

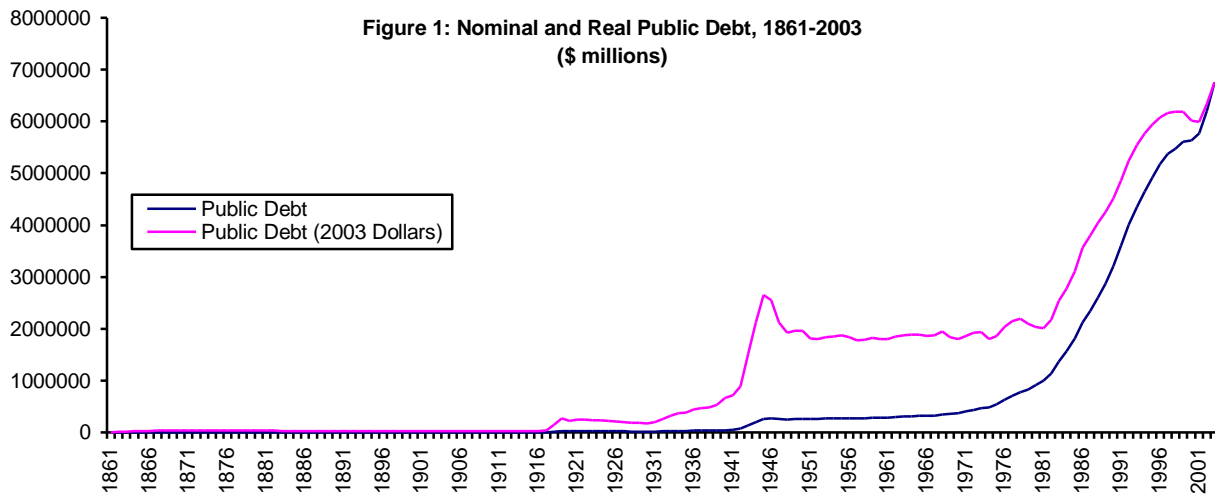
A Guide to Securities Issued by the United States Government, 1861 - 1975

Part I: The United States Public Debt: An Introduction and History, 1861 to 1975

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Introduction

On January 1, 1790, the United States' public debt stood at \$52,788,722.03 (Bayley 31). It consisted of the debt of the Continental Congress and \$191,608.81 borrowed by Secretary of the Treasury Alexander Hamilton in the spring of 1789 from New York banks to meet the new government's first payroll (Bayley 108). Since then the public debt has passed by a number of historical milestones: the assumption of Revolutionary War debt in August 1790, the redemption of the debt in 1835, the financing innovations rising from Civil War in 1861, the introduction of war loan drives in 1917, the rise of deficit spending after 1932, the lasting expansion of the debt from World War II, and the passage of the Budget Control Act in 1975. (The late 1990s may mark another point of significance in the history of the public debt, but it is still too soon to tell.) This short study examines the public debt between the Civil War and the Budget Control Act, the period in which the foundations of our present public debt of over \$7 trillion were laid. (See figure 1.) We start our investigation by asking, "What exactly is the public debt?"



Source: Nominal figures from "Principal of the Public Debt, Fiscal Years 1790-1975," *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix*. (Washington, DC: Government Printing Office, 1975), 62-63 and Robert Sahr, Oregon State University. URL: http://oregonstate.edu/Dept/pol_sci/fac/sahr/sahrhome.htm. Real figures and inflation conversion factors provided by Robert Sahr.

Definition

Throughout its history, the Treasury has recognized various categories of government debt. The oldest category and the largest in size is the public debt. The public debt, simply put, is all debt for which the government of the United States is *wholly* liable. In turn, the general public is ultimately responsible for such debt through taxation. Some authors use the terms federal debt and national debt interchangeably with public debt. From the view of the United States Treasury, this is incorrect.

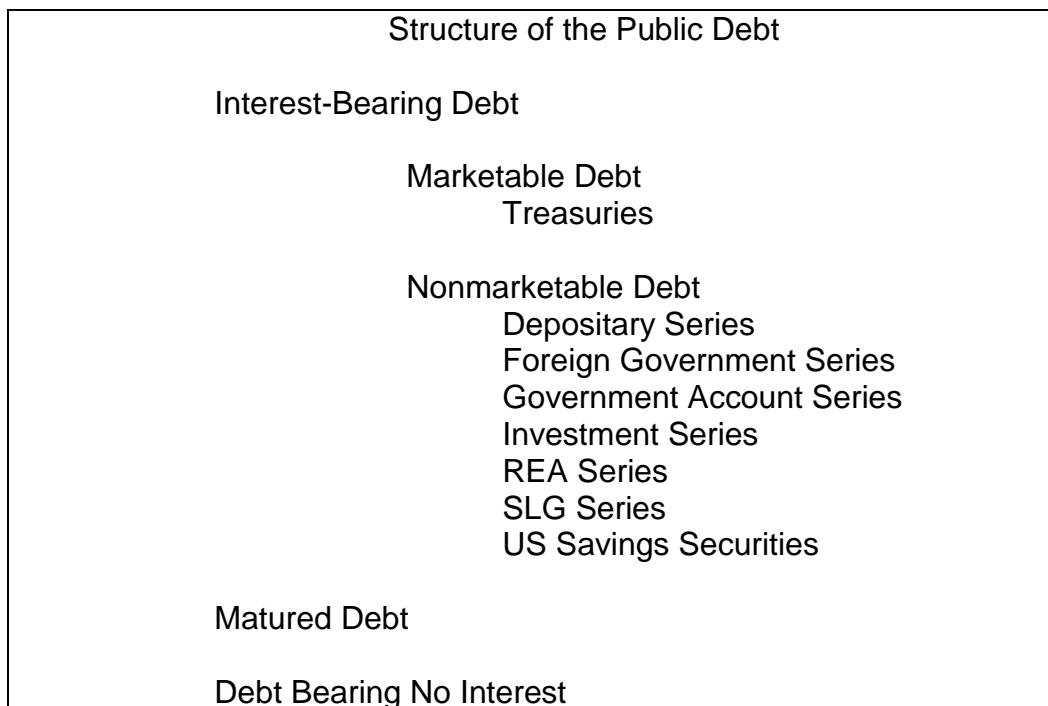
Federal debt, as defined by the Treasury, is the public debt plus debt issued by government-sponsored agencies for their own use. The term first appears in 1973 when it is officially defined as including "the obligations issued by Federal Government agencies which are part of the unified budget totals and in which there is an element of Federal ownership, along with the marketable and nonmarketable obligations of the Department of the Treasury" (*Annual Report of the Secretary of the Treasury*, 1973: 13).

Put more succinctly, federal debt is made up of the public debt plus contingent debt. The government is partially or, more precisely, contingently liable for the debt of government-sponsored enterprises for which it has pledged its guarantee. On the contingency that a government-sponsored enterprise such as the Government National Mortgage Association ever defaults on its debt, the United States government becomes liable for the debt.

National debt, though a popular term and used by Alexander Hamilton, has never been technically defined by the Treasury. The term suggests that one is referring to all debt for which the government could be liable—wholly or in part. During the period 1861 to 1975, the debt for which the government could be partially or contingently liable has included that of government-sponsored enterprises, railroads, insular possessions (Puerto Rico and the Philippines), and the District of Columbia. Taken together, these categories of debt could be considered the true national debt which, to my knowledge, has never been calculated.

