CHAPTER XVII

Don't Buy Government Bonds

IN 1800 the United States Treasury owed $83 million. The population was then three million. Every baby born that year was loaded down with a debt-burden of about $28; if the interest rate was 6%, the new-born citizen could look forward to paying a service charge on the national debt of $1.68 per year. Today the debt-load of the nation comes to well over $290 billion, and the population is, in round figures, 180 million. Thus, while the population has increased by 60 times, the national debt has increased by 3600 times; and figuring the interest rate at 4%, the cost of handling this debt is, roughly, $68 per citizen per year. The child is now loaded down at birth with a debt-load of $1700. . . . These figures might be adjusted to the increased production per citizen, and to the decreased value of the dollar. Even so, the fact sticks out that posterity does not pay off anything of the national debt, that each administration adds to the debt left to it, and that the promise of liquidation implied in every bond issue is a false promise.

The bulk of the rise in the national debt has occurred since 1933, when Franklin D. Roosevelt abolished the gold standard and thus made money redeemable in—money. When money was redeemable in gold, the inherent profligacy of government was somewhat restrained; for, if the citizen lost faith in his money, or his bond, he could demand gold in exchange, and since the government did not have enough gold on hand to meet the demand, it had to curtail its spending proclivity accordingly. But, Mr. Roosevelt removed this shackle and thus opened the floodgates. The only limit to the inclination of every politician to spend money, in order to acquire power, is the refusal of the public to lend its money to the government. Of course, the government can then resort to printing money, to make money out of nothing, but at least the people will not be compounding the swindle. Therefore, I offer the following gratuitous advice:

Don't buy bonds.

The advice is based on purely moral, not fiscal, grounds. I could point out that when the government issues a bond it is diluting the value of all the money in existence. Every bond is, in effect, money: the fact that the indenture bears the seal and imprint of the government makes it so, even though it may not enter the market place as money; it does not become monetized for some time. That is, every bond issued by the government is inflationary, and thus robs the savers of the value of their savings. That, of course, is a swindle and is immoral. But, the immorality of bonds runs much deeper.

In the first place, when the State spends more money then it receives in taxes—a fact indelibly written into the bond —it is deliberately committing an act of bankruptcy. If your neighbor should do that you would promptly put him down as a dishonest person. Is the dishonesty transmuted into its opposite when committed by a legal entity? By what multiplier can robbery be made a virtue? The act of borrowing against imaginary income is a fraud, no matter who does it, and when you make a loan to that borrower you aid and abet a fraud.

The State's excuse for borrowing is that it invests the proceeds of its bonds for the benefit of posterity. Instead of putting the entire burden of meeting the cost of its beneficial acts on the living it proposes to demand of unborn children their share of the cost. Quite plausible! But is this not the impossible doctrine of control of the living by the dead? What would you think of a prospective father who deliberately put a debt load on his expected offspring? That is exactly what you do when you cooperate with the State's borrowing program. You are loading on your children and your children's children an obligation to pay for something they had no voice in, and for which they may not care at all. Your investment-for-posterity may earn you nothing but the curses of posterity.

The use of the word "investment" in connection with a bond issued by the State is a treacherous euphemism. When you buy an industrial bond you lend your money to a corporation so that it can buy a machine with which to increase its output of things wanted by the market. The interest paid you is part of the increased production made possible by your loan. That is an investment. The State, however, does not put your money into production. The State spends it—that is all the State is capable of doing—and your savings disappear. The interest you get comes out of the tax-fund, to which you contribute your share, and your share is increased by the cost of servicing your bond. In effect, you are paying yourself. Is that an investment?

When you depart from this earth you pass on to your heirs both the tax-collecting bond and the tax-paying obligation it represents. Or, as is usually the case—for the history of bonds is that ownership tends to concentrate in a few hands—if you sold your bond, the new owner in due time passes on to his heirs a claim on the production of your offspring. Your great-grandchildren are called upon to labor for his great-grandchildren. The bond thus becomes a legacy of slavery.

The fact is that posterity never pays off its ancestral debts—or not in the way you are led to believe by the bond-selling State. The present generation is posterity to all the generations that have gone before. Are we paying off any of the debts incurred by our forebears? Hardly. We have spending of our own to do and must leave to our posterity some new debts as well as those we inherited. They, in truth, will do likewise.

Whether or not there is any obligation on the living to liquidate the debt left by an arbitrary ancestry, the political machine prevents its being done. Actual liquidation would necessitate increased taxation, on the one hand, and a curtailment of State spending on the other. Increased taxation the State always welcomes, for any increase in taxes means an increase in State power, and the politicians are always for that; it can never spare a sou for the reduction of the national debt. No State—absolutist or constitutional—has ever put aside its ambitions to make good on its promissory notes. The "posterity should pay" argument, in the light of this historic fact, becomes the equipment of a confidence game.

