Understanding an exponentially growing Public Debt, in simple terms*

By Mel Copeland

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During this time of our Presidential election, pundits tend to appear, attempting to explain the US Public Debt (which always comes up during election years). In simple terms the debt, like most debts, is rather easy to understand. However, more often than not politicians and pundits don't really take the time to understand the debt, and even worse, they assume that the deficit and national debt are one and the same thing. In their minds neither term to them involves an obligation that has to be paid each year.

Borrowing to fund unexpected expenses is a practice most people and governments may resort to from time to time. But from the days of Cicero until now it has been agreed that excessive borrowing by a government can result in economic collapse, or bankruptcy. One of the factors involving the collapse during the "Depression" involved speculation of stocks using borrowed money, following a theory that the market will always go up. When the market began to collapse those who owned stocks purchased with borrowed money were asked to pay up. Suddenly they were asked to cover a debt that was more than the value of the asset. This is a problem that has continued to this day, in the realm of commodities and, in view of the Great Recession of 2008, Real Estate.

Complicating the matter was the failure of the Bush II administration to govern risky financial operations that would leave the financial industry vulnerable. The advent of "variable rate loans," and the subsequent practice of "subprime loans" became a prominent factor in the economic collapse. Investors (commercial and homeowners) bought property on the criteria that real estate values will always rise. This false

Table 1 US National Debt, Deficits & Interest
(from www.treasury.gov)

President	Year	Debt *	Deficit - / Surplus +	Interest
Carter	1976	$620.0	-$73.7	$37.1
Carter	1977	698.8	-53.6	41.9
Carter	1978	771.5	-59.1	48.7
Carter	1979	826.5	-40.7	59.8
Carter	1980	907.7	-73.8	74.9
Reagan	1981	997.9	-78.9	95.6
Reagan	1982	1,142.0	-127.9	117.4
Reagan	1983	1,377.2	-207.8	128.8
Reagan	1984	1,572.3	-185.4	153.8
Reagan	1985	1,817.4	-212.3	~155.1
Reagan	1986	2,125.3	-221.2	190.2
Reagan	1987	2,350.3	-149.7	195.4
Reagan	1988	2,602.3	-155.2	214.1
Bush I	1989	2,857.4	-152.6	240.9
Bush I	1990	3,233.3	-221.04	264.8
Bush I	1991	3,665.3	-285.5	269.3
Bush I	1992	4,064.6	-290.3	292.3
Clinton	1993	4,411.5	-255.05	292.5
Clinton	1994	4,692.8	-203.19	296.3
Clinton	1995	4,920.6	-163.95	332.4
Clinton	1996	5,224.8	-107.4	344.0
Clinton	1997	5,413.1	-21.9	355.8
Clinton	1998	5,526.2	**+69.3**	363.8
Clinton	1999	5,656.3	**+125.6**	353.5
Clinton	2000	5,674.2	**+ 236.2**	362.0
Bush II	2001	5,807.5	**+128.3**	359.5
Bush II	2002	6,228.2	-157.76	332.5
Bush II	2003	6,783.2	-377.59	318.1
Bush II	2004	7,379.1	-412.7	321.6
Bush II	2005	7,932.7	-318.3	352.4
Bush II	2006	8,507.0	-248.2	405.9
Bush II	2007	9,007.7	-244.17	451.0
Bush II	2008	10,124.7	-435	438.0
Obama	2009	13,561.63	-1.417 trillion*	383.0
Obama	2010	13,688.80	-1.294 trillion*	413.9
Obama	2011	14,790.34	-1.295 trillion	454.3
Obama	2012	16,066.24	-1.087 trillion	359.7
Obama	2013	16,738.18	-679.	415.6
Obama	2014	17,824.07	-485	430.8
Obama	2015	18,150.614	-438	402.4

economy, betting that property only increases in value, left the financial world vulnerable to the consequences of interest rate increases on property loans. People and institutions who had taken out variable-rate interest loans had believed that the value of their property would increase, and they hardly expected that they would get hit with a sizeable rate increase (because the trend had shown little change in interest rates). But in fact when rates did increase, often more than doubling, homeowners suddenly found themselves owing more on their mortgage than they could afford to pay. They began to default on their loans, turning the property back to the banks and institutions that owned the notes. In the meantime financial institutions bundled good and bad loans and sold them to prospective investors who — because of the bundling technique — had no accurate knowledge of the amount of risk purchased. Then the number of defaults reached a point where repossessed properties were being left to rot, as it were, causing a blight in the neighborhoods. This in turn caused real estate values to plummet, and with collapsing real estate values, more homes were abandoned — now owing to the fact that property owners owed more on their property than what it was worth, and the investors holding “bundled loan packages” lost.

