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Congress Back Then: America, the Debtless



by K. Daniel Glover
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Talk of a balanced budget, and perhaps one in the black, would have been pure fantasy as recently as fiscal 1992, when the annual federal deficit hit $290 billion. Even now, with budget "surpluses" of $69 billion and $124 billion the past two fiscal years and expectations of larger overflows to come, it seems premature to ponder a national life of budgetary bliss when the debt is at $5.74 trillion and climbing.

That said, imagine an America free of public debt. Assume that President Clinton was right to predict in his Jan. 27 State of the Union address that with a little fiscal discipline, "we can pay down the debt entirely in just 13 years." How would that circumstance alter the political and policy realities in Washington? And how long would the luxury of governing in a debt-free world last?

While it is impossible to answer such questions with any certainty, America's history may offer some clues. Only once -- during the second term of President Andrew Jackson in the 1830s -- has the nation balanced its books and had to decide how to dispose of true budget surpluses.



Andrew Jackson

Extinguishing the 'national curse'

Jackson deserves much of the credit for helping America achieve what he, in his Dec. 3, 1833, annual address to Congress, anticipated would be "the rare blessing of a revenue sufficiently abundant." Eliminating the national debt ranked high among Jackson's goals as early as his unsuccessful 1824 presidential bid.

In that campaign, Jackson called the debt, which had climbed from a low of $45.2 million in 1811 to a record $127.3 million after a second war with Britain, "a national curse." He vowed to pay the debt "to prevent a monied aristocracy from growing up around our administration that must bend to its views, and ultimately destroy the liberty of our country." And when he won the presidency in 1828, Jackson made debt "extinguishment" a core principle of his agenda of "reform retrenchment and economy."

A president remembered for his unprecedented use of the veto, Jackson constantly reinforced to Congress his desire for a debt-free America. In virtually every address to lawmakers, he lectured them about the need for fiscal discipline. And he sent perhaps his strongest message with a string of vetoes in 1830.

Near the end of its session in May that year, Congress sent Jackson several bills to fund "purely local" projects like the Washington Turnpike, lighthouses, beacons and other "internal improvements." The bills, Jackson biographer Robert V. Remini wrote, "drove Jackson into a genuine fit of anger" because of the $1-million price tag and because Congress "knew the Treasury was exhausted by former appropriations." Jackson vetoed four bills, including one by pocket veto.

The most significant veto, on May 27, 1830, was of a bill to extend the existing National Road exclusively within Kentucky. Jackson complained that budgetary reform "is the cry from Maine to Louisiana, and instead of these, the great object of Congress, it would seem, is to make mine one of the most extravagant administrations since the commencement of government. This must not be."

Jackson said Americans deserved a "prudent system of expenditure" and a government that would "pay the debts of the Union and authorize the reduction of every tax to be as low a point as ... our national safety and independence will allow."

John Randolph of Roanoke -- then a former House and Senate member and budget hawk who once proclaimed on the House floor that "I have discovered the philosopher's stone. It is this, sir: Pay as you go! Pay as you go!" -- was among those to praise Jackson for his veto. He said it "fell upon the ears" of "true believers" of fiscal restraint "like the music of other days."

Challenges of an 'overflowing treasury'

Jackson's vision of a debt-free government soon became reality. In his December 1834 annual address to Congress, he boasted that the debt would be extinguished by Jan. 1, 1835, that the government would be $440,000 in the black to start the year, and that surpluses would continue to climb.

Jackson again lectured lawmakers on the need for "simplicity" in government and "rigid economy" in its administration, principles that he said should be considered "fundamental and sacred." And he warned of the dangers of the "taxing power," reminding lawmakers of the tariff-related nullification controversy that nearly had fractured the union a few years earlier. But he also celebrated the budgetary milestone.

"Free from public debt, at peace with all the world, and with no complicated interests to consult in our intercourse with foreign powers," Jackson wrote to Congress, "the present may be hailed as the epoch in our history the most favorable for the settlement of those principles in our domestic policy which shall be best calculated to give stability to our republic and secure the blessings of freedom to our citizens."

Democrats praised their leader in a Jan. 8, 1835, banquet at Brown's Hotel in Washington, an event Jackson refused to attend because he did not want personal glorification. "The national debt is paid!" Sen.

Thomas Hart Benton exclaimed. "And the apparition, so long unseen on earth, a great nation without a national debt, stands revealed to the astonished vision of a wondering world!"

But the celebration, along with the stability Jackson had hoped would come with payment of the debt, soon ended. Millions of dollars in surpluses that for years had gone to pay the debt and interest on it became a governmental stockpile of $36 million within a year of the debt's elimination.

