have borne in the past and to compare these figures with the debt we are likely to have. After all, the practical question is not whether there could be a limit but whether in fact we are in danger of reaching it. This question cannot be answered by mere argument. We must go to the facts and to them we may now turn our attention.

The Past and Future of the Debt

If a man sets out to determine what the financial position of a corporation is, he must consider its assets as well as its liabilities. In a sense, the enormous national wealth of the United States is its asset. But looking at the matter more specifically, we find that the Federal government in the last fifteen years has financed a very large number of permanent productive improvements whose contributions to national production will continue for generations. We must consider these before we come to estimate the net friction of the debt. Table I shows Federal expenditures for construction from 1921 to 1943. It will be seen that between 1931 and 1943 some 40 billion dollars was expended in this way. Subtracting expenditures for National defense of twelve billion, we still have about twenty-seven billion left. There are some people, of course, who consider that every dollar spent by the government must be wasted. The mere fact that permanent construction is undertaken means nothing to them. But, for most of us, it is hard to believe that Grand Coulee or Boulder Dam, for

example, are so much useless waste. Suppose, however, that we make an unnecessarily large concession and say that the capital invested by the government is worth but half its cost. That still leaves about thirteen and one-half billion dollars whose annual contribution to production may be conservatively estimated at two hundred and seventy millions a year. Not all of this value may be easily measured in money terms but it is real enough nevertheless. Against the military expenditures made we may set as an asset our national freedom. Is there anyone who will say that this has been overvalued?

From a discussion of the assets created by the debt we may turn to the friction which it creates. It is difficult to find an appropriate index of the "burden" of the national debt but it is submitted that most people would agree that a comparison of the annual payments for interest with the national income will serve as a fair approximation. "How much money do I get in on the first of the month and how much does the debt require me to hand over to the government?" That is the question which interests most of us. The ratio of taxes for interest, to the money we receive is the important thing.

Accordingly in Table II the ratio of income to interest is shown from 1799 to 1941. Unfortunately the term "national income" is capable of many definitions nor do any of the estimates available correspond exactly to the figures we would like to have. The decision was taken, however, to use the National Industrial Conference Board estimates of "Realized National Income" since this is the only series which goes back very far. Looking at these figures some very interesting facts emerge. The national debt in 1941 was, for example, the largest in absolute size in American history but when we consider it in proportion to the national income it is seen to be by no means the heaviest we have borne. The

interest income ratio was heavier proportionately both after the Civil War and after the First World War. When we consider how much a man can borrow we ask how large his income is. The same thing is true of a country. A rich country can bear a great deal more than a poor one. Looked at in this way the present National Debt is seen to be well within our capacity as proved by debts which we have previously borne.

The National Debt, moreover, is not the whole story. While the National Debt has risen, total net debt in terms of the national income has declined and total long term interest - plus interest in the National Debt - has even declined in absolute amount. Charts I and II show net long term debt and interest payable on long term and public debt in the United States from 1929 to 1941. The decline in interest payments is clearly visible. Table III shows debt and interest as percentages of the national income and the decline in the size of the ratio is very clear. To sum up, the present National Debt, in terms of the relationship of interest and income, is not the heaviest we have born. Furthermore, when we consider total debt and interest, we have not been piling up more and more net debt relative to our income but rather reducing it. For the economy as a whole we have not been becoming less "solvent" but more so.

It is obvious, however, that as the war continues debt must pile up. It is, moreover, likely that the expense of converting from a war to a peace-time basis will result in some addition to the total debt. It is not sufficient therefore to consider what the debt was in 1941. We must try to estimate what it will be in the future. Of course such estimates are largely problematical since a great deal depends upon how soon the war is over. Let us, however, estimate the debt in 1950 - taking that as the probable end of the conversion

period - at between three hundred and three hundred and fifty billion dollars depending on the length of the war. Let us further take the National Resources Planning Board estimate of the national income for that year, in terms of 1942 prices, at 133 billion dollars. Both the debt estimate and that of income are so taken as to make the "burden" as heavy as seems at all likely. Assuming now an interest rate of 2 percent, the interest bill of a three hundred and fifty billion dollar debt will be seven billion a year, or five and three-tenths percent of the national income. This would be, admittedly, a much greater source of friction than any we have previously borne. But is it overwhelming? - A negative answer seems furnished by British experience.