In sum, home loans were no longer owned by the local bank but were now part of a larger portfolio, in a stock fund, and many of the portfolios included pension funds, investments of states, cities and municipalities, etc. The collapse of one subprime portfolio caused a city of Norway, who had placed all of its savings in such a fund, to declare bankruptcy, for instance.

We can see, therefore, that the entire financial system was vulnerable to a force that could cause interest rates to have a dramatic rise. World oil and gas prices could have such an effect, and OPEC pointed out in 2008 that oil below $70.00 a barrel would not be adequate for them. They had been undergoing a building boom (particularly in Dubai) and needed at least $70.00 per barrel. They began rising prices, doubling the price of oil to ~$145 per barrel. This in turn caused a world-wide financial crisis in food, since a large part of the cost of food was in fertilizer (made out of petroleum products) and transportation (shipping and trucking). Responding to the rising prices of food products, particularly rice, rice-producing nations, such as Thailand and India, began to horde their commodity. Nations that imported food were now more vulnerable to the food crisis, and starving numbers in nations — particularly Africa — began to increase. The food crisis is not over, we might add, and this has been complicated by Islamic terrorism and the millions of refugees murdered and displaced by it.

The "subprime crisis" and "petroleum-price-rise crisis" needed only one factor to tip the scale, setting off the collapse. That factor would be an increase in the cost of money, or an interest rate increase. This is where the Federal Reserve enters the picture, for it controls the "prime rate" of money borrowed by banks. Suddenly, after many years of keeping rates low, the Federal Reserve began successive increases in the prime rate. Matching the increases would be the "variable rate" loans of the subprime mess, as well as credit card and auto loans and loans to investors and businesses.

From the early days of Federal Reserve Chairman Greenspan until now the argument for raising the prime rate has been to "stave off inflation." But under this innocuous argument was another more frightening, longer term specter than the subprime crisis. It was the National Debt (also called the Public Debt) which was financed through the sales of US Treasury bonds and notes.

While congressmen and pundits who expound on the National Debt refer to it as "a debt we are passing onto our children," the opposite effect is more probable. It is a debt that affects our daily lives in the sense that since it is financed through bonds it involves the payment to the bondholder an interest