Structure

But it is the public debt—only that debt for which the government is wholly liable—which has been totaled and mathematically examined in a myriad of ways by scholars and pundits. Yet, very few have broken down the public debt into its component parts of marketable and nonmarketable debt instruments: those securities, such as bills, bonds, and notes that make up the basis of the debt. In a simplified form, the structure of the public debt is as follows:



Though the elements of the debt varied over time, this basic structure remained constant from 1861 to 1975 and into the present. As we investigate further the

elements making up the structure of the public debt, we will focus on information from 1975, the last year of our study. By doing so, we can see the debt at its largest and most complex for the period 1861 to 1975 and in a structure most like that currently held by the public debt. It was also in 1975 that the Bureau of the Public Debt's accounting and reporting of the public debt took on its present form.

Some Financial Terms

Bearer Security

A bearer security is one in which ownership is determined solely by possession or the bearer of the security.

Callable

The term callable refers to whether and under what conditions the government has the right to redeem a debt issue prior to its maturity date. The date at which a security can be called by the government for redemption is known as its call date.

Coupon

A coupon is a detachable part of a security that bears the interest payment date and the amount due. The bearer of the security detaches the appropriate coupon and presents it to the Treasury for payment. Coupon is synonymous with interest in financial parlance: the coupon rate refers to the interest rate.

Coupon Security

A coupon security is any security that has attached coupons, and usually refers to a bearer security.

Discount

The term discount refers to the sale of a debt instrument at a price below its face or par value.

Liquidity

A security is liquid if it can be easily bought and sold in the secondary market or easily converted to cash.

Maturity

The maturity of a security is the date at which it becomes payable in full.

Negotiable

A negotiable security is one that can be freely sold or transferred to another holder.

Par

Par is the nominal dollar amount assigned to a security by the government. It is the security's face value.

Premium

The term premium refers to the sale of a debt instrument at a price above its face or par value.

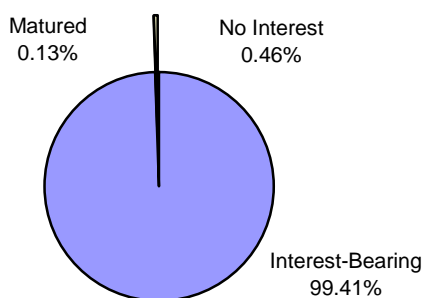
Registered Security

A registered security is one in which the owner of the security is recorded by the Bureau of the Public Debt. Usually both the principal and interest are registered, making them non-negotiable or non-transferable.

Interest-Bearing Debt, Matured Debt, and Debt Bearing No Interest

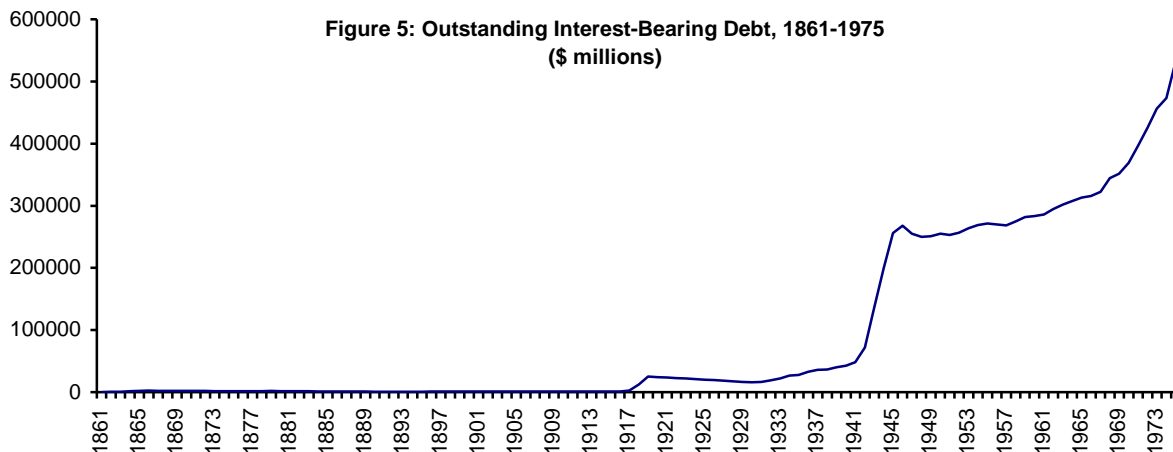
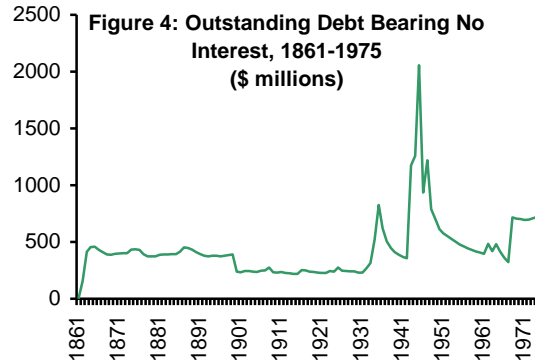
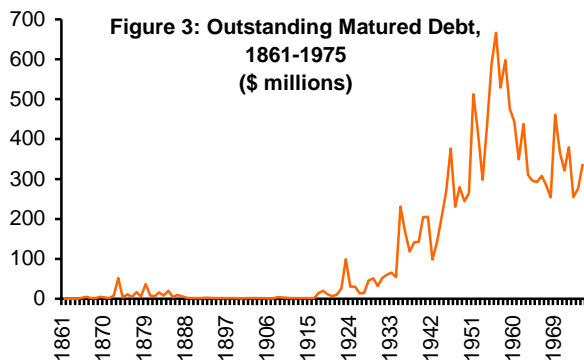
This major division in the structure of the public debt is fairly self-explanatory. Interest-bearing debt contains all securities that carry an obligation on the part of the government to pay interest to the security's owner on a regular basis. These debt instruments have not reached maturity. Almost all of the public debt falls into the interest-bearing debt category. (See figure 2.) Securities that are past maturity (and therefore no longer paying interest), but have not yet been redeemed by their holders are located within the category of matured debt. This is an extremely small part of the total public debt. In the category of debt bearing no interest are securities that are non-negotiable and non-interest-bearing such as Special Notes of the United States issued to the International Monetary Fund. Securities in this category are often issued for one-time or extraordinary purposes. Also in the category are obsolete forms of currency such as fractional currency, legal tender notes, and silver certificates. In total, old currency made up only .114% of the public debt in 1975. The Federal Reserve Notes which have been issued since 1914 and which we deal with on a daily basis are obligations of the Federal Reserve and thus not part of the public debt.

**Figure 2: Average Percentage of the Public Debt, 1861-1975
Interest-Bearing, Matured, and Debt Bearing No Interest**



Source: "Principal of the Public Debt, Fiscal Years 1790-1975," *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix* (Washington, DC: Government Printing Office, 1975), 62-63.

During the period under study, the value of outstanding matured debt generally grew with the overall size of the debt, except for a spike in the amount of unredeemed securities in the mid and late 1950s. (See figure 3.) This was caused by the maturation of United States Savings Bonds bought during World War II. Many of these war bonds lay forgotten in people's safe-deposit boxes for years. Wartime purchases of Defense Savings Stamps and War Savings Stamps account for much of the sudden increase in debt bearing no interest from 1943 to 1947. (See figure 4.) The year 1947 saw the United States issuing non-interest paying notes to fund the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development (part of the World Bank). As interest-bearing debt makes up over 99% of the public debt, it is basically equivalent to it. (See figure 5.) And, the history of the overall public debt will be examined later.



