Debt Has Always Been the Ruin of Great Powers. Is the U.S. Next?

From Habsburg Spain to Trump's America, there's no escaping the consequences of spending more on interest payments than on defense.

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Is that the heady scent of hubris, wafting through the winter air of Washington, D.C.? So bold has President Trump been in the first month of his second term that nervous Europeans wonder if the American republic is now unabashedly an empire. Trump renames seas. He reclaims canals. He demands Greenland. He trolls Canada. His proposal for peace in Gaza is wholesale resettlement of its population. His plan for peace in Ukraine begins to look a lot like partition.

In the ancient Hellenic world, hubris was the kind of pride or arrogance that led a mortal to defy the gods. But hard on its heels there usually came Nemesis, the goddess of divine retribution. The historian prefers to exclude deities from his narrative. He discerns the more prosaic operation of budgetary constraints. For it is these, not gods, that set limits on the geopolitical ambitions of republics and empires alike.

What I call Ferguson's Law states that any great power that spends more on debt service than on defense risks ceasing to be a great power. The insight is not mine but originates with the Scottish political theorist Adam Ferguson, whose "Essay on the History of Civil Society" (1767) brilliantly identified the perils of excessive public debt.

Ferguson understood what modern economists call the "tax-smoothing" properties of public debt: By borrowing to pay for a war or some other emergency, a government can spread the cost over multiple generations of taxpayers. But he also saw the catch. "The growing burden," he observed, is "gradually laid," and though a nation may "sink in some future age, every minister hopes it may still keep afloat in his own." For this reason, public debt is "extremely dangerous…in the hands of a precipitant and ambitious administration."

His conclusion was prophetic: "An expense, whether sustained at home or abroad, whether a waste of the present, or an anticipation of future, revenue, if it bring no proper return, is to be reckoned among the causes of national ruin."

Economists have long sought in vain a threshold that defines how much debt is too much. My own formulation of Adam Ferguson's idea focuses our attention on the crucial historical relationship between debt service (interest plus the repayment of principal) and national security (expenditure on defense, including investment in research and development).

The crucial threshold is the point where debt service exceeds defense spending, after which the centripetal forces of the aggregate debt burden tend to pull apart the geopolitical grip of a great power, leaving it vulnerable to military challenge.

The striking thing is that, for the first time in nearly a century, the U.S. began violating Ferguson's Law last year. Annual defense spending—to be precise, national defense consumption expenditures and gross investment—was $1.107 trillion in 2024, according to the Bureau of Economic Analysis (BEA), while federal expenditure on interest payments (the government long ago gave up on paying down principal) topped out at $1.124 trillion.

These outlays can also be expressed as percentages of gross domestic product. The Congressional Budget Office (CBO), which uses a narrower definition of defense spending than the BEA, places it at 2.9% of GDP for last year. Net interest payments (adjusting for the interest received by bonds held by government agencies) amounted to 3.1%.

We have seen nothing like this since the era of isolationism. Between 1962 and 1989, U.S. defense spending averaged 6.4% of GDP; debt service was less than a third of that at 1.8%. Even after the end of the Cold War, the federal government was still spending, on average, roughly twice as much on national security as on interest on the debt.

The fact that the U.S. is currently projected to spend a rising share of its GDP on interest payments and a falling share on defense means that American power is much more fiscally constrained than most people realize. By 2049, according to the CBO's latest long-term budget projection, net interest payments on the federal debt will have risen to 4.9% of GDP. If defense spending maintains its recent share of discretionary spending, it will amount to half that share of GDP.

Nor is there any real possibility that defense spending will increase dramatically. Because such spending is discretionary, it has to be appropriated by Congress every year, unlike spending on entitlement programs (which is mandatory) and interest payments (nonpayment of which would be default). If anything, budgetary constraints are likely to put downward pressure on defense spending in the decades ahead.

Empires Crippled by Debt

Ferguson's Law—that it is dangerous for a great power to spend more on debt service than on defense—is borne out by history.

In the 16th century, the Habsburg kings of Castile reigned over the first truly global empire. Revenues from American silver mines were crucial to financing Spain's expansive military endeavors. Charles V and Philip II also enjoyed substantial tax revenues from their Castilian subjects.

But with every passing decade, the Spanish empire relied more on borrowing. It issued *juros*, long-term bonds held mostly by the Castilian elite. It also raised funds by selling *asientos*, short-term IOUs, to bankers in Genoa and elsewhere.

The system was stable until 1600, when Spain began to illustrate Adam Ferguson's point. The total stock of *juros* grew by a factor of 3.4 between 1594 and 1687, at a time when the revenues of the crown stagnated. Payments on the *juros* went from absorbing half of Spanish revenue in 1667 to 87% just 20 years later. As Philip IV told the Council of the Indies even earlier, in 1639, "I recognize that the introduction of the *juros* has caused the enormous ruin we experience."

Between 1607 and 1662, the Spanish crown defaulted on part of its debt five times. Not coincidentally, the growth in per capita GDP that had characterized the "Golden Age" of the 16th century was followed by contraction in the 17th century. This in turn reduced the crown's tax revenues.

The geopolitical repercussions were unavoidable. In 1640 Portugal regained its independence after 60 years of dynastic union. The Peace of Westphalia in 1648 marked the formal recognition of Dutch independence and the effective end of Spain's predominance in Europe. The Treaty of the Pyrenees in 1659 further underscored its diminished status, as Spain ceded territory to France.