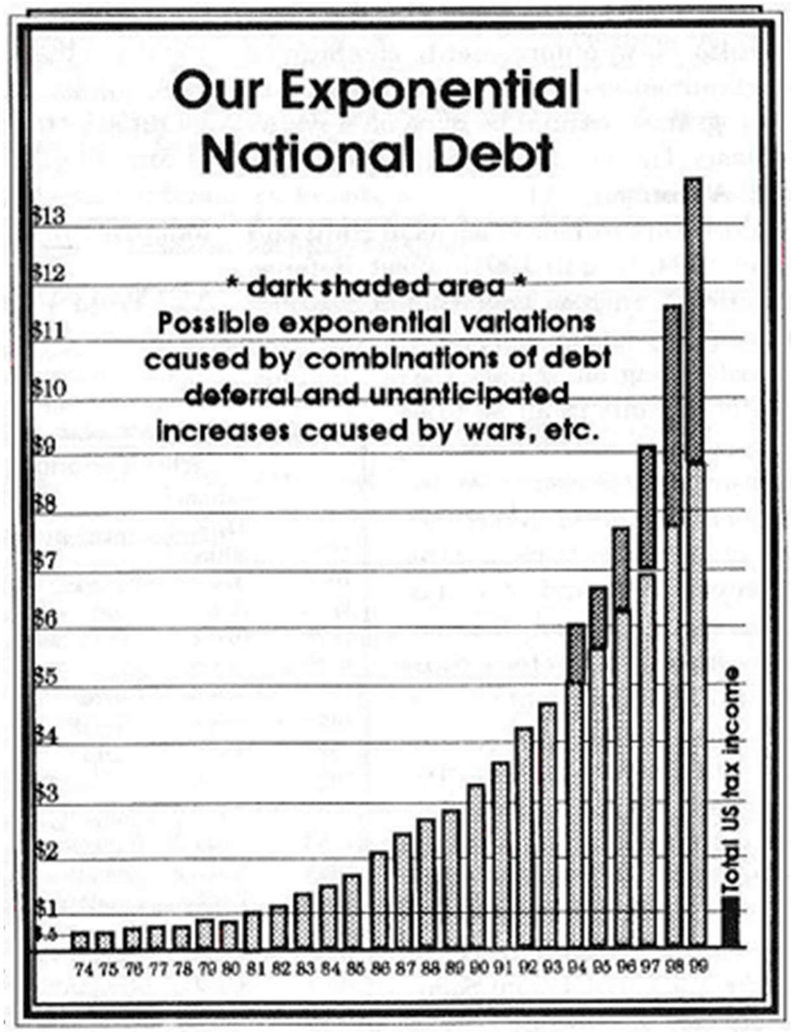

Figure A3

The Public Debt as maravot.com saw it in 1993 (Re: "Against Leviathan," a letter to Wm. F. Buckley Jr.). While we projected ~$4.7trillion in 1999, the actual debt was ~$5.7 trillion. The $13 trillion level was actually reached in 2010.

payment. Interest on bonds is influenced by the prime rate. When the prime rate is increased bond values increase. When the prime rate increases, interest rates on credit cards, auto loans and mortgages increase. Such increases cut into the worker's weekly income, where loans begin to pare down the amount one may be "allocated" for everyday expenses, such as food and rent. Savings also are reduced and, as in 2008, depleted and wiped out. With such reductions in spending, employers of consumer products may reduce payroll, with the net result in the Middle Class of lost jobs, lost savings and inability to meet financial needs, and many end up melting into the ranks of the paupers.

Because of the extraordinary size of the US National Debt — accelerated by Reagan, Bush I and later Bush II (Clinton actually paid down the National Debt by following a "no more borrowing, pay as you go" policy, initiated by the 1994 Gingrich "Contract with America" plan), finding buyers of bonds became more and more difficult as the debt increased over the years. For instance, the debt at the end of December 2008 was about $10.1 trillion, having gone from about $620 billion at the beginning of the Carter administration in 1976 (by 1981 Reagan moved the debt to ~$1 trillion).

A Rogue National Debt in the shape of a hockey stick

One of the problems with borrowing is the fact that if one does not pay down principal or interest a debt will compound, and before long the borrower will be faced with interest payments that will bury him. He simply will not be able to service the debt. Such a debt often takes the shape of a "j" curve, or a hockey stick. Those who have owned credit cards can verify this phenomena. To make matters worse in 2008 a bank bailout, of borrowing another $700 billion, adding to the Public Debt, was introduced by the Bush II administration. This number was vociferously protested by many who thought that the financial institutions ought not to be bailed out.

One thing leads to another. Since the financial crisis is world-wide, many central banks around the world have themselves been marketing bonds and notes to finance the extraordinary borrowing required to keep their institutions, factories and economies growing. While China had to sell a larger number of bonds than usual to prop up its economy, other governments did the same, causing more competition in the bond market. At the same time currencies began to collapse. Decreasing values in a currency would be matched with a rise in borrowing.

Interest on the National Debt also involves the specter of diverting tax dollars from domestic needs to paying off foreign banks and other creditors. Creditors always get paid first, before infrastructure repairs, education and the paupers, hungry and homeless.

Unfortunately, as we have discovered throughout history, the failure to pay off a creditor his interest often results in homelessness and, in the case of a nation, as during the French Revolution of 1789, a regime's beheading. This is what happened in France:

The debt in 1789 France versus the debt in 1983 America

When the French Revolution began in 1789, one of the things that precipitated it was an enormous **deficit** the French Government had incurred as a result of their support — above all things! — of the American Revolution in 1776! In March 1788 the Old Regime of Louis XVI and his Bourbon Dynasty was reaching an end; and as it approached its end it was forced, out of necessity, to prepare a National Budget — their first and last. The Budget, claimed Georges Lefebvre, whose work on the subject was first published in 1939 under the title, "Quatre-Vingt-neuf," included expenses of $629 million livres and revenues of $503 million, leaving a deficit of 126 million livres. The deficit (20% of France's expenses) includes about the same differential as the American Budget and its Deficit in 1983, two hundred years later! Reagan's budget in 1983 showed expenses of $808.3 billion against revenues of $600.6 billion.

