

Market Commentary

“A national debt, if it is not excessive, will be to us a national blessing.”

- Alexander Hamilton writing to Robert Morris, 1781.

Alexander Hamilton took office as our first Secretary of the Treasury on September 11, 1789. On January 9, 1790, he delivered “[First Report on the Public Credit](#)” (we highly recommend reading) to Congress. In his report, Hamilton focuses on the importance of sound government credit and discusses how prudent public debt can be used as a source of capital, as a backing for legal tender, and to promote a cycle of economic prosperity.

While he faced great opposition to his ideas, his financial brilliance was matched by his administrative ability. He was able to compromise effectively with his opponents and successfully set up the administrative apparatus necessary to execute his plan. It was the unusual combination of ideas and execution that made Hamilton so unique. The US has been the beneficiary of his talent stack for the last 235 years.

As of July 1, 2024, our federal debt equals \$34 trillion and is at 97% of GDP, an all-time high. Despite widespread economic prosperity, annual budget deficits continue at levels only previously seen during severe crisis periods. Last year, we spent \$658 billion on net interest costs servicing the debt, a 38% increase from 2022. Paying interest on our debt is currently our second-largest line item in the federal budget and is expected to become the largest by 2051.

“A national debt, *if it is not excessive*, will be to us a national blessing.” An excessive national debt is a burden, not a blessing. An excessive national debt leads to higher interest rates, higher inflation, higher taxes, a crowding out of private investment, and lower overall economic growth. It also inhibits our ability to respond to a true crisis. We are objectively on an unsustainable path and seem to be lacking serious conversations in DC about what it will take to shift course.

As investors, the federal fiscal outlook has risen to one of the top issues we’re concerned about. A solution will almost certainly involve cutting entitlement (Social Security and Medicare) benefits for some recipients, increasing some taxes, and reducing some spending. Whoever is bold enough to propose such a package will need Hamilton’s intellectual and administrative abilities to succeed.

It took Hamilton 110 days to develop the financial foundations that would support the US in becoming the greatest economic powerhouse in the history of the world. We have 120 days until the presidential election. It’s time for policymakers to get serious about the issue. Our fiscal problems today are not more challenging than they were in 1789 and the necessary actions to put us on a sustainable fiscal path will be far less painful than the eventual debt crisis if we don’t.

This week's contributor is Michael Crook, CAIA.

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