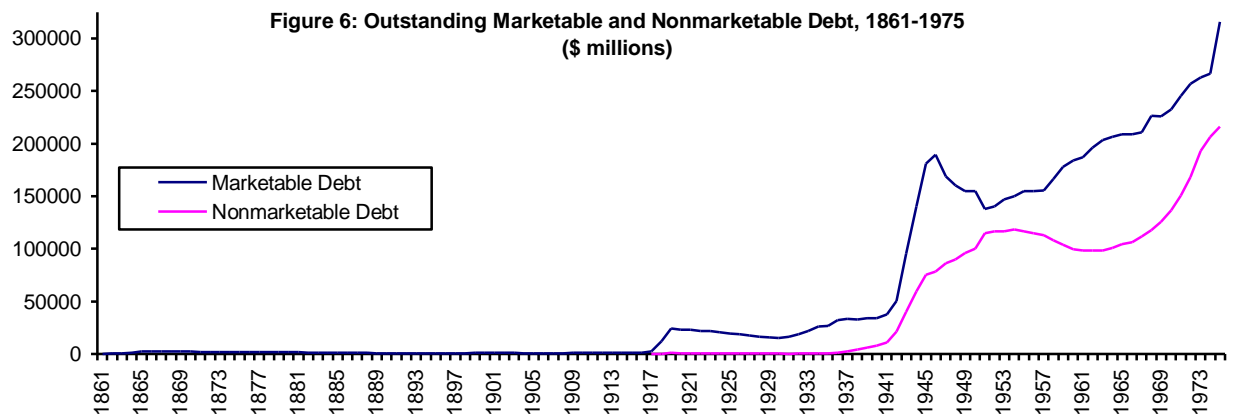
Source: "Principal of the Public Debt, Fiscal Years 1790-1975," *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix* (Washington, DC: Government Printing Office, 1975), 62-63.

Marketable Debt and Nonmarketable Debt

Interest-bearing debt is divided between marketable debt and nonmarketable debt. Marketable debt consists of securities that can be easily bought and sold in the secondary market. The Treasury has used the term since World War II to describe issues that are available to the general public in registered or bearer form without any condition of sale. Nonmarketable debt refers to securities that cannot be bought and sold in the secondary market though there are rare exceptions. Generally, nonmarketable government securities may only be bought from or sold to the Treasury. They are issued in registered form only and/or can be bought only by government agencies, specific business enterprises, or individuals under strict conditions.

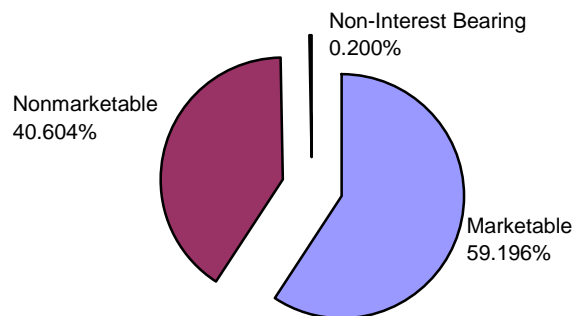
The growth of the marketable debt largely mirrors that of total interest-bearing debt; and until 1918, there was no such thing as nonmarketable debt. (See figure 6.) Nonmarketable debt arose in fiscal year 1918, when securities were sold to the Federal Reserve in an emergency move to raise money as the United States entered World War I. This was the first sale of "special issue" securities as nonmarketable debt securities were classified prior to World War II. Special or nonmarketable issues continued through the interwar period and grew with the establishment of government programs. Such securities were sometimes issued by the Treasury in the name of a government fund or program and were then bought by the Treasury. In effect, the Treasury extended

a loan to the government entity. More often the Treasury would sell a special security to the government fund or program for cash, creating a loan to the Treasury and an investment vehicle for the government entity. And, as the number of government programs grew and the size of government funds (like those associated with Social Security) expanded, so did the number and value of nonmarketable securities—greatly contributing to the rapid growth of nonmarketable debt. By 1975, these intragovernment securities combined with United States Savings Bonds helped make nonmarketable debt 40% of the total public debt. (See figure 7.)



Source: The following were used to calculate outstanding marketable debt: Data for 1861 to 1880 derived from Rafael A. Bayley, *The National Loans of the United States from July 4, 1776, to June 30, 1880*, 2nd ed, facs rpt (New York: Burt Franklin, 1970 [1881]), 180-84 and *Annual Report of the Secretary of the Treasury on the State of the Finances*, (Washington, DC: Government Printing Office, 1861), 44. Post-1880 numbers derived from “Analysis of the Principal of the Interest-Bearing Public Debt of the United States from July 1, 1856 to July 1, 1912,” *idem* (1912), 102-03; “Comparative Statement of the Public Debt Outstanding June 30, 1933 to 1939,” *idem* (1939), 452-53; “Composition of the Public Debt at the End of the Fiscal Years 1916 to 1938,” *idem*, 454-55; “Public Debt by Security Classes, June 30, 1939-49,” *idem* (1949), 400-01; “Public Debt Outstanding by Security Classes, June 30, 1945-55,” *idem* (1955); “Public Debt Outstanding by Classification,” *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix* (Washington, DC: Government Printing Office, 1975), 67-71. The marketable debt figures were then subtracted from total outstanding interest bearing debt to obtain nonmarketable figures.

Figure 7: Percentage of Public Debt, 1975
Marketable and Nonmarketable Debt



Source: “Public Debt Outstanding by Classification,” *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix* (Washington, DC: Government Printing Office, 1975), 67-71.

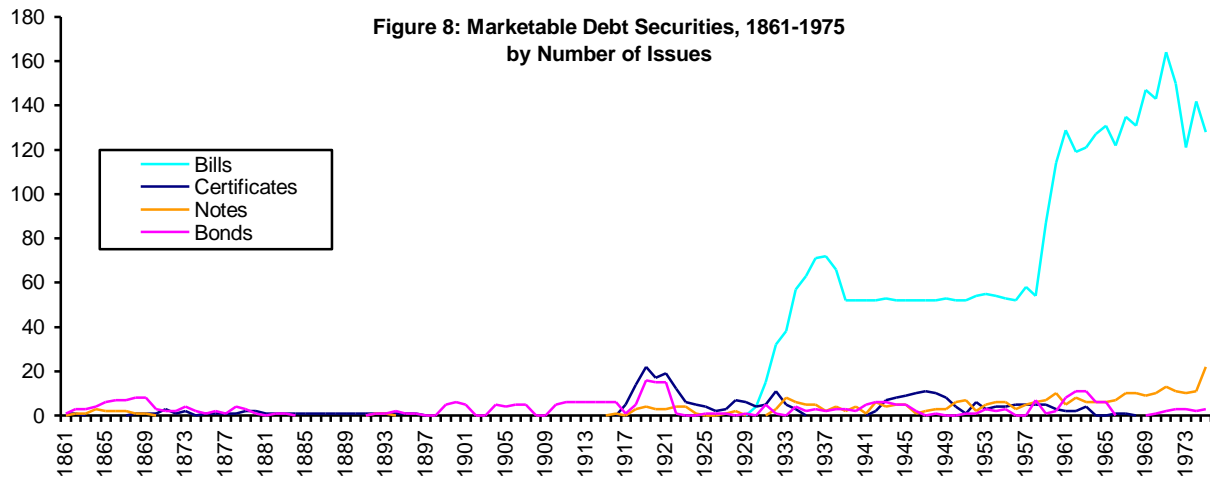
Marketable Debt Securities: Treasuries

The general public is most familiar with those marketable debt instruments falling within the category of Treasury securities, more popularly known as simply Treasuries. These

securities can be bought by anyone and have active secondary markets. The most commonly issued Treasuries between 1861 and 1975 are the following, listed in order of length of time to maturity, shortest to longest:

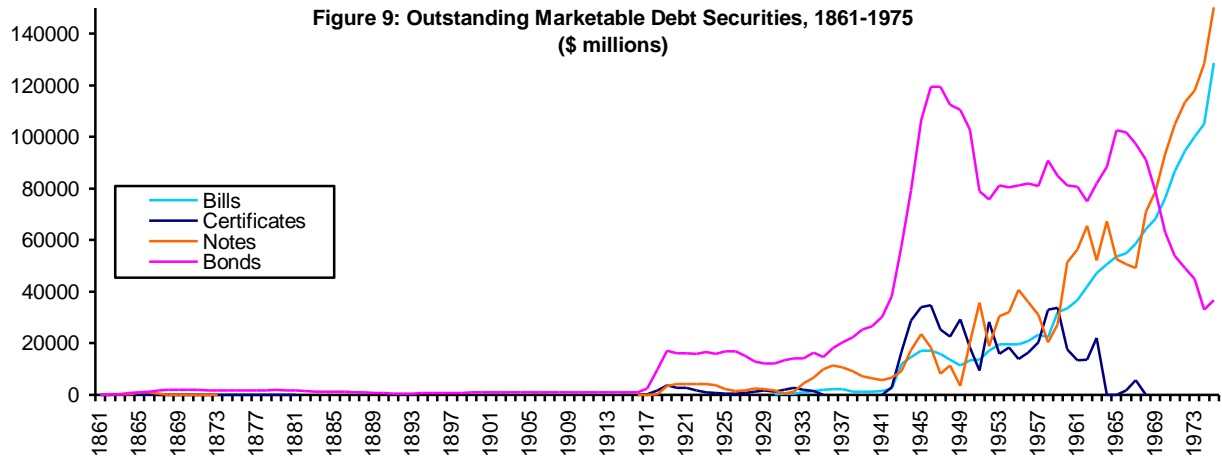
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| Treasury certificate of indebtedness | A couponed, short-term, interest-bearing security. It can have a maturity of as little as one day or as long as five years. Maturity is usually between 3 and 12 months. These securities were largely replaced by Treasury bills. |
| Treasury bill | A short-term security issued on a discount basis rather than at par. The price is determined by competitive bidding at auction. They have a maturity of a year or less and are usually sold on a weekly basis with maturities of 13 weeks and 26 weeks. They were first issued in December 1929. |
| Treasury note | A couponed, interest-bearing security that generally matures in 2 to 5 years. In 1968, the Treasury began to issue 7-year notes, and in 1976, the maximum maturity of Treasury notes was raised to 10 years. |
| Treasury bond | A couponed interest-bearing security that normally matures after 10 or more years. |

The story of these securities between 1861 and 1975 is one of a general movement by the Treasury to issue ever more securities in the shorter maturities—certificates of indebtedness, bills, and notes. Until World War I, the security of preference was the bond with a call date before maturity. (See figure 8.) Such an instrument provided the minimum attainable interest rate for the Treasury and was in demand as a long-term investment vehicle by investors. The pre-maturity call date allowed the Treasury the flexibility to redeem the bonds during a period of surplus revenue. Between 1861 and 1917, certificates of indebtedness were issued on occasion to manage cash flow through the Treasury and notes were issued only during the financial crisis years of the Civil War.



Source: Franklin Noll, *A Guide to Government Obligations, 1861-1975*, unpublished ms., 2002-2004.

In terms of both numbers and values, the change to shorter maturity Treasury securities began with World War I. Unprepared for the financial demands of World War I, the Treasury was perennially short of cash and issued a great number of certificates of indebtedness and short-term notes. A market developed for these securities, and they were issued throughout the interwar period to meet cash demands and refund the remaining World War I debt. While the number of bonds issued rose in the World War I and World War II years, by 1975 bond issues had become rare; and by the late 1960s, the value of bonds issued was in steep decline. (See figure 9.) In part, this was the effect of interest rates moving beyond statutory limits set on the interest rate the Treasury could pay on long-term securities. The primary reason for the decline of the bond, however, was post-World War II economic growth and inflation that drove up interest rates and established expectations of rising inflation. In such conditions, shorter term securities were more in favor with investors who sought to ride the rising tide of interest rates and keep their financial assets as liquid as possible. Correspondingly, the number and value of notes and bills rose throughout the postwar years. Certificates of indebtedness declined as they were replaced by bills. Treasury bills won out because they were easier and therefore less expensive for the Treasury to issue than certificates of indebtedness. Bills required no predetermination of interest rates or servicing of coupon payments.



Source: Data for 1861 to 1880 derived from Rafael A. Bayley, *The National Loans of the United States from July 4, 1776, to June 30, 1880*, 2^d ed, facs rpt (New York: Burt Franklin, 1970 [1881]), 180-84 and *Annual Report of the Secretary of the Treasury on the State of the Finances*, (Washington, DC: Government Printing Office, 1861), 44. Post-1880 numbers derived from "Analysis of the Principal of the Interest-Bearing Public Debt of the United States from July 1, 1856 to July 1, 1912," *idem* (1912), 102-03; "Comparative Statement of the Public Debt Outstanding June 30, 1933 to 1939," *idem* (1939), 452-53; "Composition of the Public Debt at the End of the Fiscal Years 1916 to 1938," *idem*, 454-55; "Public Debt by Security Classes, June 30, 1939-49," *idem* (1949), 400-01; "Public Debt Outstanding by Security Classes, June 30, 1945-55," *idem* (1955); "Public Debt Outstanding by Classification," *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix* (Washington, DC: Government Printing Office, 1975), 67-71.

Nonmarketable Debt Securities

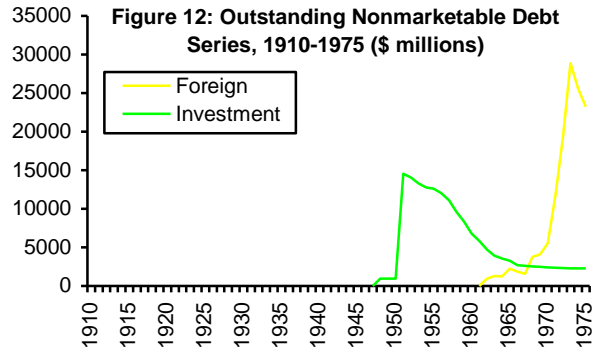
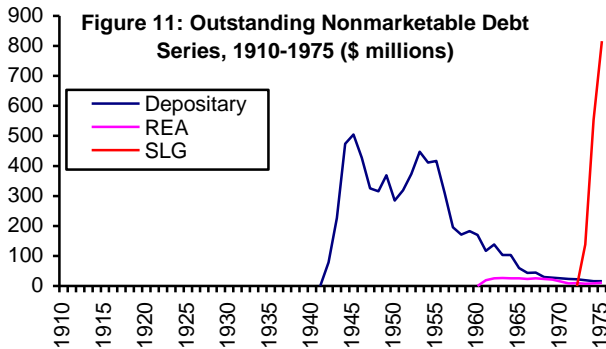
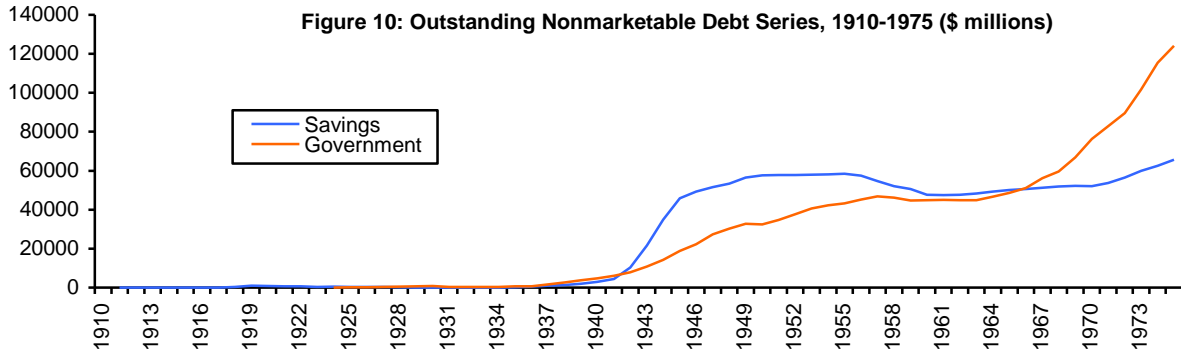
Securities sold as nonmarketable debt come in the forms above—certificate of indebtedness, bill, note, and bond. Most, but not all, nonmarketable securities fall into these series or categories:

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| Depository Series | Made up of depository bonds held by depository banks. These are banks that provide banking facilities for the Treasury. Depository bonds act as collateral for the Treasury funds deposited at the bank. The interest on these collateral securities provides the banks with income for the services rendered. |
| Foreign Government Series | The group of Treasury securities sold to foreign governments or used in foreign exchange stabilization operations. |
| Government Account Series | Refers to all types of securities issued to or by government accounts and trust funds. |
| Investment Series | Contains Treasury Bond, Investment Series securities sold to institutional investors. |
| REA Series | Rural Electrification Administration Series securities are sold to recipients of Rural Electrification |

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| | Administration loans who have unplanned excess loan money. Holding on to excess funds in the form of bonds give the borrower the capacity to cash in the bonds and retrieve the unused loan funds without the need for negotiating a new loan. |
| SLG Series | State and Local Government Series securities were first issued in 1972 to help state and municipal governments meet federal arbitrage restrictions. |
| US Savings Securities | United States Savings Securities refers to a group of securities consisting of savings stamps and bonds (most notably United States Savings Bonds) aimed at small, non-institutional investors. |

A number of nonmarketable securities fall outside these series. The special issue securities sold to the Federal Reserve in 1917 (the first securities recognized as nonmarketable) and mentioned above do not fit into any of these categories, neither do securities providing tax advantages like Mortgage Guaranty Insurance Company Tax and Loss Bonds or Special Notes of the United States issued on behalf of the International Monetary Fund. Treasury reports are, in fact, frustratingly full of anomalies and contradictions. One major anomaly is Postal Savings Bonds. First issued in 1911, Postal Savings Bonds were United States Savings Securities that were bought by depositors in the now defunct Postal Savings System. These bonds, unlike United States Savings Bonds, were fully marketable and could be bought and sold on the open market. As a savings security, it is included in the nonmarketable United States Savings Security series even though it is marketable. (It is to include these anomalous securities that we begin the graphs below in 1910.)

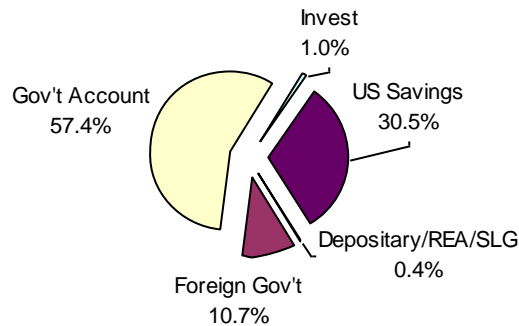
The United States Savings Security Series and the Government Account Series were the most significant in the growth of the nonmarketable debt component of the public debt. (See figure 10.) The real rise in savings securities began with the introduction of the nonmarketable United States Savings Bonds in 1935. The bond drives of World War II established these savings bonds in the American psyche and small investor portfolios. Securities issued for the benefit of government funds or programs began in 1925 and, as in the case of savings securities, really took off with the stimulus of World War II. The growth of government and government programs continued to stimulate the growth of the Government Account Series, making it the largest part of nonmarketable debt by 1975. (See figure 13.)



Source: Various tables and exhibits, *Annual Report of the Secretary of the Treasury on the State of the Finances*, (Washington, DC: Government Printing Office, 1910-1932); "Comparative Statement of the Public Debt Outstanding June 30, 1933 to 1939," *idem* (1939), 452-53; "Composition of the Public Debt at the End of the Fiscal Years 1916 to 1938," *idem*, 454-55; "Public Debt by Security Classes, June 30, 1939-49," *idem* (1949), 400-01; "Public Debt Outstanding by Security Classes, June 30, 1945-55," *idem* (1955); "Public Debt Outstanding by Classification," *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix* (Washington, DC: Government Printing Office, 1975), 67-71.

The Depository, REA, and SLG series were of minor importance throughout the period with depository bonds declining because their fixed interest rate of 2% became increasingly uncompetitive with the rise in inflation. (See figure 11.) As the Investment Series was tied to a single security, it declined with the gradual redemptions of Treasury Bond, Investment Series securities. (See figure 12.) The Foreign Government Series grew with escalating efforts to stabilize the value of dollar in foreign exchange markets. (See figure 12.)

Figure 13: Nonmarketable Debt Series by Proportion of the Public Debt, 1975



Source: "Description of Public Debt Issues Outstanding, June 30, 1975," *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix* (Washington, DC: Government Printing Office, 1975), 88-112.

History of the Public Debt

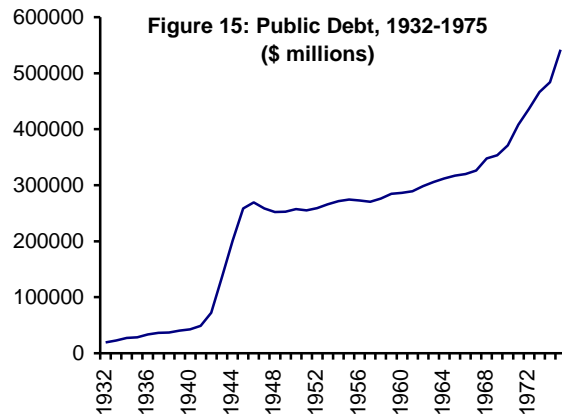
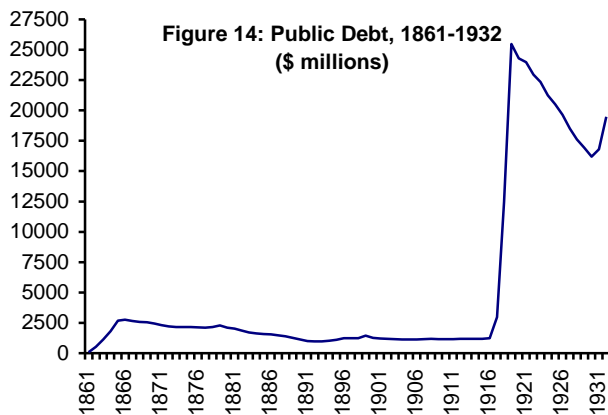
While we have examined the development of the various components of the public debt, we have yet to consider the public debt as a whole. Quite a few writers in the recent past have commented on the ever-growing size of the public debt. Many were concerned that the public debt figures were becoming astronomical in size and that there was no end in sight to continued growth as perennial budget deficits forced the government to keep borrowing money. Such fears are not entirely new to our country. In the Civil War, World War I, and World War II, people were astounded at the unprecedented heights reached by the public debt during wartime. What changed during World War II (and maybe a bit before) was the assumption that the public debt would decrease once the present crisis was over. The pattern in America's past was that after each war every effort would be made to pay off the accumulated debt as quickly as possible. Thus we find after the Civil War, World War I, and World War II declines in the total public debt. (See figures 14 and 15.) Until the United States' entry into World War I, the public debt never exceeded \$3 billion (see figure 14); and probably the debt would have returned near to this level after World War I if the Great Depression and World War II had not intervened. Yet, the last contraction of the public debt between 1861 and 1975 occurred in 1957. (See figures 15 and 18.) Since then the debt grew at an ever-increasing rate. Why?