Our deficit in 1983, relative to Louis XVI's problem, was much worse**:** for our deficit was then in 1983 nearly 26% of expenses! This pattern has continued.

The consequences of a nation's inordinate debt generally falls on the backs of its paupers who ranks increase in proportion to the increases in the debt, in contrast to the theory of Reaganomics that was a form of "deficit spending" that extolled living beyond our means at our children's expense. The four pillars of Reagan's economic policy were, according to wickipedia.org:

1. Reduce the growth of government spending,
2. Reduce marginal tax rates on income from labor and capital
3. Reduce government regulation of the economy,
4. Control the money supply to reduce inflation.

These can be listed as causes of the 2008 economic collapse. With regard to the above, Reagan actually increased government spending and reduced government regulation of the economy. The money supply has been controlled to reduce inflation. In conjunction with this Reagan borrowed the funds to run his expanding government, doubling the National Debt. This also influenced interest rates, pushing them up. In general, Reagan, Bush I and Bush II initiated the practice of borrowing what would appear to be the equivalent of interest on their debt each year.

Increasing interest rates also increases the growth of the National Debt; in contrast, minimal interest rates help to minimize the growth of the National Debt. For instance, in 1976 the interest rate was about 5% ($37.1 billion) of the debt of $620 billion. In 1981 the interest rate grew to about 9.8% ($95.6 billion) of the debt of $997.9 billion. In 2008 under Bush II the interest rate was reduced to about 4% ($438 billion) of the $10,124.7 trillion debt. In 2015 the interest rate was about 2% ($404.2 billion) of $18,150.6 trillion. By minimizing interest rates the Bush II and Obama administrations were able to minimize increases in the National Debt. Note that the interest paid out by Obama in 2015 of $402 billion against a debt of $18,150.6 trillion is about what Bush II paid out in interest, in 2006, of $405 billion against a debt of $8,507 trillion.

However, in October 2016 the Federal Reserve considered a possible increase in the Prime Rate. In simple terms, if they increase the Prime Rate, there will be a proportionate increase in the National Debt, unless of course, the government reduces expenditures to compensate for the higher interest rate impacting the debt.

A lesson from history: how France's National Debt caused the French Revolution

We can't here take the time to recall all of the events and factors leading up to the French Revolution of 1789-1792. But we can stimulate your mind with a few interesting comparisons.

First the enormous debt was a boon to some but of course a disaster to the French nation, for in order to service the debt (make the annual interest payment against it) Louis XVI had to borrow more and more money, increasing the debt, and making the lenders who were already holding paper on the debt a bit nervous.

At the time the French were leading the world on ideas on Liberty and though they were governed by a long standing monarchy, they enjoyed rights and privileges not known to their neighbors and only comparable to the newly founded Republic of the United States of America.

Pressure from the Aristocracy mandated increasing taxes to service the debt; but at the time the French people were already over-burdened with taxes of all kinds, and the addition of more taxes would take its toll of more government intolerance and human suffering.

Where the French sense of liberty then and the American new government parted were in the attitudes towards a divine nobility who inherited titles and estates because of their bloodline. While the American colonies despised such privilege, over time we find that whereas the titles of divine favors have passed, the practice of keeping the wealth and power of the nation within a privileged or patrician class seems to have taken healthy root in America. Thus, when we speak of a patrician class or Aristocracy in America we can make a fair comparison to them with the *Old Regime* of the French Aristocracy or the titles of England which continue to this day.

The French Aristocracy were a landed nobility whose titles to offices and estates (and their income) were inherited. Next to them were the Clergy whose Bishops were also of the Aristocracy but whose estates were exempt from taxation as they are in America today. Next to them (together they made up about 500,000 of the population of 23 million) were the balance of the population who were called "The Third Estate." The Third Estate included everyone from the peasants to the Bourgeoisie and the higher ramparts of their class which included merchants, bankers, financiers, etc. Liberty was blossoming in France, following in the wake of the American Revolution, and barriers which in other nations prevented peasants from ever raising above their miserable lot in life were being torn down. As men left their farms to seek their fortunes in the cities of France, many succeeded to the highest levels of the nation and were, in fact, able to purchase titles, and the estates that went with them, from the crown. Louis XVI, sensing the rising conflict between him and the Aristocracy, thought to break down some of the Aristocracies' advantages by giving away titles himself. This, of course, aggravated the Aristocracy since the Old Regime of noble, inherited estates was now being undermined. By granting titles and admitting new entrepreneurs out of the Bourgeoisie into the Aristocracy, rubbing shoulder to shoulder with the nobility as it were, Louis XVI only threw more coals on a fire which because of the Deficit was already becoming overheated.

