

## CHAPTER XV

### Public Revenue and Borrowing

SOME PRINCIPLES OF A TAX POLICY AND THE FOLLY OF "PUBLIC" BORROWING.

*Suppose there is a kind of income which constantly tends to increase, without any exertion or sacrifice on the part of the owners . . . In such a case it would be no violation of the principles on which private property is grounded, if the state should appropriate this increase of wealth, or part of it, as it arises. That would not properly be taking anything from anybody; it would merely be applying an accession of wealth, created by circumstances, to the benefit of society, instead of allowing it to become an unearned appendage to the riches of a particular class.*

—JOHN STUART MILL

WE SEE that there are three elements in production each compensated for the part it plays; land in rent, labor in wages, and capital in interest. Of these three, land is the passive element—the first essential, the source. Labor and capital are the two active factors and wages and interest are both compensation for labor; wages for immediate productive toil, and interest a postponed, prolonged and generally greater compensation for past toil, which denied itself immediate satisfaction in order to accumulate capital to make future labor more efficient. The worker is free to decide for himself whether he wishes to receive money wages to spend for the day's needs and luxuries or to accumulate capital with a view to the future.

We see too that land in itself and by itself does not produce any true wealth. The value of the land, the fact that it commands a price, is not the result of the individual worker but of the common life, of increasing population, the services and protection of government and the general progress of all society: it is quite different from the *product* of land, which is the product of personal life and labor and is therefore justly personal property. It may be argued perhaps that capital also is impotent to produce wealth without the aid of labor, generally aided by capital. This is true, but capital is the product of individual toil and its earnings—interest—are therefore justly the property of the owners; but land is the gift of the Creator to all men, the very first essential of life on this planet, and its earnings justly belong to all.

The landlord has an advantage because land, being limited in quantity and each piece in a sense unique, is susceptible of peculiar monopoly. In a sense, the landlord has the preferred claim and the worker must be content with what he leaves, which may be paid to him in wages, in interest or in a combination of the two. Thus, the worker is often at the mercy of the landowner. Production is and should be divided into ground rent for land, wages for labor, and interest to the worker who has accumulated capital. The first, ground rent, should be taken for the common good, since it is the product of the common life, whereas the latter two, wages and interest, are justly private property. Were we to collect and return to all, through the services of that great cooperative enterprise which we call government, the ground rent, which is the creation of our common life, taxation would scarcely be necessary in normal times, were we once out of debt.

But now a fourth factor, enters the picture, little better than a parasite. Although his exactions may be balanced to a limited degree by services rendered, they are not fixed by the value of his service. He is enabled to exact as much as he pleases, while the worker, the capitalist and even the landlord are all powerless to resist. This fourth element, privileged to make terrible exactions from the three truly productive factors, is the government which we have ourselves set up. The government, through taxation and its tax-collectors, can take practically any amount which it pleases—sometimes well over ninety percent. Against this extortion we are all of us powerless unless, by thought and study and by the exercise of our rights as citizens, we control the government which we have created.

Do you remember the story of Frankenstein, the man who created a terrible being whose very existence he came to loathe and whom he feared but against whom he was powerless? Government is often like Frankenstein's monster. We have ourselves created government but we no longer exercise the control over it which we should, and what should be our servant has now become our master. Throughout all history an infinite amount of suffering, toil, and bloodshed has been brought upon us by the governments *which we have ourselves created*; and throughout all history, you will find a continuous story of men's struggles with governments of their own creation.

In the United States we are confronted with a very real danger of this sort. It is said that our governments, including national, state and local, take between a third and a half of our national

income for their support. But this is only the beginning of the story of the injuries they work on us by taking this large measure of our earnings which the economist calls the national income. They impoverish us, discourage us and cramp us and hold down production; and therefore the income, of which they take so much, is nothing like as large as it should be. Were the government to free the toil and industry of men from this burden, a great part of which is totally unnecessary, production and prosperity would forge ahead in a way never before known; and our people would be on the road to a greater degree of material prosperity than has ever been seen on earth.

Government costs money, for government, like all of us, feels the effect of inflation and mounting costs; but the greatest factor in the growing costs of the federal government is the expansion of its functions and the usurpation of powers reserved by the Constitution to the states and to the people.

The government practically never makes a profit in any business venture in which it engages. Possibly once in a long while some little enterprise may, for a time, show a small balance on the right side of the ledger; but practically always, whenever the government goes into business, it loses money. The post office, the TVA, every effort to produce and sell electrical energy, the hotels it operates, are in the aggregate losing ventures; and the losses are generally appalling.

