

A Brief History of the Federal Debt

Background

Since the birth of the United States, our national debt has risen to more than \$15 trillion. Here are two ways to comprehend the magnitude of this debt load:

- In 2010, the entire gross domestic product (GDP) of the nation was \$14.6 trillion.ⁱ In other words, it would take essentially everything that Americans produced in all of 2010 to pay off the existing national debt.
- In 1783, each American owed about \$34 (or \$653 in inflation-adjusted dollars). By comparison, today's debt is approximately \$45,000 per American.ⁱⁱ

A History of the Federal Debt: At beginning of the Revolutionary War in 1776, Congress sold interest-bearing certificates and obtained a loan from France to finance the conflict.ⁱⁱⁱ At the end of the war, Congress had a debt of \$54 million, and the states themselves owed a total of \$25 million.^{iv}

When the Constitutional Convention met in 1787, the delegates who attended were well aware of the problems of the national debt, the state debts, and the poor financial reputation of the government. The Framers of the Constitution sought to reassure lenders that, even though it might change its form of government, the United States would honor its debt. The Framers also stated in Article I of the Constitution that the U.S. Congress would be responsible for honoring current and future debts. Since then, Congress has controlled the limits of the national debt, as well as how and when it will be paid. As early as 1790, the first Congress put what appears to be a spending cap on government expenditures, with the remainder to be spent on paying interest and retiring debt.

ISSUE SNAPSHOT

Currently, the United States has more than \$15 trillion in national debt.

The last time the United States was debt free was in 1835 under the Presidency of Andrew Jackson.

The Federal Debt in the 20th Century: At the time of the America's entry into World War I in 1917, Congress had raised the debt limit to \$7.5 billion. The limits were also periodically raised as the nation passed through the Great Depression and the New Deal.

Just before entering the Second World War, the Public Debt Act of 1941 eliminated separate debt limits on different types of U.S. Treasury instruments and placed a single limit of \$65 billion on all debt. A little over a year later, as the Japanese were swarming across the Pacific, the limit was roughly doubled to \$125 billion to help pay for the war effort. Before the war ended in September 1945, it had been raised three more times to \$300 billion. Only at the end of the war did the debt limit fall, to \$275 billion, as U.S. forces began demobilizing. The limit remained at this level until 1958, when it was raised to \$283 billion.

In 1967, the Public Debt Act raised the limit to \$358 billion and also added an increase of \$7 billion per year. This automatic adjustment lasted only two years, when the debt limit was raised by \$12 billion in 1969.

Throughout the 1970s, the debt limit was regularly raised, with a ceiling of \$400 billion in 1979, but the Act also included a declaration that "Congress shall balance the Federal budget." The same Act also included

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language requiring the President to submit a balanced budget, and if he were to submit one with a deficit, alternative budgets would have to be submitted as well.

These measures lasted less than a year, as the Public Debt Act of September 1979 introduced self-passing resolutions to raise the debt limit. With this system, the House of Representatives would be deemed to have passed a joint resolution increasing the statutory debt limit, by whatever amount a concurrent resolution on the budget (in years when Congress passed one) required, without House members actually having to cast a vote to increase the debt limit. This rule was repealed in January 2011.

The 1980s saw the debt limit rise into the trillions. In 1983, Congress dispensed with the “temporary” authorizations to exceed the debt limit and raised the statutory debt limit to \$1.389 trillion, then to \$1.49 trillion later the same year. The limit was raised three times in 1984; by 1985, the debt ceiling had been set at slightly over \$2 trillion. In late 1989, the debt ceiling was hovering at \$3.122 trillion, after being raised an additional three times.

The 1990s were little different: in 1990 alone, six different Acts were passed to raise the debt ceiling to \$4.145 trillion. Despite a series of get-tough-sounding Acts such as the “Budget Enforcement Act,” the “Omnibus Budget Reconciliation Act of 1993,” the “Contract with America Advancement Act,” and the “Balanced Budget Act of 1997,” the debt ceiling continued to rise, closing out the decade at \$5.95 trillion.

The Federal Debt in the 21st Century:

- By Act of June 28, 2002, Congress raised the debt limit to \$6.4 trillion.
- By Act of May 27, 2003, Congress raised the debt limit to \$7.384 trillion.
- By Act of November 19, 2004, Congress raised the debt limit to \$8.184 trillion.
- By Act of March 20, 2006, Congress raised the debt limit to \$8.965 trillion.
- By Act of September 29, 2007, Congress raised the debt limit to \$9.815 trillion.
- By section 3083 of the Act of July 30, 2008, a 259-page law known as the Housing and Economic Recovery Act of 2008, Congress raised the debt limit to \$10.615 trillion.
- By section 122 of the Act of October 3, 2008, a 168-page law known as the Emergency Economic Stabilization Act of 2008, Congress raised the debt limit to \$11.315 trillion.
- By section 1604 of the Act of February 17, 2009, a 406-page law known as the American Recovery and Reinvestment Act of 2009, Congress raised the debt limit to \$12.104 trillion.
- By Act of December 28, 2009, Congress raised the debt limit to \$12.394 trillion.

Finally, by Act of February 12, 2010, Congress raised the debt limit to its current amount of \$14.294 trillion. The Act included some budget process reforms.

Conclusion

Federal spending has been out of control for decades, and federal borrowing has therefore also been out of control for decades. America has amassed a giant, unaffordable debt and a giant, intrusive government. This did not happen by accident. Congress passed all the laws that made it happen. Fortunately, Congress has the Constitutional power it needs to solve the problem it created. It needs only the will to do so and the support of the American people.

From David Addington, “Don’t Raise the Debt Limit without Getting Spending Under Control.” The Heritage Foundation, *Backgrounder #2549*, April 21, 2011. Available at <http://tinyurl.com/6gzpgnz>. Access verified May 6, 2011.

¹ U.S. Department of Commerce, Bureau of Economic Analysis, “Gross Domestic Product: Fourth Quarter and Annual 2010 (Third Estimate).” Bureau of Economic Analysis, News Release 11-13, March 25, 2011, Table 3. Available at <http://tinyurl.com/6jq3waq>. Access verified May 6, 2011.

² Robert C. Sahr, “Consumer Price Index Conversion Factors 1774 to Estimated 2020 to Convert to Dollars of 2009” (Oregon State University, rev. 9/30/2010)(for conversion of 1781 dollar to 2009 dollar); Infobase Publishing, *The World Almanac* (2010), p. 614.

³ Charles Rappleye, *Robert Morris: Financier of the Revolution* (New York: Simon and Schuster, 2010), pp. 109-110.

⁴ Ron Chernow, *Washington: A Life* (New York: The Penguin Press, 2010), p. 620.