Table IV gives estimates of the ratio of interest to income of the British national debt. It will be seen that after the First World War the British national debt took a significantly larger fraction of their national income than ours will, under our assumptions, in 1950. Also, while earlier estimates are unreliable, there is evidence to show that nearly a hundred and fifty years ago the British Empire bore without fatal results a ratio of interest to income much higher than our own is likely to be at the end of this war.

Some may object that the rate of interest used in making our forecasts is too low. In view of the very strict controls now exercised by the Federal Reserve System, this objection seems scarcely well taken. Moreover, even if the interest rate should be forced up, in spite of the Reserve System, this could only occur as the result of a tremendous boom. In the event of such a boom the repayment of a part of the debt would be both desirable and easy. Finally, even if we assume a four percent interest rate and no retirement of debt, the ratio of interest to income would be ten and one-half percent, or something less than the ratio in France at the end of the First World War as

shown in Table V.

Conclusion

From our survey we may state the following:

I. The debt of the United States prior to 1940 was, in terms of the relation of interest to income, not the heaviest we have ever borne and easily within our capacity. It was moreover accompanied by the creation of a considerable amount of permanent wealth.

II. The estimated Debt in 1950, judged by the same measure, is likely to be significantly less than that of England after the Napoleonic wars, and the First World War.

III. Using the worst available assumptions - the debt friction would probably be something less, in terms of our measure, than that of France after the First World War.

None of these ratios indicate any insuperable frictions likely to induce national bankruptcy. They do mean (a) that we must not repeat the English mistake of the twenties and over-value our currency in terms of world prices, (b) that we must levy our taxes more carefully, (c) that we must not do as France did and attempt a program of severe deflation. But all of these things would be true if there were no National Debt. For private debt in a modern society has become so important that violent swings in prices and incomes are intolerable. Furthermore, there is no reason why we should submit to them. A major depression is as obsolete today as a whale oil lamp. If, in spite of our tremendous potential production and national wealth, we permit another collapse of the order of 1929, it will be our own fault. We will have destroyed ourselves needlessly - the unwitting prisoners of our own imaginations.

The problems we face today are not all new problems. Many of them have been raised before. There is nothing new in a defeatist spirit and a despondent view of the future. For those who thus despair we may close with the words,

written more than a hundred years ago, of one of the greatest English advocates of laissez faire - Lord Macaulay:

"We cannot absolutely prove that those are in error who tell us that society has reached a turning-point, that we have seen our best days. But so said all who came before us, and with just as much apparent reason. 'A million a year will beggar us,' said the patriots of 1640. 'Two millions a year will grind the country to powder,' was the cry in 1660. 'Six millions a year and a debt of fifty millions!' exclaimed Swift; 'the high allies have been the ruin of us.' 'A hundred and forty millions of debt!' said Junius; 'well may we say that we owe Lord Chatham more than we shall ever pay, if we owe him such a load as this.' 'Two hundred and forty millions of debt!' cried all the statesmen of 1783 in chrous; 'what abilities, or what economy on the part of a minister, can save a country so burdened?' We know that if, since 1783, no fresh debt had been incurred, the increased resources of the country would have enabled us to defray that debt at which Pitt, Fox, and Burke stood aghast - nay, to defray it over and over again, and that with much lighter taxation than what we have actually borne. On what principle is it that, when we see nothing but improvement behind us, we are to expect nothing but deterioratio before us?"

David McCord Wright

University of Virginia.

Federal Expenditures, Grants, Loans and Guaranties of Loans for Construction
Classified According to Purpose, Fiscal Years 1921-1943
(All figures in thousands)

NOTE: Figures prior to fiscal year 1942 are actual. Figures for fiscal years 1942 and 1943 are estimates as of Jan. 7, 1942.

