



Written by [Bob Adelman](#) on November 2, 2011

On Halloween, Nat'l Debt Exceeds Gross Domestic Product

Presidential candidate Ron Paul's campaign manager, John Tate, noted the passing of the milestone:

We can no longer afford politicians who play games with America's future. As President, Ron Paul will treat the American people with the respect they deserve by being honest about our nation's situation and implementing fundamental reforms to return America to prosperity.



A closer look at the [USDebtClock.org](#) website reveals the size of the problem facing Paul if he wins the White House: U.S. federal revenues are running at \$2.3 trillion while government spending is at \$3.6 trillion, leaving a deficit just for the fiscal year 2011 at \$1.3 trillion. If those levels hold for the next 12 months, the national debt will be at \$16.3 trillion, and counting. But this is far from the entire picture. Unfunded liabilities facing the government in Social Security alone amount to \$15.3 trillion while Medicare and the prescription drug programs' liabilities exceed \$100 trillion.

Few see opportunity for cuts to government spending large enough to make a difference. Even if the Supercommittee is able to come up with the promised savings of \$1.5 trillion, the spending cuts will be spread over the next eight to 10 years, amounting to essentially a rounding error in the big picture. If Paul's run for President is successful, however, even his plan to cut government spending in his first year by one trillion dollars will still leave a deficit approaching \$500 billion, with no chance to create the surpluses necessary to begin to pay down the national debt.

Observers such as professor Murray Rothbard have another idea: [Repudiate the national debt altogether](#). He reminded his readers that "repudiation of public debt is a solid part of American tradition. The first wave of repudiation of state debt came during the 1840s after the panics of 1837 and 1839." Rothbard explained,

Those panics were the consequence of a massive inflationary boom fueled by the Whig-run Second Bank of the United States. Riding the wave of inflationary credit, numerous state governments, largely those run by the Whigs, floated an enormous amount of debt, most of which went into wasteful public works (euphemistically called "internal improvements"), and into the creation of inflationary banks. Outstanding public debt by state governments rose from \$26 million to \$170 million during the decade of the 1830's....



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Of the 28 American states in the 1840s, nine were in the glorious position of having no public debt, and one (Missouri's) was negligible; of the 18 remaining, nine paid the interest on their public debt without interruption, while another nine (Maryland, Pennsylvania, Indiana, Illinois, Michigan, Arkansas, Louisiana, Mississippi, and Florida) repudiated part or all of their liabilities. Of these states, four defaulted for several years in their interest payments, whereas the other five (Michigan, Mississippi, Arkansas, Louisiana, and Florida) totally and permanently repudiated their entire outstanding public debt. As in every debt repudiation, the result was to lift a great burden from the backs of the taxpayers in the defaulting and repudiating states.

While Rothbard goes on to make a convincing case for repudiation, it takes only a further glance at the USDebtClock.org website to see that in fact repudiation is taking place right now. Under the section entitled "Money Creation" the M2 money supply, treasury securities, and currency and credit derivatives are all increasing moment by moment. As students of classical economics know, when money is created out of nothing, each piece of the total money stock becomes worth less. And so by the steady erosion of purchasing power through the creation of new money, repudiation of those future promises is occurring right now. Over time that process devalues each of the promises made by the government, often done so slowly and surreptitiously that most beneficiaries aren't even aware of it. But repudiation it is.

Barring a sudden miraculous explosion of growth in the economy and an equally robust growth in the character, understanding, and commitment to follow the Constitution on the part of Washington's politicians, the distance between the growth in the economy and that of the national debt will continue to widen. [As Herbert Stein observed](#), "If something cannot continue forever, it will stop." And when it stops, it will result in the inevitable repudiation of promises that can't be kept.

Correction: As originally published this article incorrectly stated that the U.S. national debt exceeded the Gross Domestic Product for the first time in history. It has been corrected to say that the national debt exceeded the GDP for the first time since World War II.

Photo of so-called Supercommittee: AP Images



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