How does war affect the united states national debt and economy

Since the establishment of the colonies, that later became the United States, we have experienced the various influences that war has had on the national debt, economy, and more importantly, on individual lives. Before, national debt could be paid out gradually, it now increases with every second and is $12. 4 trillion and rising. The effects can be clearly seen throughout American history, especially in times of war. The national debt is monitored by the U. S. treasury and its financial departments. It is predominantly made up of corporate and government stocks and bonds, T-bills, and notes, which are also referred to as securities. The trading of securities to raise money for infrastructures, developments, benefit programs, and also for the purpose of financing the wars that we can recall, such as the Revolutionary War, the Civil War, and World Wars I and II, has brought us through periods of economic boom and depression, during and following these wars.

War bonds were the main securities issued by the government to pay for military operations. War bonds raise capital for the government and make the general population feel involved for a national and a military cause. This system was useful as a means of controlling inflation, which is an increase in the supplies of money in the marketplace relative to its demand, especially in a wartime overstimulated economy by removing the money from its circulation until the war is over. The government issues war bonds that have a yield which is the interest payment on the bond sold that is often below the value of many bonds found in the marketplace, which made it attractive and affordable to all citizens.

The Revolutionary War began as colonists protested the high taxes that colonial Britain imposed on the colonies and the profits they amassed through the practice of mercantilism without fair share. Once the war began, the British blocked the seas that interrupted trade and made goods more expensive. Further, inflation occurred as the Continental government continued to print currency, backed only by the guarantee of Congress and the States behind it. Congress also funded the war with loans from Britain's competitors, such as France, the Netherlands, and Spain to purchase arms and supplies. The continental government also used domestic sources by selling bonds to individuals at a low and competitive interest rate. People such as Robert Morris and Haym Salomon took money out of their personal funds to finance the revolutionary effort as a form of patriotism. When the colonies won the war, high taxes and other limits on trade and industry ended. The new Americans could build new industries and expand in the West. Britain was no longer a trade partner with the new country, agricultural prices fell, and there were high unemployment rates. The war ended with the U. S. accumulating $37 million of debt on the national level and the value of the dollar quickly declined as a result of inflation. These problems were later solved when Alexander Hamilton established the First Bank of the United States. The First Bank unified the nation by creating a national bank instead of separate ones for each colony, ran an excise tax which taxed imported goods, and established financial order in the United States and credit for itself within the country and overseas. The Bank would be prohibited from purchasing government bonds and issuing notes beyond its supply of capital.

Before and during the Civil War, the North and South had their own reliable industries. The North was home to many factories which produced manufactured goods such as guns, bullets, cannons, boots, and uniforms. It had four times as many free citizens than the South. More than 70% of the country’s rail lines ran throughout the North. They even benefited from a strong navy and fleet of ships. The South was underdeveloped in its industry and had several economic weaknesses, such as financial and political problems and few forms of transportation. They also had a small population of about 9 million citizens, therefore, fewer soldiers to prepare for the war. Nevertheless, the South maintained strong agriculture, cotton mills and textiles products. Much of the success they gained was built on the labor of slaves. The two sides had many disagreements and threats to leave the Union ultimately led to the Civil War.

Despite advantages in the war, the North needed money. They issued a massive bond measure asking its citizens and financial institutions to purchase bonds to support the war. This effort did not raise the capital needed, so the government started to print paper money, which were called “ greenbacks.” They were backed by gold and later bonds which the government guaranteed. The increase of greenbacks in the economy caused inflation to rise and was worth as much as a third less than its intrinsic value. The government, as a means to stabilize the rapid rise of inflation, raised the interest rate and made everyone accept it for goods and services, or “ legal tender for all debts public and private,” as stated by the Department of Treasury ustreas. gov. The government also introduced its first income tax in 1862 to find more ways of gathering money and established the Bureau of Internal Revenue, later known as the IRS. The Union never dealt with an inflation rate of more than 80%.

The South was even more desperate for money as its trade was cut off by the North and its banking system lost. They resorted to printing more money which was backed by their low reserves of gold. The South could not collect taxes because it was forbidden in its Confederate Constitution. The Confederacy was on the verge of bankruptcy and in 1864 it levied its first income tax. Nevertheless, the damage was already done with too much supply of money in the market and high inflation rates rose to as much as 9, 000%. The South could not manage its short supply of food and ammunition, thus, many of its citizens starved. Robert E. Lee, Confederate general, realized this and withdrew from the war by surrendering for the Confederacy. During the Civil War, the national debt was $65 million in 1860 and surpassed $1 billion in 1863. This amount gradually decreased after the end of the war.

Before World War I began, the United States was in recession. During the war, the United States became involved, and its economy thrived on trade with Europeans producing war goods, and maintaining a neutral status that strengthened their economy. The U. S. entered the war three years later as a result of instigation from the Central Powers, threats to trade with their allies, and a sense of separation in the United States as of whether to be involved in the war. Entering the war in 1917 advanced our total debt to about $22 billion and increased federal spending to a total that would later amount to $112 billion; however, the U. S. enjoyed many benefits such as its competitive position in the world, agricultural boom, profit for many companies, and a decrease in the unemployment rate. Its success led the way for abundance in the Roaring 20's. For example, new technologies such as mass production automobiles, moving pictures, and radios became an indispensable part of American homes.

The Great Depression of the early 1930’s devastated our country and even the world. It caused personal incomes, tax revenue, profits, and prices to drop and international trade plunged by 50% to 65%. The recovery from this economic depression was caused by World War II. It tremendously boosted the U. S. economy as we began to produce weapons, uniforms, and other supplies for war. It created jobs and increased wages throughout society. Much of our production was shipped overseas. Americans soon spent their money on things such as newspapers, movies, and entertainment. The War Advertising Council was formed and held more than 100 campaigns to sell war bonds, donate blood, conserve food, and enroll enlisters. Involvement in World War II and social programs during the presidencies of Franklin Roosevelt and Truman caused a sixteenfold increase in the total war debt, amounting from $16 billion in 1930 to $260 billion in 1950.

In conclusion, we can see the effect that money supply and war have on the United States national debt. It has caused dramatic decline and exponential growth in the economy during and following wartime. We have seen the effects of inflation and the outcome of the many battles from the Revolutionary War to the Civil War to our great World Wars. The national debt is a concern not only to the government, but also to its citizens. When the government debts increase, they use taxpayers’ money to handle the increasing costs in the economy. Some consequences are higher individual taxes, reduced benefits and programs, higher interest rates, and a weak dollar, which ultimately reduces the individual purchasing power and increases inflation.