Table I

Year	National Defense	Land Development and Protection	Promotion of Transportation	Power Generation & Distribution	Welfare and Health	Education	Water Supply & Sewerage Systems	Government administration	Housing	Miscellaneous	Total
1921	$ 66,863	$ 12,584	149,004		$ 285	$ 47		$ 10,025			$ 238,808
1922	27,023	11,245	153,044		12,054	528		5,379			209,273
1923	22,237	12,143	135,657		10,291	24		3,628		$ 1,294	185,274
1924	12,636	14,604	172,417		11,611	3		2,636		244	214,151
1925	8,331	16,966	187,584		5,091	47		3,193		253	221,465
1926	10,258	16,111	160,832		5,981	150		2,013		811	196,156
1927	12,711	35,636	137,267		5,976	233		8,797		1,560	202,180
1928	11,173	37,937	144,198		6,609	149		7,224		2,941	210,231
1929	21,236	52,913	146,251		4,608	9		31,019		16,309	272,345
1930	19,935	47,691	139,186		12,817	121		49,200		7,637	276,587
1931	39,778	72,653	226,513		15,369	727		77,531		10,410	442,981
1932	43,879	76,973	264,208		19,237	801		106,078		12,875	524,051
1933	26,422	80,460	245,938		19,856	633	$ 10,638	119,213		8,576	511,736
1934	50,076	223,496	715,793	$ 47,612	85,158	12,391	50,508	211,503	$ 7,689	41,061	1,445,287
1935	53,895	164,819	742,049	57,840	138,690	80,727	108,581	123,123	32,066	14,221	1,516,011
1936	38,381	264,486	905,213	111,376	253,455	133,495	195,988	131,635	233,801	21,244	2,289,074
1937	59,083	289,866	1,106,993	117,348	286,836	132,271	197,634	173,098	505,149	13,498	2,881,776
1938	60,910	215,721	840,263	105,406	191,618	111,199	165,706	159,635	510,622	9,042	2,370,122
1939	144,463	269,422	1,212,657	157,266	262,539	195,611	227,481	158,207	744,111	36,685	3,408,442
1940	175,942	278,978	881,235	198,612	172,882	141,236	153,346	149,073	910,015	65,840	3,127,159
1941	1,677,585	283,330	797,213	181,376	140,243	74,000	126,400	95,860	1,165,077	42,754	4,583,838
1942	4,864,109	261,096	811,943	275,550	132,495	71,100	139,400	100,226	1,744,796	32,483	8,433,198
1943	5,146,880	287,697	483,656	223,022	97,576	59,323	126,766	56,486	1,498,485	21,827	8,001,718

Purposes of Federal Participation

(Table I)

The accompanying table shows the purposes for which Federal expenditures, grants, loans and guaranties of loans for construction have been made during the last two decades. The broad purpose classifications which are shown in the table cover the following detailed purposes:

1. National Defense. - Includes military camps and cantonments, Army air bases, armories and barracks; naval bases, air stations, navy yards and docks; and defense industrial plants covering Army and Naval Ordnance and Maritime Commission shipyards. 1/

2. Land Development and Protection. - Includes flood control, irrigation, reclamation, forests, national parks, soil conservation, wild-life, and range land conservation.

3. Promotion of Transportation. - Includes highways, roads and streets, river and harbor development, canals, aids and assistance to navigation, airports and airways, railroads, docks, terminals, bridges, and other similar structures.

4. Power Generation and Distribution. - Includes hydro-electric developments, steam and Diesel plants, transmission lines, and rural electrification development.

1/ Obviously, other purpose classifications in the table cover expenditures and financing which are made to aid in the national defense. Flood protection-works, power plants and transmission lines, highways, Government office buildings for employees of defense agencies, housing for families of military and naval personnel and defense industrial workers - all of these aid and expedite the national defense. So also do those projects which protect the health and safety of the people. However, for the purposes of the classification used in the table, a strict interpretation was placed on the term "national defense" and the only expenditures included within that term are the direct military, naval and defense-industrial plant construction expenditures and financing.