What, then, becomes of the national debt? It grows and grows until, like a balloon, it bursts. But, though this is inevitable, thanks to the money-making monopoly of the State, it takes a long time before the balloon does burst, and certain conditions must prevail to cause the explosion.

When the promissory paper of a small nation is held by a powerful one, some semblance of financial rectitude is maintained by means of the marines; the economy of the defaulting State is impounded until the debt is liquidated, and sometimes for a longer period. Internal debts, on the other hand, are never liquidated. When the burden of meeting the service charges becomes economically unbearable, and the State's credit is gone, repudiation or inflation is resorted to.

Of these two methods, repudiation is by far the more honest. It is a straightforward statement of fact: the State declares its inability to pay. The wiping out of the debt, furthermore, can have a salutory effect on the economy of the country, since the lessening of the tax-burden leaves the citizenry more to do with. The market place becomes to that extent healthier and more vigorous. The losers in this operation are the few who hold the bonds, but since they too are members of society they must in the long run benefit by the improvement of the general economy; they lose as tax-collectors, they gain as producers.

Repudiation commends itself also because it weakens faith in the State. Until the act is forgotten by subsequent generations, the State's promises find few believers; its credit is shattered. Never since the Russian repudiation of 1917 has the regime attempted to float a bond issue abroad, while its import operations have been largely on a cash basis. Internally, Russia does its "borrowing" from its own nationals as a highwayman does.

Anyhow, since honesty and politics are contradictory terms, the State's standard method of meeting its debt obligations is inflation. It pays off with engraved paper. To be sure, even as it issues its new I.O.U.s to pay off its defaulted ones, the inflationary process is on, for every bond is in fact money; like money, it is a claim on production. The bond you buy increases the circulatory medium, thus depressing its value, and you are really exchanging good money for bad. You are cheating yourself. That is demonstrable by comparing the purchasing power of the dollar at the time you bought the bond with its purchasing power at maturity.

As Germany did in the 1920's, the State can make inflation and repudiation synonymous; it can inflate for the purpose of repudiation. This is what is called "uncontrolled" inflation, another impostor term. There is really no such thing as "uncontrolled" or "run away" inflation, because the printing presses do not run themselves; somebody must start and keep them going until the desired end, the wiping out of the national debt, is accomplished. The disadvantage of this process, as against outright repudiations, is that in wiping out the debt it also wipes out the values which the citizenry have laboriously built up; it wipes out savings. However, no nation has ever resorted to "uncontrolled" inflation until its economy has been destroyed by war, until production was unable to meet the expenses of the political establishment, to say nothing of the debt piled up by its predecessors.

But, how about the natural pull of patriotism? In the face of national danger, is it not right that we put our all into the common defense? Of course it is right; and people being what they are, the pooling of interests is spontaneous when community life is threatened, as in the case of a flood, an earthquake or a conflagration, or when the Indians attacked the stockade. In such catastrophes we *give,* we do not lend. Patriotism weighted with profit is of a dubious kind. Bonds do not fight wars. The instruments and materials of war are forged by living labor using the existing stock of capital; the expense *must* be met with current production. The bonds are issued because laborers and capitalists are reluctant to give their output for the common cause; they put a greater value on their property than on victory. Were confiscatory taxation the only means of carrying on the war its popularity might wane; the war would have to be called off.

This specious resort to spurious patriotism reaches its ultimate in the textbook justification for the public debt. It runs something like this: citizens who have a financial stake in the State, by way of bonds, take a livelier interest in its doings. Thus, love of country is made contingent on the probability of returns, both as to capital and to booty. This smacks of the kind of patriotism which motivated the money-brokers of the Middle Ages; once they invested in their king's ventures they could not afford to become lukewarm in their fealty.

It is not patriotism that is engendered by the borrowing State. It is subservience. With its portfolio chock-full of bonds, the financial institution becomes in effect a junior partner whose self-interest compels compliance. An allotment of bonds to a bank carries force because its current large holdings might lose value if doubt were thrown on the credit of the State. A precipitate drop in the prices of federal issues would shake Wall Street out of its boots; hence new issues must be taken up to protect old issues. The concern of heavily endowed universities in their holdings of bonds is such that professorial doubt of their moral content could hardly be tolerated. Even the pacifist minister of a rich church would have to be circumspect in voicing his opinion of the public debt. That is, the self-interest of the tax-collecting bondholders, not patriotism, impels support of the State.

Taken all in all, the bond is a thoroughly immoral institution. I would not be caught dead with one of these papers on me.