The period 1861 to 1975 roughly divides into two eras and two corresponding philosophies on the public debt. From 1861 to 1932, government officials basically followed traditional precepts of public debt management, pursuing balanced budgets and paying down any debt as quickly as possible (Withers, 35-42). We will label these officials traditionalists. To oversimplify, for traditionalists the economy was not to be meddled with by the government as no good would come from it. The ups and downs of business cycles were natural phenomena that had to be endured and when possible provided for through the accumulation of budget surpluses. These views of national finance and the public debt held sway before the Great Depression and lingered on into the 1950s (Conklin, 234). But it was during the Great Depression and the first term of President Franklin Roosevelt, that we see an acceptance of what was then called "new economics" and would later be called Keynesianism. Basically, "new" economists believed that the business cycle could be counteracted through government intervention into the economy (Withers, 32). During economic downturns, the government could dampen the down cycle by stimulating the economy through lower taxes, increased government spending, and an expanded money supply. As the economy recovered, these stimulants would be reversed to dampen the up cycle of the economy. These beliefs gained ever greater currency over time and we will designate the period 1932 to 1975, the New Era.

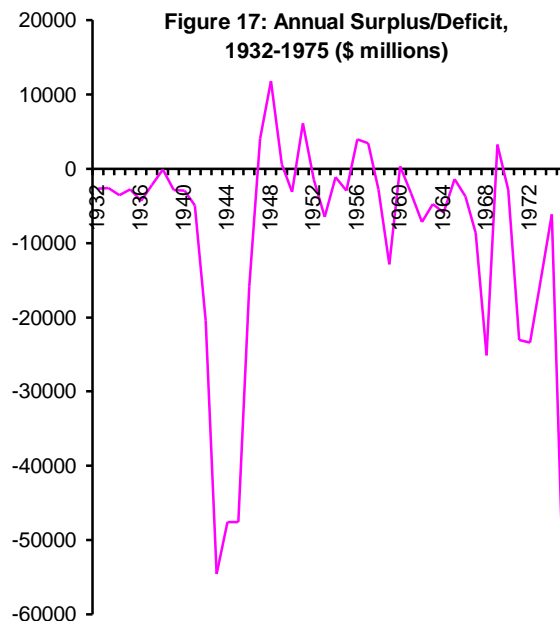
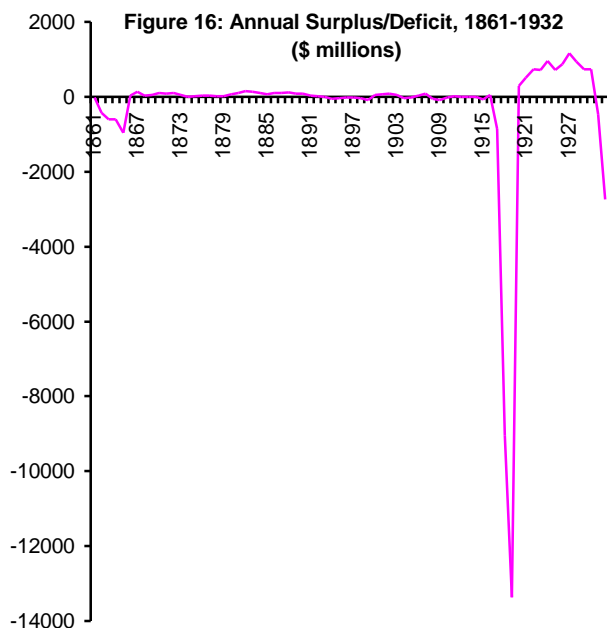
The Traditional Era, 1861-1932

(This discussion focuses on figures 14 and 16. Also see figures 18, 19, and 20.) In 1861, the public debt stood at roughly \$65 million. At the end of the Civil War the debt was some 42 times greater at \$2,756 million and the country was off the gold standard. The Civil War was paid for by a new personal income tax, massive bond issues, and the

printing of currency, popularly known as Greenbacks. Once the war was over, there was a drive to return to the status quo antebellum with a return to the gold standard, a pay down of the public debt, and the retirement of Greenbacks. The period 1866 to 1893, saw 28 continuous years of budget surpluses with revenues pouring in from tariffs and land sales in the west. During that time, successive Secretaries of the Treasury redeemed public debt securities to the greatest extent possible, often buying securities at a premium in the open market. The debt declined continuously until 1893 to a low of \$961 million with a brief exception in the late 1870s as the country dealt with the recessionary after effects of the Panic of 1873 and the controversy regarding resumption of the gold standard in 1879. The Panic of 1893 and a decline in tariff revenues brought a period of budget deficits and slightly raised the public debt from its 1893 low to a steady average of around \$1,150 million in the years leading up to World War I. The first war drives occurred during World War I. With the aid of the recently established Federal Reserve, the Treasury held four Liberty Loan drives and one Victory Loan Drive. The Treasury also introduced low cost savings certificates and stamps to attract the smallest investor. For 25 cents, one could aid the war effort by buying a Thrift Stamp. As at the end of previous wars, once World War I ended there was a concerted drive to pay down the debt. By 1931, the debt was reduced to \$16,801 million from a wartime high of \$25,485 million. The first budget deficit since the end of the war also appeared in 1931, marking the deepening of the Great Depression and a move away from the fiscal orthodoxy of the past.



Source: "Principal of the Public Debt, Fiscal Years 1790-1975," *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix*. (Washington, DC: Government Printing Office, 1975), 62-63.



Source: Robert Sahr, Oregon State University. URL: http://oregonstate.edu/Dept/pol_sci/fac/sahr/sahrhome.htm.

