More Cheering Facts

We also have much more ready cash now than in 1929. Today individuals and corporations hold a total of $269 billion in cash or its equivalent which is almost twice as much as the portion of private short-term debt (about $140 billion) that is subject to sudden demand for payment.

Many students of the subject cite the relatively low cost of carrying our debts and the large volume of cash on hand, and reach the comfortable conclusion that our debt burden is nothing to worry about. In further support of this view they emphasize the fact that no important part of our debt is owed abroad. Hence, they reason there is not the danger, so conspicuous in Britain since the end of World War II, that our economy will be upset by the necessity of making heavy debt payments to other countries.

Some Dangers of Present Debt

However, the nature of our debts presents dangers that it would be foolish to ignore. This is true of both the debt of $267 billion owed by the federal government to its citizens and the $330 billion in private debts owed by some citizens and corporations to others.

Public debt can be a dangerous kind of debt because government has the power to print money or to create its equivalent by expanding bank credit. Of the $215 billion that the federal government borrowed during World War II, over $90 billion was borrowed from banks. This was the largest single contributor to the inflation of prices that since the war has robbed the dollar of about half of its purchasing power, and thereby robbed the buyers of government bonds of about half the purchasing power these bonds were supposed to represent.

If, as is quite possible, a new emergency should again require the federal government to borrow heavily while its debt remains so high, it is doubtful that the public would be avid to buy its bonds. Hence, the government might again be forced to resort to the inflationary process of relying on bank credit.

Private debts can be dangerous if the people take on new debts more rapidly than justified by the growth of business or by the ability to repay. Last year bank loans were increased by the imposing sum of about $6 billion, which represents an increase of about 11% in total loans outstanding. This is almost twice as much as the increase in the volume of business over the same period. Installment credit for consumers increased by $3 billion last year, again an increase in debt, about twice as great as the increase in business volume in the fields where the credit was used. It is also the fastest rate of such growth in our history.

Constructive Use of Credit

So long as the expansion of credit does no more than keep pace with expansion in the volume of business, the expansion is constructive. Also, when credit is expanded to acquire resources and equipment that will enlarge the volume of business a little later, that use is clearly constructive. But when private credit expansion begins to run ahead of business growth, it is time for us to be heads up. Such credit expansion courts price inflation. It also creates a forced draft under business so that if credit is cut off, there may be a painful drop.

To give a summary answer to the question: *Is the level of debt in the United States a danger to our prosperity?* – the answer seems to be, "Not at the moment." We owe nothing abroad. The interest burden on present debt is relatively small, and we appear to have the resources to handle the short-term debt. Yet both the total amount of debt and the recent rapid increase in total private debt, especially the latter, are enough to signal for caution. We need restraint on the part of business and consumers to avoid expanding private borrowing at an excessive rate. The federal debt needs to be reduced and put in more manageable form. If these things are done, we can proceed to build a sound prosperity.

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