Arkansas the Guinea Pig

WE (YOU AND I) borrowed from ourselves (through the Government) $25,000,000,000 during the first eight years of the Roosevelt regime. We paid ourselves a very low rate of "interest" on these loans, as low as three-fourths of one per cent on five year notes.

That, under our government-by-the-people theory, is the way it is rationalized. The fact is that some of us who save do the lending, while all of us through taxation do the paying of "interest" and amortization, if any.

Since the returns to capital and labor have been extremely low during these eight years, the probability is that most of the saving and lending was done by those who collect rent. Not that rent has been high, but it seems to have been high enough (say, in the case of mineral lands and the Park Avenue holdings of the New York Central Railroad) to keep the collectors in the necessities and to leave a little over for investment in bonds.

Realistically, then, a few lend money to the Government; all of us who consume anything—and who does not?—pay taxes to that few. Since the money is not used as capital in the production of more goods, what the bonds yield is not economic interest; it is taxes. A government bond is a share in the taxing privilege.

It is now necessary for the Government to borrow many more billions to finance present war plans. How much of our taxes will have to be pledged to attract this money is a problem which is bothering our financial geniuses at Washington. Last month they established what has the earmarks of a precedent.

The State of Arkansas wanted to borrow $136,-000,000. The bankers, who are responsible to private savers and are therefore quite careful in making loans, wanted 3½ per cent on $90,000,000 of the loan; $46,000,000 was to be taken by the Hoover-born government banking institution, the RFC. Federal Loan Administrator Jesse H. Jones said 3¼ per cent was enough. The bankers hedged. The RFC took the whole issue at an average rate of 3.2 per cent.

So now we have a dictator over interest rates. The whim and power of the Planner is substituted for the operation of the market place. If the precedent becomes a principle, the Government may undertake to determine not only the rate of interest but also the conditions on which loans may be made. It may attempt to abolish interest altogether. It may demand the savings of the people. That has been done in Germany.

Like the efforts to fix commodity prices and wage rates by ukase, this attempt to fix interest rates will fail. Savings, beyond the small "rainy day" amounts, disappear when either safety or yield is jeopardized. The tendency would be to enjoy present certain satisfactions rather than uncertain future profits. But these savings which in normal times largely enter into the field of production, not into Government bonds, are the capital necessary to our highly complicated productive system. To discourage capital-savings is to reduce our productive capacity and to lower the standard of living.

Thus the entry of the Government into the banking business, with political rather than market place rules, points to a very anti-social picture.

Query: If the State of Arkansas should default on its bonds will the Federal Government foreclose by taking over the State's taxing power? Will troops be sent to enforce the collection of taxes?

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