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Washington - April 30/1918

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The policy which we as a nation should pursue, and the policy which we should endeavor to see the necessity of, may be termed in homely phrase the "Pay as you go, policy;" for squirm as we will, we can not get away from the bitter fact that the war must be paid for now as truly as it must be fought now. Borrowing the money will not, except in so far as we take stored up savings, defer to posterity the payment of the war. In other words we ^{should} ~~must~~ contribute to the Government's needs in taxes and spread the payment of those taxes, so as to make it possible to pay them out of earnings and savings.

When it comes to securing for the Government the goods and services it needs, there are obviously two ways and only two ways that it can be done, either by taxation or by borrowing, and while I, being human, dislike taxation as much as any one else, I am convinced that by a maximum of taxation, we will accomplish the desired results in the most certain way, and in the way which will prove the least burdensome to all concerned.

Because the truth of this statement will not be readily conceded, let me see if I can not make it plain. Let us suppose that we were a nation of a million people, each with an annual income of ten thousand dollars. If the Government should call upon us to subscribe to the Liberty Loan bonds and we each subscribed the same amount, say one

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thousand dollars, the Government would ~~thus~~ receive a clean billion dollars and we or our heirs would receive forty million annually in interest on our investment; but who would pay back the principal at maturity? Why we, the same people from whom the Government borrowed the money. In other words, we are the Government, we are lending the money to ourselves and paying ourselves the interest and eventually repaying the principal to ourselves at maturity. But, you will ask, what if some of us don't subscribe? Some might do twice their share and some might do nothing. Well, in that event, what would happen would be that the man who did not subscribe would lose out, because he would still have to contribute in payment of taxes for the repayment of the money. In other words he would be required to pay taxes to meet the interest on one thousand dollars worth of bonds, even if he had not subscribed his share.

In the first case cited, each man contributes voluntarily 10 per cent of his income, or one thousand dollars and he must pay in taxes each year enough to pay himself that forty dollars ^{of interest} plus enough more to pay the bonds at maturity. If they run twenty-five years that would be forty dollars a year more as a sinking fund, or eighty dollars total. If he does not subscribe and another man takes his share, then he receives no income from his bonds but does find himself taxed for his share of the interest and

sinking fund payments.

That simple illustration applies just as much if people have different incomes as if they have the same income. Diversity of interest does not alter the principle. But, you will say, some people are taxed more than others, taxes are unequal, not always fair, etc. Granted, but do not imagine that a man pays no taxes because no direct levy is made upon him. Every man pays taxes and there is no way to escape them. Even the man who owns only tax exempt bonds must pay taxes, for the rent you pay, the food you eat, the railway fare you pay, the electric light bill you pay, the coal you burn, the clothes you wear, all include taxes as an element in their cost. Direct taxes are disagreeable and seem burdensome, ~~and~~ because it is human to prefer not to look facts squarely in the face. It is easier to have the tax hidden in the price of the things we buy and pay for and the legislator well knows that he will encounter less opposition if he applies his taxes that way.

To come back to our illustration of a nation of a million citizens, each with fixed incomes of ten thousand dollars. Supposing instead of borrowing the one thousand from each of us, the Government had chosen to tax each of us one thousand dollars, spreading the payments out over several weeks or months, as is done with the Liberty Loan

payments. Would we be better off or worse? Decidedly better, I believe, and I say this confessing that I dislike paying taxes as much as any body. And why, would we be better off? Because if we meet the Government's requirements by paying taxes we do not have to tax ourselves to pay interest on the sums borrowed, and tax ourselves to repay the principal at maturity. In other words, in one case we tax ourselves one thousand each to carry on the war, and having made that contribution it is over and done for; but if we subscribe that same one thousand dollars to Liberty bonds, we have to tax ourselves to pay back the money borrowed and interest thereon. Is it not as clear as day light that in that event we make a far greater contribution than if we pay as we go no matter what it costs?

One of the commonest mistakes is to imagine that we can make posterity pay for the war. True, in so far as expenditures are made for permanent improvements, such as building ships and docks, railroads or canals, public buildings, etc., which may bring in a revenue or save expense, which can be repaid, in part or in whole, out of the earnings or benefits which these betterments may yield, posterity pays because posterity can use and enjoy the benefits; but in so far as the expenditures are made for munitions, food, clothing, and other things which are consumed during the period of the war, they must necessarily be paid for by our

citizens during the war. There is no other way out of it. If we were fighting this war for aggrandizement, it is conceivable that the acquisition of new territory or the exaction of huge indemnities might conceivably compensate us for part of our expenditures, but as we have no such thought in our minds, it need not be discussed. The reason why the war must be paid for by us, and can not be paid for by posterity, may be explained in the pointing out of the essential fact that what the Government requires to carry on the war are goods and services. In other words, the Government needs the services of soldiers, it needs the services of men and women to produce the food, to make munitions, clothing, and to supply the transportation by land and sea, and these "goods and services" or this "labor and material" are commanded by utilizing the common medium of exchange which we call money.

The theory that a Government can make posterity pay for its expenditures seems to have become fixed in the public mind from the analogy of the method of corporate finance usually followed, to wit, the issuance of bonds and capital stock. Thus, if a new enterprise is created, whether it be a railroad or a mining or manufacturing corporation, or a great merchandising undertaking, while the capital is borrowed from the public, it is paid back, if the concern

is successful, both as to interest and principal, out of the profits accruing from the enterprise. It may be truly said, in such a case, that posterity bears the burden as well as enjoying whatever profits the undertaking may yield, while for the reason already explained, these conditions are not analogous in the case of a nation which issues bonds in payment for munitions of war, food, clothing and blankets for the soldiers, or the multitude of other expenses which add nothing to the wealth of the nation. In this connection it is obvious that a large share of the expenditures for which bonds of the United States are being sold are in themselves self-liquidating, in part or in whole. Thus the advances made to our allies, the expenditures made for ships and docks, for railway equipment, for hospitals, Government buildings, and railroad improvements may be so classed.