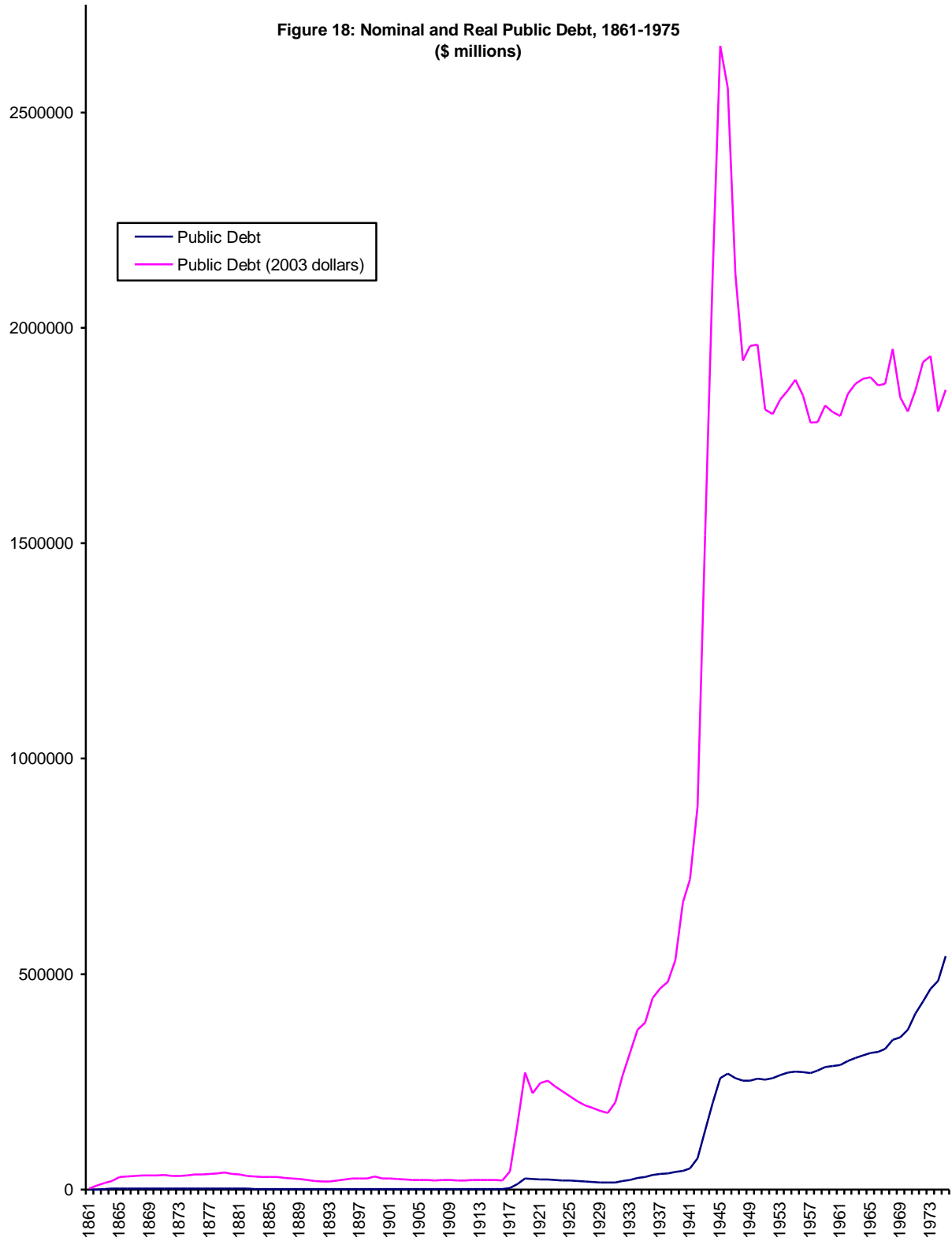
The New Era, 1932-1975

(This discussion focuses on figures 15 and 17. Also see figures 18, 19, and 20.) It was Roosevelt who first experimented with deficit spending to pull the economy out of depression and to stimulate jobs through the creation of public works programs and other elements of his New Deal. Though taxes were raised on the wealthy, the depressed state of the economy meant government revenues were far too low to finance the New Deal. As a result, Roosevelt in his first year created a budget deficit almost 6 times greater than that of Hoover's last year in office. Between 1931 and 1941, the public debt tripled in size, standing at \$48,961 million upon the United States' entry into World War II. To help fund the debt and get hoarded money back into circulation, the Treasury introduced the United States Savings Bond. Nonmarketable with a guaranteed redemption value at any point in the life of the security and a denomination as low as \$25, the savings bond was aimed at small investors fearful of continued bank collapses. With the advent of war, these bonds became War Savings Bonds and were the focus of the eight war drives of World War II, which also included Treasury bonds and certificates of indebtedness. The public debt reached a height of \$269,422 million because of the war.

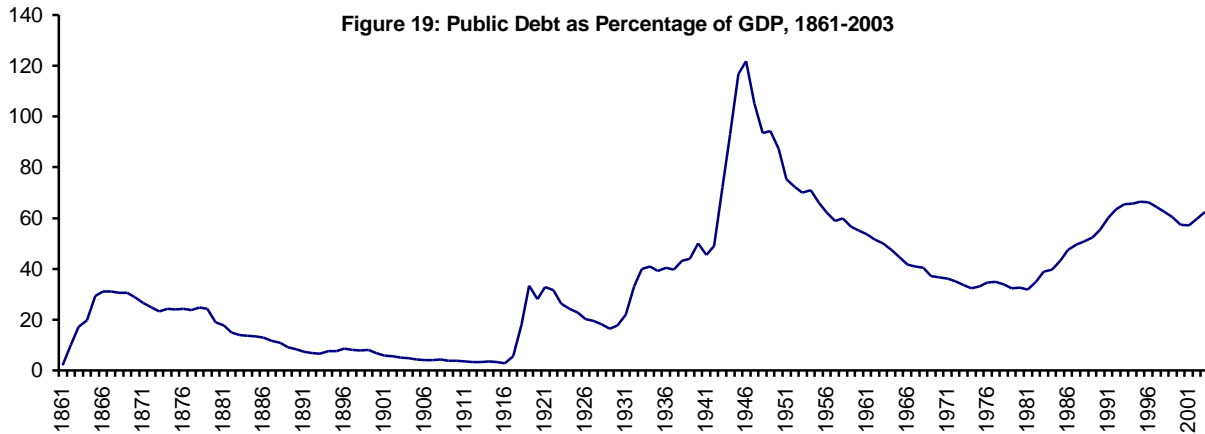
The experience of the New Deal combined with the low unemployment and victory of wartime, seemed to confirm Keynesian theories and reduce the fear of budget deficits. In 1946, Congress passed the Full Employment Act, committing the government to the pursuit of low unemployment through government intervention in the economy, which could include deficit spending. Though Truman and Eisenhower promoted some government intervention in the economy, they were still economic traditionalists at heart

and sought to pay down the public debt as much as possible. And, despite massive foreign aid, a sharp recession in the late 1950s, and large-scale foreign military deployments, including the Korean War, these two presidents were able to present budget surpluses more than 50% of the time and limit the growth of the public debt to an average of \$1,000 million per year. From 1960 to 1975, there would only be one year of budget surplus and the public debt would grow at an average rate of \$17,040 million per year. It was in 1960 and the arrival of the Kennedy administration that the “new economics” or Keynesianism came into full flower within the government. In the 1960s and 1970s, tax cuts and increased domestic spending were pursued not only to improve society but also to move the economy toward full employment. However, these economic stimulants were not just applied on down cycles of the economy but also on up cycles, resulting in ever-growing deficits. Added to this domestic spending were the continued outlays on military deployments overseas, including Vietnam, and borrowings in foreign markets to prop up the value of the dollar. During boom years, government revenues did increase but never enough to outpace spending. The exception was 1969 when a high rate of inflation boosted nominal revenues which were offset by the increased nominal cost of servicing the debt. By 1975, the United States was suffering from the high inflation and high unemployment of stagflation, and the budgetary deficits seemed to take on a life of their own. Each downturn in the economy brought smaller revenues aggravated by tax cuts while spending soared because of increased welfare and unemployment benefits and other government spending aimed at spurring job creation. The net result was an ever-increasing charge on the public debt and the huge numbers that have concerned so many in the past (and present).