Perhaps the most familiar case of a great power succumbing to fiscal constraints is that of Bourbon France in its contest with Hanoverian Britain in the late 18th century. Of all the great powers, France had the greatest difficulty in evolving a stable system of public debt management. There was no central bank that could issue banknotes. There was no liquid bond market where government debt could be bought and sold. The tax system had in large measure been privatized. Instead of selling bonds, the French crown sold offices, creating a bloated public payroll. London, by contrast, established not only a central bank and a relatively efficient tax system but also a thriving bond market.

French intervention in support of the American colonists, culminating at Yorktown in 1781, may have appeared a strategic masterstroke. But the fiscal consequences took Louis XVI's government far beyond the limits of Ferguson's Law. In 1780, debt service absorbed two-fifths of total expenditure, the war department just a quarter. By 1788, debt service rose above half of total expenditure.

The history of the 19th century furnishes further examples: the Ottoman Empire, Austria-Hungary, Tsarist Russia. But the best example of all—and the one from which Americans have the most to learn—is that of Great Britain.

The Economics of Appeasement

On three occasions in its history, major wars against continental rivals (first France between 1792 and 1815 and then Germany twice in the 20th century) drove the British national debt above 150% of GDP. At times, despite the breadth and depth of the U.K. bond market, this led to violations of Ferguson's Law, for example in the 1820s and again in the 1870s.

But the general trend in the 19th century was for the costs of debt service to decline, thanks to the productivity gains of the Industrial Revolution and the peacetime surpluses run by Victorian chancellors of the exchequer. This left room for the rearmament that ensured Britannia ruled the waves, as well as for the largest land empire in history. Unfortunately, because Britain's army remained small by continental standards, by 1914 London could not prevent Germany from launching its first bid for mastery in Europe.

In the wake of World War I, debt service exceeded military spending every year from 1920 to 1936. It was this breach of Ferguson's Law, much more than any trust or sympathy toward Adolf Hitler, that inspired the policy of "appeasement." Of paramount importance to the Treasury was the concern that higher spending on armaments would jeopardize Britain's precarious recovery from the Great Depression.

In seeking to appease Hitler, British Prime Minister Neville Chamberlain failed, of course, to deter him and his confederates from launching another world war. Despite the fact that U.K. defense spending rose above debt service in 1937, the signal was not sufficiently strong to dissuade Hitler from invading Poland, even when accompanied by an explicit pledge of support for Poland in the event of a threat to its independence. The most that belated rearmament was able to achieve was to ensure that the British military survived the retreat from Dunkirk and won the Battle of Britain.

Another world war left Britain with another mountain of debt. In the decades after 1945, Britain relied much more on unanticipated inflation than on productivity growth to keep the costs of debt service below the costs of defense.

The British case illustrates that defying Ferguson's Law need not doom a great power to swift decline. Britain crossed the limit in three periods after the mid 19th century, but in each case it was able to cross back. Decline inexorably came, as inflation and low productivity growth forced successive governments to give up colonies and shrink the armed services. Still, the United Kingdom avoided defeat and immediate dissolution—the fate of many another great power.

Warning Signs for the U.S.

What are the implications for America today? Geopolitically, the U.S. finds itself in a situation comparable with that of Britain in the 1930s. Its military commitments are global, as has been true since 1945, and it confronts a new axis of authoritarian powers.

Yet America's fiscal position is far more constrained today than ever before. The U.S. government is now in violation of Ferguson's Law and is likely to move further beyond its crucial limit in the coming decades.

Can the U.S., like Victorian and interwar Britain, find a way back? Can it do even better, successfully deterring its foes—as Britain failed to deter Germany—and averting the possibility of a ruinous World War III? Or is America doomed to follow Habsburg Spain, the Ottoman Empire, Bourbon France and Austria-Hungary down the path of default, depreciation and imperial decline—even revolution?

There are four important differences between Britain in the 1930s and the U.S. in the 2020s, and all of them work to America's disadvantage. First, the term structure of U.S. debt is shorter, making it more sensitive to changes in interest rates. That makes it inherently harder to "inflate debt away" like the U.K. after World War II. Second, much more of it is in the hands of foreign investors. Third, the trend of real interest rates in the U.S. seems less likely to be downward than it was in 1930s Britain.

Whereas British real interest rates fell in the Depression, in America they are currently projected by the CBO to rise from 1.7% in 2024 to 1.9% in 2026, declining slightly to 1.8% in 2034. The real growth rate of the economy is projected to be almost identical. In this scenario, America's debt will cost more to service in the period 2025-2035 than it did in 2015-2025, when the average real rate was 0.3%, especially because the stock of debt will continue to grow.

Finally, the U.S. today is encumbered with an expensive welfare system designed for a society with a higher fertility rate and lower life expectancy. Entitlement programs such as Social Security and Medicare are now the biggest items of federal expenditure. They will only become more expensive as the population ages.

History suggests that any sustained period when a great power spends more on interest payments than on military capabilities is likely to see its strategic rivals challenge its position. The tension between "guns and coupons" (as the interest-bearing parts of bonds used to be known) may also undermine its domestic stability, as governments try and fail to meet the competing demands of generals, bondholders, taxpayers and welfare recipients.

In the absence of radical reform of America's principal entitlement programs—which successive administrations this century have either failed to achieve or ruled out—the only plausible way that the U.S. can come back within the limit of Ferguson's Law is therefore through a productivity miracle.

Today, it may seem that the world is divided between a mighty American "Trumpire" and the feeble foreign competition. But the real contest of the second quarter of the 21st century may be between the much-vaunted economic promise of artificial intelligence—and history, in the form of Ferguson's Law.

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