5. Welfare and Health. - Includes eleemosynary institutions, hospitals, prisons, and community recreational facilities.

6. Water Supply and Sewerage. - Includes public water supply and public sewerage and sewage treatment facilities.

7. Education. - Includes school, college, and university building and plant.

8. Government Administration. - Includes Government office buildings, post offices, State, county, and city halls; law enforcement buildings, such as border patrol stations; experiment stations, research stations, laboratories; and construction necessary for surveys and investigations.

9. Housing. - Includes public housing and Government-insured private housing.

10. Miscellaneous. - Includes types of works and structures not classified above or not classifiable because of the way in which the source data are compiled.

Table II

Interest on the Public Debt and Realized National Income
United States of America, 1799-1941

Year	Income National Income[1] (Millions of dollars)	Interest on the Public Debt[2] (Millions of dollars)	Ratio of Interest on Public Debt to Realized National Income (Percent)	Average Annual Interest Rate on the Public Debt (Percent)
1799	677	3.2	0.5	-
1809	915	2.9	0.3	-
1819	876	5.2	0.6	-
1829	975	2.5	0.3	-
1839	1,631	0.4	0.02	-
1849	2,420	3.7	0.2	-
1859	4,311	2.9	0.1	5.0
1866	-	138	-	-
1867	-	142	-	-
1869	6,827	130	1.9	5.1
1879	7,227	101	1.4	4.4
1889	10,701	39	0.4	3.1
1899	15,364	40	0.3	2.8
1900	16,158	36	0.2	2.9
1901	17,170	31	0.2	2.5
1902	18,444	29	0.2	2.4
1903	19,595	27	0.1	2.3
1904	20,090	25	0.1	2.2
1905	21,428	24	0.1	2.2

(CONTINUED)

1/ Source: National Industrial Conference Board, "National Income in the United States, 1799-1938," pp. 6-7. Revised data for 1935-1941 from Marvin Hoffenberg, "Estimates of National Output, Distributed Income, Consumer Spending, Saving, and Capital Formation", preliminary draft, p. 36.

2/ Source: "Annual Report of the Secretary of the Treasury on the State of the Finances," for fiscal year ended June 30, 1942, pp. 394-399.

Table II

Interest on the Public Debt and Realized National Income
United States of America, 1799-1941

Year	Income National Income[1] (Millions of dollars)	Interest on the Public Debt[2] (Millions of dollars)	Ratio of Interest on Public Debt to Realized National Income (Percent)	Average A Annual Interest Rate on the Public Debt (Percent)
1906	23,165	24	0.1	2.1
1907	24,403	23	0.1	2.0
1908	23,458	22	0.1	1.8
1909	26,456	22	0.1	1.9
1910	28,166	21	0.1	1.9
1911	28,014	22	0.1	1.9
1912	29,422	23	0.1	1.9
1913	31,450	23	0.1	1.9
1914	31,213	23	0.1	1.9
1915	32,533	23	0.1	1.9
1916	38,739	24	0.1	1.9
1917	46,376	107	0.2	3.6
1918	56,956	404	0.7	3.3
1919	62,945	820	1.3	3.2
1920	68,434	1,010	1.5	4.2
1921	56,689	995	1.8	4.2
1922	57,171	1,023	1.8	4.5
1923	65,662	998	1.5	4.5
1924	67,003	911	1.4	4.3
1925	70,051	857	1.2	4.2
1926	73,523	809	1.1	4.1
1927	73,966	759	1.0	4.1
1928	75,904	705	0.9	4.0
1929	79,498	669	0.8	4.0
1930	72,398	635	0.9	3.9
1931	60,203	605	1.0	3.6
1932	46,708	644	1.4	3.3
1933	44,713	723	1.6	3.2
1934	51,560	789	1.5	2.9
1935	56,500	785	1.4	2.7
1936	65,300	808	1.2	2.4
1937	69,000	896	1.3	2.5
1938	62,800	933	1.5	2.5
1939	68,400	991	1.4	2.4
1940	74,800	1,076	1.4	2.5
1941	89,600	1,185	1.3	2.4

