

# The Price of Government Disservice

By Raymond V. McNally

No disservice ever finds a market. Disservice is a waste and must be added to the cost of the service. If any private business permits the cost of its service to exceed the value of that service, it goes bankrupt. Of course, human fallibility cannot prevent some waste and inefficiency from creeping into cost, but if they exceed a certain irreducible minimum, they must be deducted from profits, for they cannot be passed on to the customer. Every business, big or small, is subject to this natural law. Those who are responsible for disservice must absorb the cost of disservice.

The paradox of economic life is the spectacle of the biggest business of all escaping the responsibility of its own disservices. That business is the government. This does not mean that government services are not subject to the same natural law of the market as those of private business. Those who understand the law of rent know that both the services and disservices of government are reflected in the rent of land. Rent gives us the true net value of the services that government renders the community after the costs of disservices have been deducted. The better the services are in proportion to the disservices, the higher the rent and vice versa; and the rent we are willing to pay for our location expresses the exact value that we place on those services.

But while its services are subject to the natural law, government avoids the consequences of that law by placing itself outside of the exchange mechanism. Whereas the income of private enterprise depends entirely on the value of the services it renders to its customers, government is limited in no such way. The income of the latter is not received directly as a result of the services it renders. Whereas private enterprise must absorb its own costs of disservice, government merely permits them to accumulate for it is not concerned with market pressure. Its income is secured, not through the

sensitive mechanism of exchange, but through arbitrary levies on the community. These taxes are not levied in proportion to the value of the services it renders to each individual but according to its physical power, the degree of ingenuity employed and the general ignorance of the community. Its income, therefore, depends, not on the value of its services, but on the cost of those services. The result is that the disservices of government are not eliminated by the action of the market but are permitted to accumulate at the expense of the community.

The failure to identify government revenue with the value of government services is at the bottom of our economic troubles, for it has caused a chronic maladjustment in the exchange mechanism of society. As population increases and the need for public services grows, taxes are steadily increased. This leads to the demand for special privileges of all kinds on the part of certain groups in the community, privileges that would be impossible were it not for the taxing power. The essence of these privileges is the limiting of competition for these favored groups, who know that indirect taxes increase the cost of doing business and discourage new enterprises. This undoubtedly is the reason why established business concerns fail to demand, and even oppose, the removal of indirect taxes that are hidden in the prices of goods, while they vehemently denounce taxes on incomes and undistributed profits. A few cases in point are the federal taxes on liquor, cigarettes, matches and cosmetics. Did anyone ever hear of the producers of these things demanding the removal of these taxes? On the contrary, they have even been known to ask that these taxes be increased. But aside from these, the exchanges are burdened by thou-

sands of taxes levied by all of the states and their local subdivisions.

To overcome the rising cost of doing business and the abnormally intensified competition engendered by taxes, men not only make improvements in their methods of production but demand more privileges from government. But more privileges mean more restrictions, and these restrictions, that are largely set up through the tax collection machinery, tend ultimately to discourage such improvements. If the improvements then increase in a smaller ratio than the diminution in production caused by taxes, unemployment results.

Each and every restriction then is a decided disservice to the community, and we have the absurd spectacle of the biggest business of all impoverishing those it is supposed to serve. But, as I said before, the government, not existing within the exchange relationship, is not compelled to absorb the effects of its own disservices, until it can tax no more. Rent absorbs the effects and so rent must fall. If the cost of the disservices increases at a greater rate than the increase in the productive power of private industry, the value of the services is reduced and this decline is reflected in rent.

During the past five years, we have witnessed the fantastic efforts of government to palliate the evil effects of taxes and disservice by adding more taxes and rendering more disservice. Need we wonder why the country is stumbling and tottering along like a drunken sailor? What are the farm program of curtailment, the Wage and Hour Bill, the Social Security Act, the HOLC, the FHA, the Security Exchange Act and the WPA but disservices? And while there may be some question in the minds of some people as to the truth of this characterization, there can be no denying the fact that any disservice for which the government may be responsible, cannot, under the present arrangement, be eliminated by the automatic action of the market.

The remedy for deranged ex-

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changes and unemployment is to bring the market to bear on government so that all disservices will be automatically eliminated. But first of all, public financiers must learn to distinguish between the cost of public services and their value. Economic science has advanced sufficiently to recognize the fact that cost and value are not synonymous. The income of government must be tied up with the value of its services. Then government will really be responsible for its own disservices, because it will be brought within the exchange relationship. This can only be done by placing government on the same basis as private enterprise and restricting its income to the natural payment for those services. The natural payment for public services is rent.