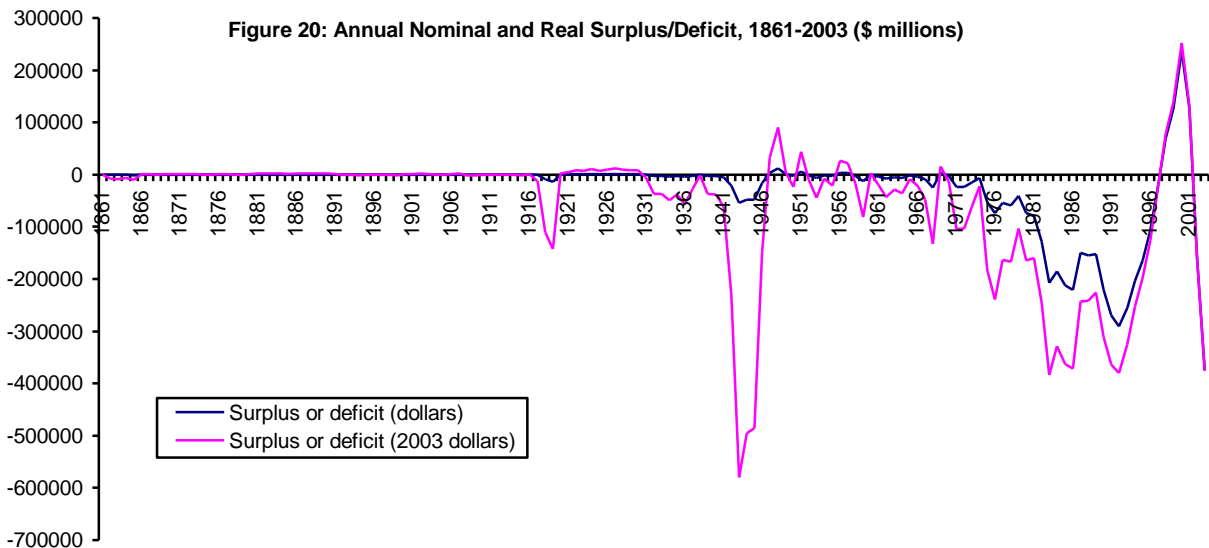
Figure 18: Nominal and Real Public Debt, 1861-1975
(\$ millions)



Source: Nominal figures from "Principal of the Public Debt, Fiscal Years 1790-1975," *Annual Report of the Secretary of the Treasury on the State of the Finances, Statistical Appendix*. (Washington, DC: Government Printing Office, 1975), 62-63; real figures provided by Robert Sahr, Oregon State University. URL: http://oregonstate.edu/Dept/pol_sci/fac/sahr/sahrhome.htm.



Source: Derived from figures provided by Robert Sahr, Oregon State University. URL: http://oregonstate.edu/Dept/pol_sci/fac/sahr/sahrhome.htm.



Source: Robert Sahr, Oregon State University. URL: http://oregonstate.edu/Dept/pol_sci/fac/sahr/sahrhome.htm.

We end this study in 1975 and the passage of the Budget Control Act. Formally entitled the Congressional Budget and Impoundment Control Act of 1974, it was passed on July 12, 1974 (the start of fiscal year 1975). Some of the most notable provisions of the act were the establishment of House and Senate Budget Committees, creation of the Congressional Budget Office, and removal of impoundment authority from the President. Impoundment was the President's ability to refrain from spending funds authorized in the budget. For example, if a government program ended up not spending all the money allotted it, the President (or more specifically the Treasury under the President's authority) did not have to pay out the unneeded money. Or, if the President did not want to fund a project passed by Congress in the budget, he could in effect veto it by instructing the Treasury not to release the money. In sum, the Budget Control Act shifted the balance of budgetary power to the Congress from the executive branch. The effect was to weaken restraints on Congressional spending and contribute

to the increased deficits and sharp, upward growth in the public debt in the next couple decades. (See figures 1, 19, and 20.)

But the Budget Control Act was a watershed for the public debt not only in its rate of growth but also in the way it was recorded and reported. The act changed the fiscal year (the twelve-month period used to determine income and expenses for accounting purposes) from July 1 to June 30 of each year to October 1 to September 30. The Budget Control Act also initiated the reporting system currently used by the Bureau of the Public Debt to report on the public debt. Fiscal year 1975 saw the first publication of the *Monthly Statement of the Public Debt of the United States*. For the first time, it reported the public debt in the structure we examined above, a structure still used by the Treasury today.

Conclusion

The public debt from 1861 to 1975 was the product of many factors. First, it was the result of accountancy on the part of the United States Treasury. Only certain obligations of the United States fall into the definition of the public debt. Second, the debt was the effect of Treasury debt management decisions as to what debt instruments or securities were to be used to finance the debt. Third, the public debt was fundamentally a product of budget deficits. Massive government spending in itself did not create deficits and add to the debt. It was only when revenues were not sufficient to offset the spending that deficits and government borrowing were necessary. At times, as during wartime or severe recessions, deficits were largely unavoidable. The change that occurred between 1861 and 1975 was the attitude among the government and the public toward budget deficits. Until the Great Depression, deficits were seen as injurious to the public good, and the public debt was viewed with unease as something the country could really do without. After the Great Depression, deficits were still not welcomed but were now viewed as a necessary tool needed to aid in economic recovery and the creation of jobs. Post-World War II rising expectations of continuous economic growth and high employment at home and the extension of United States' power abroad spurred the use of deficit spending. And, the belief among some influential Keynesians that more tinkering with the economy was all that was needed to fix a stagflating economy created an almost self-perpetuating growth of the public debt. In the end, the history of the public debt is not so much about accountancy or Treasury securities as about national ambitions, politics, and economic theories.

Bibliography

Though much has been written about the public debt, very little of it is of any real use in economic analysis or learning the history of the public debt. Most books deal with an ever-pending public debt crisis and give policy recommendations on how to solve the problem. However, there are a few recommendations:

Annual Report of the Secretary of the Treasury on the State of the Finances.
Washington, DC: Government Printing Office, -1980.

This is the basic source for all information on the public debt until 1980.

Bayley, Rafael A. *The National Loans of the United States from July 4, 1776, to June 30, 1880*. 2^d edition. Facsimile reprint. New York: Burt Franklin, 1970 [1881].

This is the standard work on early United States financing written by a Treasury bureaucrat.

Bureau of the Public Debt. "The Public Debt Online." URL: <http://www.publicdebt.treas.gov/opd/opd.htm>.

Provides limited data on the public debt, but provides all past issues of the *Monthly Statement of the Public Debt*.

Conklin, George T., Jr. "Treasury Financial Policy from the Institutional Point of View." *Journal of Finance*, 8, 2 (May 1953): 226-34.

This is a contemporary's disapproving view of the growing acceptance of the "new economics" that appeared in the 1930s.

Gordon, John Steele. *Hamilton's Blessing: the Extraordinary Life and Times of Our National Debt*. New York: Penguin, 1998.

This is a very readable, brief overview of the history of the public debt.

Love, Robert A. *Federal Financing: A Study of the Methods Employed by the Treasury in its Borrowing Operations*. Reprint of 1931 ed. New York: AMS Press, 1968.

This is the most complete and thorough account of the structure of the public debt. Unfortunately, it only goes up to 1925.

Noll, Franklin. *A Guide to Government Obligations, 1861-1975*. Unpublished ms. 2002-2004.

This is a descriptive inventory of securities issued by the Treasury between 1861 and 1975.

Office of Management and Budget. "Historical Tables." *Budget of the United States Government, Fiscal Year 2005*. URL: <http://www.whitehouse.gov/omb/budget/fy2005/pdf/hist.pdf>.

Provides data on the public debt, budgets, and federal spending, but reports focus on the latter twentieth century.

Sahr, Robert. "National Government Budget." URL: http://oregonstate.edu/Dept/pol_sci/fac/sahr/sahr.htm.

This is a valuable web site containing a useful collection of detailed graphs on government spending and the public debt.

Withers, William. *The Public Debt*. New York: The John Day Company, 1945.

Like Conklin, this is a contemporary's view of the change in perspectives on the public debt occurring in the 1930s. Withers tends to favor the "new economics".