TABLE III

Comparison of Interest, Debt and National Income in the United States, 1929-1941

Year	National Income (Millions of Dollars) 1/	Federal Interest Payments (Millions of Dollars) 2/	Total Net Public and Private Debt (Millions of Dollars) 3/	Net Public and Net Long-Term Private Interest (Millions of Dollars) 4/	Federal Interest Payments as a Percentage of National Income	Total Net Public and Private Debt as a Percentage of National Income	Net Public and Net Long-Term Private Interest Payment as a Percentage of National Income
1929	83,326	669	172,522	6,223	0.80	207.0	7.5
1930	68,858	635	173,181	6,488	.92	251.5	9.4
1931	54,479	605	166,031	6,475	1.11	304.8	11.9
1932	39,963	644	156,584	6,314	1.61	391.8	15.8
1933	42,322	723	150,641	6,034	1.71	355.9	14.3
1934	49,455	789	150,187	5,665	1.60	303.7	11.5
1935	55,719	785	151,659	5,391	1.41	272.2	9.7
1936	64,924	80	155,696	5,288	1.24	239.8	8.1
1937	71,513	896	159,552	5,305	1.25	223.1	7.4
1938	64,200	933	158,289	5,204	1.45	246.6	8.1
1939	70,829	991	162,195	5,065	1.40	229.0	7.2
1940	77,809	1076	167,041	5,048	1.38	214.7	6.5
1941	95,618	1185	185,231	5,121	1.24	193.7	5.4

1/ Source: Survey of Current Business, March 1933, p. 22.

2/ Source: Annual Report of the Secretary of the Treasury on the State of the Finances for fiscal year ended June 30, 1942. Derived by taking a moving average of amounts for fiscal years.

3/ Source: U. S. Department of Commerce, Indebtedness in the United States, 1929-1941, p. 16.

4/ Source: Ibid., p. 69.

Table IV

A

British National Income and Interest on the Public Debt
Before 1860
(Millions of Pounds)

Year	National Income	Interest	Total National Income	Interest as a Percentage of National Income
1800	217.5[1]	17.4[3]	234.9	7.4
1812	431[2]	25.5[3]	456.5	5.6
1847	370[1]	28.1[4]	398.1	7.1
1851	646[2]	28.0[4]	674.0	4.2

1/ From Colin Clark, The Conditions of Economic Progress, 1940, p. 84.

2/ From The State Debt and the National Capital, London, 1920.

3/ Tables of the Revenue, Population, Commerce, of the United Kingdom, 1820-1831, 1833, p. 1. (Interest includes management expense).

4/ Statistical Abstract for the United Kingdom, 1846-1860, p. 6 (Interest includes management expense).

Table IV

B

British National Income and Interest on the Public Debt
1860-1913

Period	National Income 1/ Millions of Dollars	Interest Payments 3/	National Income 2 + 4	Interest to National Income Percent
1860-69	899	26.5	925.5	2.9
1870-76	1,177	26.9	1,203.9	2.2
1877-85	1,242	28.3	1,270.3	2.2
1886-93	1,410	24.5	1,434.5	1.7
1894-1903	1,666	23.1	1,689.1	1.4
1904-1910	1,940	22.2	1,962.2	1.1
1911-13	2,241	19.9	2,260.9	.9
1911	2,210 2/	20.2	2,230.2	.9
1913	2,339	19.6	2,358.6	.8

1/ Colin Clark - National Income and Outlay, 1937, p. 232.

2/ Ibid., p. 94.

3/ From Statistical Abstracts for the United Kingdom. Interest payments 1860-1875 include management expense. Financial years shifted to calendar years.

