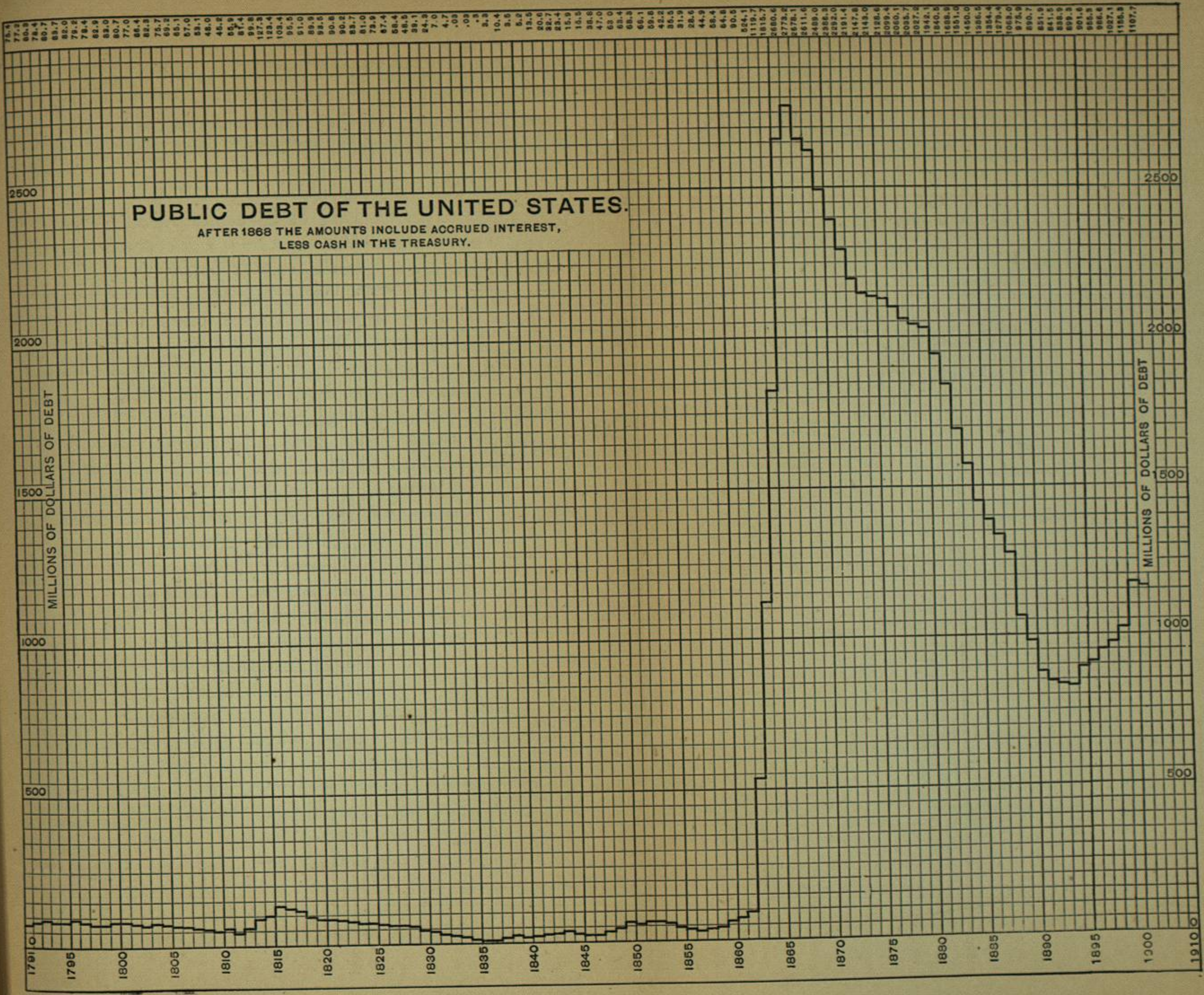
CHAPTER XXVII.

THE NATIONAL DEBT.

284. WHEN the American colonies became a united nation in 1789, the country was suffering from the distress caused by the War of the Revolution, and especially by the ruinous issue of irredeemable paper money. The young nation was sunk deep in financial difficulties, and it had no adequate income. Taxes were at once laid, chiefly on imports, in order to meet this need; but the income was insufficient to pay off the debts previously incurred to carry on the **Revolutionary War.** Money had been borrowed from France and Holland; and on January 1, 1790, the outstanding debt of the United States, including the debts of the several States assumed by the General Government, amounted to $71,000,000. It was a very heavy burden at the time, and, as can be seen by Chart VIII, it rather increased than diminished for a while.