Until we have the wit to collect the natural public income of ground rent, there are generally only two ways by which government can procure money. It can steal it, as Russia is doing all the time in the countries under her oppression, or it can take it in loans or in taxes, which is what we do. There seems to be an idea that the funds in our public treasury are evolved by some mysterious process out of thin air and come from nowhere, and that whatever we can get "out of the government" is just so much velvet. Not long ago we attended a rural school meeting, in which there was a discussion of an absurdly extravagant project for a new school costing two or three million dollars. It was argued that it would not cost us nearly as much as appeared, because much of the cost would be obtained through subsidies from the government! This illustrates how few people realize that what we get out of the government comes from our own pockets. It is our own money that we are spending, and any idea of financing ourselves on public grants is as futile as trying to lift ourselves by our bootstraps.

Let us hope that the grosser form of stealing indulged in by

Russia, which is generally called "looting," is "out" for the United States. Despite all our faults, it is improbable that we shall ever engage in any aggressive war for the purpose of conquest and enrichment. As long as we let the ground rent, which justly belongs to us all, go into private pockets, there is left, as our only source of public income, the money wrung from taxpayers.

This may be either taxes or loans. Many of us fool ourselves in thinking that, if we borrow the money for public use, we do not have to pay it and that it will come out of the future. We think we are saddling the generations to come after us with obligations entailed by our extravagance, and think we have been pretty smart. As a matter of fact we *cannot spend the money of the future*. Present expenses must be met from the funds of today and national borrowings avail nothing, for we cannot draw on the future. We cannot bake bread from wheat not yet grown, nor weave cloth from wool of sheep still unborn. As Tom Paine put it, "Man has no property in the generations which are to follow."

Considering the nation as a whole, debtor and creditor are one. If you divide your money into two heaps and put one in your righthand pocket and the other into the left, you will not change your financial condition one iota by lending money from one pocket to the other. And that is what we do when we float a government loan.

You pay \$1,000 for a bond, which is nothing but a promise of the nation to repay that sum, with interest, say in fifty years. You have parted with \$1,000, which the government receives and spends, and which must come out of either your savings or your income. True, you get the bond, the promise to repay the loan. On the face of it you part with nothing, for the asset balances the payment; but nevertheless it is your \$1,000 which is gone. In the course of time, when our generation is gathered to our fathers, posterity will have to pay this bond, but to whom will the money be paid? Surely not to us moldering in our graves, but to themselves: they will collect the money as well as pay it.

Any hopes of "passing the buck" to those coming after us is utterly futile, for *we cannot leave them the debt to pay without also leaving them the bond to collect*. They will inherit both asset and liability, and will be just exactly where they would have been had we raised the original \$1,000 by taxation instead

of borrowing, and neither better nor worse off for all our book-keeping.

It is our money that is gone and we have never received it back, for the \$1,000 will not be paid twice: if our descendants get it, we won't get it. National debts differ, therefore, from private obligations in that the people of the country at large stand in the dual position of both creditor and debtor. If you borrow money, you must repay the loan, and the other fellow gets the money; but if the people of the United States borrow from the people of the United States, the people of the United States must repay this loan to the people of the United States. The whole transaction is as aimless as if, when you go broke, you meet the situation by giving yourself your own note and then save enough money from your income to repay yourself.

Of course, it is quite different if considered from the individualistic standpoint; then it becomes a question of private and not of public finance. You may leave your heirs a government bond, which they can some day collect; and the taxes with which it is paid may be collected not from the bondholder nor from the bondholding class, but from others. The individual may therefore profit at the expense of someone else but this is beside the point that, by and large, the generation that lends the money pays the bills. Nor is the situation altered in the case of short-term bonds. If the bonds run but a few months or a year, it is clear that they must be met by taxes levied during that short period, and the lenders may just as well pay the money needed in taxes in the first place as to resort to this subterfuge of borrowing and then taxing themselves to repay the loan. Similarly with interest; if we are the ones to collect it, we must be the ones to pay it.

The argument that if we borrow the money from ourselves and pay it back to ourselves, there is no objection to borrowing, is extremely dangerous. There are certain "economists" who maintain that a country can practically support itself indefinitely by borrowing money, as long as it borrows all its funds at home, and that such a debt never has to be paid. The idea originated with J. M. Keynes, a British economist of a sort, and often bears his name. Unfortunately, it has found considerable favor on this side of the sea with teachers and writers who, though not avowed communists, are in sympathy with the wide extension of government and reckless public spending. Such a tie-up is to be expected, for communism always favors heavy spending, confiscatory taxation, increase of public debt, and unlimited

public borrowing; because bankrupting a country and ruining its people will hasten the assumption of supreme powers by the government.

