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THE ECONOMIC EFFECTS OF PUBLIC DEBTS

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BY
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PREFACE

A DEBT of an individual is, in the ordinary sense, his obligation to pay in the future what he borrows in the present. Similarly, a public debt is a state's obligation to pay in the future what it borrows now. Thus considered, there appears to be no fundamental difference in nature between these two sorts of debt; but in truth there are several important differences between them. In the first place, unlike a private person, a state can coerce its people to lend, as it does when it issues paper money. This is known in public finance as "forced loan". There is also the corollary that, unlike a private debtor, a state can repudiate its obligations. These differences arise from the sovereign nature of a state.¹ However, as the states become more and more democratic, and as the commercial spirit becomes even more powerful, these differences tend to become more and more potential rather than actual. In other words, the important modern states tend to conform in their debt treatment to private commercial rules. Only in times of emergencies do states deviate from this course.

In the second place, the purposes for which a state borrows may be quite intangible, and may not admit of measurable benefits, while we know that a normal private debt is incurred for the purpose of some enterprise which will yield the profit to pay the interest. Ordinarily, therefore, a mutual benefit is involved in a private borrowing. This is often not the case with a public borrowing. To quote Professor Daniels,

The payment of interest by the state to its bond-holders often,

¹ See H. C. Adams, *Science of Finance*, p. 520.

though not always, connotes, not a public benefit, but a public sacrifice. The state may be paying its creditors interest upon a loan of capital where the actual capital borrowed was destroyed years ago in prosecuting a war, or wasted outright in some industrial venture.¹

Thus, the effect produced by a state's fulfilment of its debt obligations may be very different from that of an individual's.

Public debts as thus far described are mainly of two kinds: forced loans and public bonds. They are further divisible into treasury notes, legal-tender notes, short-term bonds, "perpetual" bonds, etc. It is the purpose of this dissertation to trace, as far as possible, the economic effects of the creation of these various forms of obligations, and of the various uses to which their proceeds are put. In any analysis of economic phenomena it is impossible to make any generalization or to draw any general conclusion without making some sort of an assumption. In the following pages, whenever any definite statement is made without express assumptions, it is implicitly based upon our economic phrase "other things being equal."

From ancient times the question of public debts has always been a thorny one; but never before in the history of nations has the subject been so important and so delicate as at present. The great World War of 1914-1918 played such untold havoc with the finances of the belligerent nations that they are still prostrated and are groaning under colossal debts. Recently in connection with the debt-settlement proposals of the United States to Great Britain and France, the question of public debts has become the pivotal point upon which turns international amity or discord. But the most important point of interest in our present subject is the

¹ W. M. Daniels, *Elements of Public Finance*, pp. 291-292.

tremendous economic effects of these heavy debts on the nations of the world for years to come. Since the purpose of this dissertation is in the main to make a theoretical analysis of the economic effects of public debts, we shall not deal in particular with the contemporary problems of public debts. We shall, however, as occasion may arise, touch upon a few of the problems of the time by way of illustration.

Due to many difficulties in obtaining rare historical books which were necessary to investigate for the writing of Chapter I, I am deeply indebted to the librarians of Columbia University Library and of New York City Library. But my greatest acknowledgment is due my teacher, Professor Edwin R. A. Seligman, who has first suggested the subject of this dissertation. Without his constant criticisms, helpful suggestions and untiring guidance, to say nothing of his allowing me to get access to his private library, this work would not have been completed. I am also very much indebted to Mr. Carl S. Shoup who has kindly read the entire manuscript and made helpful suggestions. My acknowledgment is due Mrs. C. A. Stewart of the Economics Department of Columbia University for the aid offered me in more ways than one in the course of the preparation of this dissertation. For the preparation of the last chapter, I am deeply indebted to Mr. Andrew Keogh of the Yale University Library, who has kindly allowed me while in New Haven to get access to the University Library. I am also indebted to Miss Anne G. Seery of West Haven for the final painstaking typing of the manuscript.

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