Congress fretted about what to do with the money. Rep. James McKay (D-NC) repeatedly forced the House to vote on a resolution that would have declared excess tax collection to be "a manifest breach of trust, and to the people unjust and oppressive." Lawmakers pondered tariff reductions but worried that the substantial reductions already set for 1842 would force them to hike duties later if the economy worsened. They considered returning money directly to the people but did not know how to do so equitably -- or legally.

Even Jackson changed his tune somewhat about what he had called the "state of enviable prosperity." By the time he delivered his December 1836 annual address, he considered the "unnecessary accumulation of public revenue" to be an evil "equally great" as the national debt. He said the "overflowing treasury" had produced "dangerous extensions and ruinous contractions, fluctuations in the price of property, rash speculation, idleness, extravagance and a deterioration of morals."

The down side of debt reduction

In June 1836, Congress voted to return the surpluses to the people indirectly by distributing them to the states for internal improvements -- an approach that raised numerous constitutional questions to Jackson's mind but that he nonetheless approved. The president, meanwhile, took action of his own. Disturbed by the "wild speculation" in public lands, an unexpected revenue stream, Jackson signed an executive order forcing speculators to buy land only with gold and silver rather than the more abundant paper notes issued by a banking system that Jackson distrusted.

His much-maligned Specie Circular backfired, however. Within weeks of Jackson's departure from office in March 1837, land prices had fallen because of the demand for "real money" in transactions, and banks then had defaulted on loans backed by devalued land. Banks also had begun distributing the government surplus to the states, further constricting the money supply.

The end result: Wall Street endured its first great crash in April 1837, and the economy plunged into one of its worst depressions. Government revenue declined by more than half within a year. By 1843, the national debt had jumped back to $32 million.

In his State of the Union address a few weeks ago, Clinton urged Congress to walk the path of debt reduction in hopes of making "America debt-free for the first time since Andrew Jackson was

president in 1835." But before today's policymakers blindly walk that path, they might want to take a closer look at what happened to Jackson's America in 1837 and why.

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Related Links

The American Presidency page includes key addresses from Jackson and all the presidents. The Bureau of the Public Debt enables Web users to check what the daily debt was at any point during the last seven years. Read more about the Specie Circular or the Panic of 1837.



Is today's debt a "national curse"? Should the government ever collect more revenue than it needs, and if it does so accidentally, what should be done? Did Jackson's monetary policies cause the Panic of 1837?

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2/28/00 4:54:48 PM JWJones
Dana: I'm currently reading The Rise and Fall of the American Whig Party by Michael F. Holt. Much of the ground you covered is dealt with in detail in this 1,200-page work. Have you read it, too?

2/28/00 6:38:44 PM Dana Blankenhorn dana@clickz.com
Mr. Jones: Thanks so much for the reference. Unfortunately, I wasn't familiar with that book. But here's the Internet way of saying it. Have you read "The Rise and Fall of the American Whig Party?" (http://www.amazon.com/exec/obidos/ASIN/0195055446/acluecom). That last bit is a hyperlink, and if someone cuts it, pastes it into their browser, and immediately orders said tome, I get a cut, since the link references my own "affiliate marketing" relationship with Amazon. (Amazon now claims a patent on "affiliate marketing," but that's another story we'll talk about another time....) Thanks again.

2/28/00 9:44:24 PM Zarathustra
The Whig Party fell, because they got tired of calling themselves wigs. Just kidding. (:-D)

2/28/00 11:48:32 PM Robert
There's one problem with arguing over the debt: We are still in a deficit! If you follow the link from the article to the Office of Public Debt's webpage, you'll discover a fact that the politicians are trying to ignore, namely that the national debt continues to rise even while we have a "surplus".Our debt as of Friday was $5.748 trillion. It was $5.656 trillion at the end of the last fiscal year (9/30/99), and $5.526 trillion the end of the fiscal year before that... Maybe I really did poorly in math, but that looks like the numbers are going UP...Where do they get a "surplus" from? The politicians are figuring in the revenues from Social Security (which we are told is collected to finance our retirements). The extra revenue from SS is used to "finance" Treasury Securities (i.e. Congress borrows it and promises it'll be repaid, *wink*wink*nudge*nudge*).Currently the Treasury Department is issuing less new bonds, T-bills and treasury notes than it is redeeming. This is because the Social Security surplus is covering the rest of what is needed. The politicians are all racing to proclaim a surplus and spend it, either on pet projects or to outright buy votes via tax cuts.But in a few years Social Security will be in the red. At that point we will still owe some debt to other parties, but now the Social Security office is going to go to Congress and want some of the trillions that it "invested" in Treasury Securities back to pay out to the retirees.