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Balanced Budgets and Depressions

SINCE 1791, the earliest data available, the national debt has been increased in 112 years, decreased in 93 years. 57 of those balanced-budget, debt-reduction years have been concentrated in six sustained periods of varying length. Also since 1791, there have been six significant economic depressions among the innumerable "business cycles." Each sustained period of budget-balancing was immediately followed by a significant depression. There are as yet no exceptions to this historical pattern.

This is the record of six depressions:

1. 1817–21: in five years, the national debt was reduced by 29 percent, to $90 million. A depression began in 1819.
2. 1823–36: in 14 years, the debt was reduced by 99.7 percent, to $38,000. A depression began in 1837.
3. 1852–57: in six years, the debt was reduced by 59 percent, to $28.7 million. A depression began in 1857.
4. 1867–73: in seven years, the debt was reduced by 27 percent, to $2.2 billion. A depression began in 1873.
5. 1880–93: in 14 years, the debt was reduced by 57 percent, to $1 billion. A depression began in 1893.
6. 1920–30: in 11 years, the debt was reduced by 36 percent, to $16.2 billion. A depression began in 1929.

There has been no sustained period of budget-balancing since 1920-30, and no new depression, the longest such period in our history.

The question is whether this consistent pattern of *balance the budget-reduce the national debt-have a big depression* is anything other than a set of coincidences. According to economic myths, none of these sequences should have occurred at all. How on earth, for example, could we virtually wipe out the national debt in the mid-1830s, then fall immediately into one of the six recognized collapses in our history? Those who write about the desirability of reducing the national debt frequently praise Andrew Jackson for his vigorous pursuit of such a goal, but do not mention "depression" in the same breath. It is helpful to the maintenance of economic myth to say little about depressions in textbooks, thus making it easy to avoid looking at connections considered impossible anyway.

The mutual finger-pointing now underway is aimed at the 1996 elections, Democrats and Republicans each blaming the other for the agreed disaster of high deficits and debt. Yet the deficits of the 1930s and recent years were trivial, relative to GNP, when compared with the wartime deficits of the 1940s that ended the Great Depression. Federal deficits in World War II ranged from 20 to 31 percent of Gross National Product. For a few years, the national debt was greater than GNP, the only such period in U.S. history.

The national debt is now less than 70 percent of Gross National Product (GNP), much below the 130 percent debt of the late 1940s, and a debt that remained higher than today's debt until the mid-1950s. According to economic myths, that wartime spending should have made things worse, not better.

Those who look closely, therefore, will see some obvious intellectual dishonesty at work. It is dishonest to avoid looking at depressions and wars when discussing the evils of deficits and debt, and to propagandize by using absolute levels of deficits and debt when only *relative* comparisons are valid. It is dishonest to write textbooks in which there is no mention of what Herbert Hoover, Franklin Roosevelt, and noted financier, Bernard Baruch, had to say in the early 1930s about causes of the Great Depression. The belief at that time, even if rejected by economists, was that "overproduction," "excessive" and "destructive" competition were to blame. To be sure, nobody has suggested that government *underspending* can massively contribute to big depressions, even though this is only the flip side of overproduction. Put another way, if the market for consumer goods cannot do the job, there is every reason to turn to the production of *public* goods, always in short supply anyway.

The tragicomedy of economics is easily displayed. If someone borrows money to build a brewery, the money is officially listed as "investment" in national income accounts. If government borrows money to build a bridge that is needed by the brewery, these funds are *not* listed as "investment" because the bridge is considered "waste." To think that this sort of logic undergirds public policy is to experience pure fright. Economics, of course, is not the only "discipline" that fills the world with unsupportable myth, but it is among the leaders.

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