285. The national debt was thus first caused by the war of the Revolution. It dates from 1789, but it was afterward greatly increased by two other wars. Under the skillful management of Mr. Gallatin, it had declined somewhat before the **War of 1812**; but the struggle with England raised it again, and it reached a point higher than any known before 1862. The national revenues, which grew with the country, paid off the entire amount by 1835, and for a few years the debt was but a few thou-

CHART VIII.


PUBLIC DEBT OF THE UNITED STATES.
AFTER 1868 THE AMOUNTS INCLUDE ACCRUED INTEREST,
LESS CASH IN THE TREASURY.
MILLIONS OF DOLLARS OF DEBT
MILLIONS OF DOLLARS OF DEBT
2500
2000
1500
1000
500
0
1791
1795
1800
1805
1810
1815
1820
1825
1830
1835
1840
1845
1850
1855
1860
1865
1870
1875
1880
1885
1890
1895
1900
1910

sand dollars. The **Mexican War** caused another increase before 1850, but even that was slowly reduced, and at the time of the outbreak of the Civil War the national debt was very small indeed in comparison with its size since.

286. On the breaking out of the **Civil War** in 1860, the Government committed the error of supposing that the struggle would be a short one. The expenses of the first year were estimated at $300,000,000, while the revenue was only $56,000,000 (see Chart VII). The people expected to be taxed heavily at once to make up the difference, but the **timidity of the Government led to borrowing** instead of taxing. In July, 1861, Congress authorized the Secretary of the Treasury to borrow $250,000,000; in February, 1862, $500,000,000; in March, 1863, $900,000,000; in June, 1864, $400,000,000; in March, 1865, $600,000,000; and in addition other acts were passed to permit borrowing in different ways. Of course, the Government was not always able to borrow when it gave authority thus to the Secretary of the Treasury to ask for money. Its credit varied, and it had to offer various kinds of inducements. The war became a long, costly, and doubtful struggle, and, because taxation had not been at once undertaken, borrowing had to be resorted to to an unfortunate extent.

287. When people loan their wealth to the State, they get in return something which is a claim, or evidence, for the amount. This claim appears in various forms. When borrowing for a number of years, the Government usually gives a **bond,** in which it agrees to pay back the principal at a stated time, paying, meanwhile, a certain rate of interest. Attached to each bond are a number of "coupons" (French, *couper*, to cut), one for each payment of interest until the bond falls due. The owner of the bond can cut off a coupon semi-annually or quarterly, and present it to the Government to be cashed, and thus get his interest. A bond is said to be "registered" when the owner's name and the number of the bond are registered on the books of the United States Treasury. If such a bond is lost or burned up, the owner can still get his principal and interest. If an unregistered bond is burned up, its owner loses it, just as if an equal value of bank-notes were burned up. Some bonds were known according to the time they ran. A "five-twenty" bond was one which the United States could pay off in five years, but was not obliged to pay before twenty years; a "ten-forty" bond was one redeemable in not less than ten nor more than forty years. Besides bonds, the United States issued various forms of **notes**, or promises to pay at a short time in the future. A "seven-thirty" note was one on which interest at 7.30 per cent was paid, although it was payable in at least three years. Of the United States notes, or "green-backs," we shall speak in Chapter XXX. When the Treasury had no other funds, it was also allowed to give its creditors certificates that the United States was indebted to them for given amounts; and these "certificates of indebtedness" ran for only a year, bearing interest. It sometimes happened that the United States Treasury was nearly empty, and was obliged to resort to all kinds of devices in order to meet its expenses during the war.

288. It was not until 1864 that any large sums were obtained by taxation, and yet to that time the daily expenses of the Government had been enormous. In fact, it was not until the year 1866 (see Chart VIII) that the Government received its largest war revenues. Resort was consequently had to every device for borrowing. Thus, the United States borrowed money by offering the different kinds of obligations described in the last section, and in October, 1865, after the close of the struggle, the national debt stood in the following form, expressed in **millions**:

Old debt..............................			$65	
Bonds:				
Twenty-year bonds of 1861,	6	per cent	265	
Five-twenty " "	6	"	660	
Ten-forty " "	5	"	173	
			——	$1,163
Notes:*				
Seven-thirty notes..........	7.30	"	830	
Compound-interest notes...	6	"	173	
Legal-tender Treasury notes	5	"	32	
U. S. notes ("greenbacks")	—	"	428	
Fractional notes	—	"	26	
Temporary deposits....	4, 5, 6	"	99	
Certificates of indebtedness	6	"	56	
			——	1,644
				$2,807

The "United States notes" were promises to pay on demand, and were a legal tender, but bore no interest; while the "legal-tender Treasury notes" were issued for terms of not more than three years, and bore interest at the rate of 5 per cent. The "fractional notes" were the paper notes ("shin-plasters") for parts of a dollar, issued to supply the absence of subsidiary silver coins. "Temporary deposits" were received by the Government, and were payable to the depositor after ten days' notice. They gave the United States the use of capital while it was waiting for investment.