While the French system of government was different than ours, the problems they faced were functionally the same as we see in America today: first the Deficit, then the reforms to meet the deficit, which meant more taxes, and this was countered with the hue and cry from all sorts of places, previously heard in the American Colonies, *No taxation without representation*! *When the issues of "structural reforms" was raised*, says Lefebvre, *the battle began.*

More taxes, of course, were in the destiny of France; and the Aristocracy, being of a privileged class exempt from many taxes, felt threatened, and sought to turn the issue to taxing the Clergy's estates and, more importantly, adding a value added type of tax which would apply to everyone (sound familiar?). The Third Estate could not handle such a tax since it was unfairly biased towards the poor.

Within the palace, as the nation was coming apart at the seams, the king was a laughingstock among his courtiers (including the Aristocrats — nobles). Queen Marie Antoinette, in fact, was at the but of the rumors, and it seems that she had been flaunting her body around court a bit much and, with the affair of the diamond necklace in 1785, her reputation of being a bit of a whore (Louis XVI's children were said not to be his own!) became sealed.

Having had enough, the Aristocrats initiated petitions of grievances in 1789, formally demanding the drafting of a constitution, the voting of taxes by the Estates-General and the turning over of administration to elected Provincial Estates (as in the old days). Again, individual liberty, freedom of the press, and freedom of conscience were at the head of the list of their grievances. In response, the Third Estate came out with a pamphlet written by Sieyès called, "What is the Third Estate?" This pamphlet gave expression with cold violence to the hatred and scorn inspired in him by the aristocracy, saying:

> “Who would dare to deny that the Third Estate has within itself all that is necessary to constitute a nation...Take away the privileged orders, and the nation is not smaller, but greater.”

At the time, because of the deficit, more pressure was being put on the peasants who then daily faced the tax accessor, knowing that the poorer one was the more he was taxed...Unlike our system — but the results are the same — taxes were farmed by nobles who took a percentage of the taxes they collected (like the Sheriff of Nottingham in the tale of Robin Hood in England). The Tax Farmers maintained granaries, etc., and while they were quite well to do and their granaries were bulging with excess the masses were starving. The trucking of the grains to market further aggravated the masses, for as their hunger-ridden faces watched loaded wagons passing by — some to the King's granary which also was overflowing — they began to riot and raid the wagons. Chasing after these sources, and being chased in turn by a wearying mounted police force (they began to lose heart in clubbing the state's victims and sympathizing themselves with the protests), beggars and the unemployed began to leave their own parishes, became as vagabonds and descended upon the towns. It was estimated that out of the 23 million population, 10 million of them were in need of relief, of whom 3 million were beggars. This is a sketch of the scene just before Bastille Day, July 14, 1789, at the height of harvest when the sun was scorching over the heads of the hapless beggars, when their fury reached its peak. It was time for Revolution to visit France.

Peasant women with their children in tow decided to take their appeal to the king in his palace in Versailles. On the road their menfolk, perhaps out of shame, decided to join the march, then they began to turn their conversation to obtaining arms. They concluded that the best place to raid for arms was the king's armory and prison called the Bastille. They stormed the Bastille on July 14, 1789. After the fall of the Bastille and the release of a few disgruntled prisoners trials were initiated, known as the Reign of Terror, to bring the Aristocracy and Royal family to justice. The Reign of Terror was a period of violence that involved two rival political factions, the Girondins and the Jacobins. It involved mass executions of "enemies of the revolution." The death toll ranged in the tens of thousands, with 16,594 executed by guillotine and another 25,000 summary executions across France.

As the troubled masses fall into the ranks of the wretched of the earth, they begin to protest. A government's aim, in order to maintain its integrity, controls the protest. When protests rage out of control, heads tend to roll, as it were. While rage may be initiated against the minions of the governors, it can escalate leading to deposing those heads that oversee them.

Such can be the consequences of adverse debt.

Mel Copeland

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* This document is extracted from correspondence by the author with Wm. F. Buckley Jr., involving several documents, including, "Against Leviathan," "Immoral Coercion," etc., and http://www.maravot.com/National_Debt.html, August 3, 2011.