TABLE IV
C

Calculation of British National Income at Market Prices 1/ 1920-1942
(£ Millions)

Year	Home Produced Income 1/	Income from Overseas 1/	Net Internal Interest on Public Debt 2/	National Income (1)+(2)+(3) 3/	Ratio of Interest to National Income (Percent) (3)÷(4)	Net Interest on Public Debt 4/	National Income (1)+(2)+(7)	Ratio of Interest to National Income Including Interest payments to the United States 4/
1920		5,600 7/	342 8/	5,942	5.8	342 8/	5,942	5.8
1921		3,900 7/	327	4,227	7.7	327	4,227	7.7
1922		3,500 7/	323	3,823	8.4	323	3,823	8.4
1923		3,800 7/	288	4,088	7.0	310	4,110	7.5
1924	3,755	280	278	4,313	6.4	308	4,343	7.1
1925	4,047	310	279	4,636	6.0	308	4,665	6.6
1926	3,863	310	286	4,459	6.4	314	4,487	7.0
1927	4,046	313	285	4,644	6.1	313	4,672	6.7
1928	4,024	315	283	4,622	6.1	311	4,650	6.7
1929	4,069	315	279	4,663	6.0	306	4,690	6.5
1930	4,043	275	268	4,586	5.8	295	4,613	6.4
1931	3,689	200	272	4,161	6.5	289	4,178	6.9
1932	3,669	175	264	4,108	6.4	282	4,126	6.8
1933	3,772	190	224	4,186	5.4	231	4,193	5.5
1934	4,033	205	212	4,450	4.8	212	4,450	4.8
1935	4,315	215	211	4,721	4.5	211	4,741	4.5
1936		4,426 9/	210	4,636	4.5	210	4,636	4.5
1937		4,804 9/	214	5,018	4.3	214	5,018	4.3
1938		5,241 9/	217	5,458	4.0	217	5,458	4.0
1939		5,597 9/	221	5,818	3.8	221	5,818	3.8
1940		6,509 9/	214	6,723	3.2	214	6,723	3.2
1941		7,580 9/	234	7,814	3.0	234	7,814	3.0
1942		8,452 9/	-	-	-	-	-	-

NOTE:
Footnotes on page 26A.

Footnotes to Table IV-C

1/ Source: Colin Clark: National Income and Outlay, p. 94.

2/ Source: Table I; excludes sinking fund, payments to U. S. Government, management and expenses.

3/ Sum of columns (1), (2), and (3). Amounts to inclusion of indirect business taxes, and exclusion of depreciation and depletion.

4/ See Table I; calculations same as preceding columns except for inclusion of interest paid to U. S. Government.

5/ Estimated to be same level as 1913.

6/ J. C. Stamp, "Current Problems in Finance and Government, 1924", p. 332.

7/ Layton's estimate of total National Income. See p. 360 of U. K. Hicks, "The Finance of British Government, 1920-1936."

8/ Interest for fiscal year 1920-21

9/ Source: Division of Research, O. P. A.

Table V

National Income and Interest on the Public Debt of France
(Billions of Francs)

Year	National Income Including Indirect Taxation 1/	2/	Total Debt Service 3/	Total Debt Service 4/	Total	Interest as a Percentage of National Income
1789	2.8			.2	3.0	6.7
1800-1812	6.4			.1	6.5	1.5
1830	9.2		.3		9.5	3.2
1840-1849	10.3		.4		10.7	3.7
1850-1859	16.6		.5		17.1	2.9
1860-1869	21.4		.6		22.0	2.7
1870-1879	26.9		1.1		28.0	3.9
1880-1889	28.0		1.3		29.3	4.4
1890-1899	29.5		1.2		30.7	3.9
1900-1909	35.5		1.2		36.7	3.3
1911	38.5		1.3		39.8	3.3
1920		122	15.1		137.1	11.0
1921		129	15.9		144.9	11.0
1922		134	18.2		152.2	12.0
1923		150	19.1		169.1	11.3
1924		173	20.2		193.2	10.5
1925		191	19.5		210.5	9.3
1926		234	23.7		257.7	9.2
1927		238	23.1		261.1	8.8
1928		257	22.9		279.9	8.2
1929		275	22.3		297.3	7.5
1930		276	22.7		298.7	7.6
1931		267	23.0		290.0	7.9
1932		231	23.7		254.7	9.3
1933		224	25.1		249.1	10.1
1934		203	27.3		230.3	11.9
1937		202	30.9		232.9	13.3

1/ Colin Clark, The Conditions of Economic Progress, 1940, p. 104.