Unfortunately, wild spending and borrowing and the inflation which such excesses bring often result in a transitory pseudo-prosperity which leads many astray. This parallels the experience of individual life. We recall the case of a young business man, a natural-born gambler, who got far beyond his depth in trying to organize and finance a business venture not without merit had it been properly handled. Operating on the proverbial shoestring, he soon found himself in serious difficulties; he wanted to go too fast; and, instead of retrenching, he got in deeper and deeper. He borrowed right and left and stretched his shaky credit to the limit. Finally, when conditions became almost desperate, he gave an extravagant party to impress his creditors, which, deluding the more gullible, helped him to extend his credit again and once more to increase his indebtedness. Things finally caught up with him and everything crashed.

This suggests what may be expected for a country which follows a similar program. Borrowing, issuing paper money, printing bonds and using them as bank collateral, increase the amount of money in circulation and give a sense of false prosperity. It is all part and parcel of inflation. As things keep going up and up and prices soar, wages and salaries go up; and it looks like a great era of prosperity, but it is all a house of cards. Of course such processes cannot create any real *values* whatever. They demoralize the whole economic machine and, when the crash comes, they bring disaster. Herein lies the great danger ahead of the United States if we do not mend our ways, balance our budgets, cut out inflationary practices, and make a start at reducing our terrific debt.

To these principles there is one exception. We have spoken of bonds sold at home. When we sold abroad it was a different matter: such debts can be, and are, passed on to successive generations. In such cases Americans of tomorrow must be taxed to repay the money which we have borrowed, not to themselves but to foreign creditors: they no longer stand in the twofold position of debtor and creditor, but are the heirs of only the debts. In the meantime we get and spend the money, and reap the benefits. However, this is a matter of minor import, for practically all our borrowing is at home.

This matter of borrowing has many complications and is not as simple as we have made it. As we say, often the one

who pays the bond is not the one who collects for it, and public loans can and do introduce many complications with friction and difficulty resulting. It is unfortunate when our people are divided between creditors and debtors, because, as we have seen, the debtor usually profits by inflation; for he can pay off in low-value money the debt incurred in high-value money. Therefore anything which leads to a cleavage of our people into these two classes of debtors and creditors may be a source of controversy and disaster.

Practically today we must finance our government by taxes, although there is a natural source of revenue, earned by government, which would go far to finance us if we would use our wits. Taxation is a matter of supreme importance: don't think of it as merely a means of raising revenue, for it goes far deeper and impinges on every phase of political and economic life.

Our methods of taxation have much to do with the preservation or destruction of liberty, for unwise and unjust tax policies may easily deprive us of the fruits of our natural rights to "life, liberty, and the pursuit of happiness." Taxation also threatens the sovereignty of our states and free local self-government, bringing into contempt constitutional safeguards of freedom and imperilling our government as we have known it. By discrimination it creates favored classes and sets group against group, section against section. In 1824, in the case of "nullification," tariffs, favoring the North at the expense of the South, very nearly led to secession and civil war.

Aside from these more striking effects of tax follies, tax programs have an overwhelming influence on industrial and social life, and indifference and blindness may bring tragic suffering to our people. A stupid policy of real estate taxation perpetuates the slums of our cities, breeding disease, fire hazards, and crime. Failure to understand the principles of taxation leads to futile and costly programs of socialistic "public" housing, imposing heavy burdens on the already overburdened taxpayers.

## QUESTIONS

Can you think of any business operated by government which yields a substantial profit?

Besides engaging in business operations what broad sources of public revenue are available for the support of government?

What are the three factors in production?

Must the support of government generally be derived from levies on one, two, or three of these elements?

Is it better that government shall be supported by levies on land values (the collection of ground rent) or on levies on wealth produced by labor? (This is important as we shall see later. Think it over. Is it wiser to tax the land or the product of labor?)

Can the government borrow from future generations by selling bonds to its citizens?

Is there danger in excessive public debt?

Is lavish public spending desirable "to keep money in circulation"?

Are high taxes sometimes the cause of acute discontent?

Is there danger when taxes take at least one third of the earnings of our people?

Can the government assure prosperity by extravagant spending, excessive taxation, or by borrowing money?