289. The doubt which had attended the success of our armies and of our finances affected the credit of the Government. The United States was not able to borrow sometimes at a rate as high as 12 or 15 per cent; and the six-per-cent bonds were at some periods given in return for depreciated paper, worth in gold only 40 or 50 cents. Thus the annual interest to be paid on our debt after the war was very onerous, amounting in 1867 to $143,000,000. By the end of the war the United States had begun to

* In J. J. Knox's "United States Notes" are given cuts with the wording on the various kinds of notes.

tax heavily, as may be seen in the increasing revenues in Chart VII, and, when the war expenses ceased, the income was considerably greater than the expenditure. Thus the surplus revenue was available to pay off some of the debt. As the resources of the country in paying heavy taxes thus became manifest, and as the debt was manfully reduced little by little, our **credit improved**; and, when some parts of the debt fell due, the Government was able to borrow money at lower rates of interest, replacing the old debt with new but less burdensome forms of debt. It was, therefore, a great advantage that many bonds were issued in the form of the "five-twenties," for when our credit improved it was possible, after five years from the date of their issue, to pay them off and put other bonds in their place bearing 5, or $4\frac{1}{2}$, or 4 per cent interest. This change in the debt is called **"refunding."** Beginning with 1870, the war bonds were almost entirely changed into those bearing lower rates of interest; so that, by refunding and by paying off the principal, the annual payment for interest has fallen from $143,000,000 in 1867 to $50,000,000 in 1886.

290. As a result of the various refunding measures (including those of the Spanish war), and of a steady payment of the public debt with the surplus revenue, the main items of the public debt on June 30, 1901, were as follows, **expressed in millions**:

Consols of 1930 (March 14, 1900), at 2 per cent	$445.9
Loan of 1908–1918 (June 13, 1898), at 3 per cent	99.7
Funded loan of 1907 (July 14, 1870–January 20, 1871), at 4 per cent	257.4
Loan of 1925 (Jan. 14, 1875), at 4 per cent	162.3
Loan of 1904 (Jan. 14, 1875), at 5 per cent	21.8
Total interest-bearing debt	$987.1
Non-interest-bearing debt (including U. S. notes, $346.7)	383.0
Debt matured	1.4
Total debt	$1371.5
Less available cash balance in Treasury	176.8
Net debt, June 30, 1901	$1194.7

On May 1, 1896, the net debt was only $948.2, showing an increase, due mainly to the Spanish war, of about $250,000,000.

The annual interest charge, which was highest in 1865, at $150,977,697, was lowest since then in 1892, at $22,893,883, and stands, in 1900, at $33,545,130.

291. By noticing the dates at which the various bonds fall due, it will be seen that, when the war bonds were refunded, the Treasury sacrificed a very important advantage in order to secure a low rate of interest. It was a fortunate thing that so many bonds had formerly been issued like the "five-twenties," so that, when better days came, advantage could be taken of the privilege of redeeming them after the five years had passed. In refunding, the **later bonds were made redeemable only after a long period.**

The general principle that bonds should run only for a term, which would permit their early payment, if the Treasury has funds, was violated March 14, 1900, by refunding old bonds into those which do not mature before 1930. The few 5 per cents (due in 1904) and the 4 per cents (due in 1907), however, afford a sufficient amount maturing at an early day, which will give employment for all surplus revenue. The surplus can, however, be used in paying off the United States notes. The existence of a large surplus revenue which cannot be used readily to pay off the debt is an unfortunate temptation to useless and extravagant expenditure. The only rational step to take is to reduce taxation; and, as the internal revenue taxes on spirituous liquors and tobacco fulfill all the requirements of good taxes (see section 279), they ought to be retained; and, because some of the customs duties are laid on necessaries of life, they should be reduced in such a way as to lessen the revenue, and at the same time to cheapen those articles to the advantage of the poorer classes. This can be done by putting them on the free list.

292. While the debt of the United States has been reduced, since 1865, to about $838,000,000, in 1893, it has risen from the lowest figures because of the expenditures of the Spanish war. But since 1880 the decrease in the debt, as compared with the statements of other countries, may be seen in Chart IX. France appears to have the largest national debt, followed closely by Russia, while the United States is seventh in the list.

CHART IX.

NATIONAL DEBTS OF PRINCIPAL COUNTRIES.
1880 AND 1890.

[IN MILLIONS OF DOLLARS.]

[TAKEN FROM ELEVENTH CENSUS.]