2/ Ibid, p. 99.

3/ Annuaire Statestique, 1938, p. 201; 1928, p. 161-2.

4/ F. C. Sudre, Les Finances de la France Au XIX Siecle, pp. 4, 40, 74.

April 24, 1943

Mr. Thomas C. Blaisdell, Jr.,
Assistant Director,
National Resources Planning Board,
Washington, D. C.

Dear Tom:

I have read the document entitled "What about the National Debt?" by Dr. Wright and have some comments to make.

In reply to your first question, I think that this problem is eminently appropriate for discussion by the National Resources Planning Board. It is a matter of great public interest and one on which there are a great many misconceptions, which it will be well for your Board to dispel.

On the second question, I am sorry to say that I do not think that Wright's document in its present form could quite answer the purpose. I think it is too elementary for the professional reader and too technical for the general reader. It also sounds very dogmatic. For example, on page 3 there is the sentence: "As our enormously productive machine civilization constantly increases its output, the amount of purchasing power in existence must increase or prices will fall." There may be truth in this sentence, but it sounds awfully blind. It should not be taken for granted that a decline in prices resulting from improved technique would necessarily be harmful. In some respects it is a crucial point in the article and yet it is not discussed, but just stated as a dogma. I think this entire paragraph attaches somewhat too much importance to the quantity of money. We all know that a great deal can be accomplished by better utilization of an existing money supply, particularly when, as at present, it is much larger than is immediately necessary, and we all know, to our grief, that a very large money supply does not necessarily result in increasing business activity.

I think throughout this first section Dr. Wright's insistence on the point that debt is the other side of wealth is somewhat repetitious and not stated in a convincing way, although personally I agree with his idea. Incidentally, he glosses over the fact that equities are not debt.

On page 5 he is trying to illustrate what bad results would follow if debts were repaid and uses as an illustration people withdrawing their deposits in the early '30's. It is not a good illustration, because those withdrawals did not represent an attempt by debtors to repay their debts, but an attempt by a special class of creditors to collect theirs, which is an entirely different matter.

In the same way, I think the second sentence on page 6 is an overstatement. On page 8, the paragraph about the fact that Government spending would have been desirable in the '30's even, if it had all been non-productive, unnecessarily weakens his argument. I believe there is some truth in his position, but it is not necessary for what he is talking about and it would antagonize a great many people.

The last sentence in the first paragraph on page 9, I think is too dogmatic a statement.

The statement on page 10, beginning on line 7, about the effect of debt on the redistribution of income may or may not be right, but it certainly is not proved. The last sentence in the next paragraph is so extreme that it sounds rather funny.

This is the kind of thing I have in mind. The article needs very careful editing. I note from your last note that it is only a first draft. With careful revision I should think that it could be put into shape for useful publication.

Sincerely yours,

(Signed) E. A. GOLDENWEISER

E. A. Goldenweiser,
Director of Research and Statistics.

EAG dr

April 28, 1943.

Mr. Thomas C. Blaisdell, Jr.,
Assistant Director,
National Resources Planning Board,
Washington, D. C.

Dear Tom:

This is in reply to your letters of April 17 and 22 in regard to Dr. David McCord Wright's first draft of a pamphlet entitled "What About the National Debt?".

Dr. Goldenweiser's letter to you of April 24 pretty well expresses my own personal views on the questions you presented. I certainly see no reason why the National Resources Board should not put out a discussion of this sort, though it is of course a question which your Board has to determine for itself. I agree with Dr. Goldenweiser that the pamphlet in its present form is too elementary for the professionals and too technical for general readers. However, I will not venture detailed suggestions at this time.

I appreciate your letting me see the document and hope that it can be put into shape to be an effective contribution to enlightenment on this important subject.

Sincerely yours,

M. S. Eccles,
Chairman.

ET:b