The Size of the National Debt

Is a Big Public Debt Unobjectionable If We Owe It Only to Ourselves?

By HARRY GUNNISON BROWN

THERE IS A CURRENT NOTION, seemingly widespread among the younger economists, who may have been largely influenced by "New Deal" and "Fair Deal" government financing, that a national debt owed internally is no burden at all. Since the annual interest on the debt—and the principal, too, if liquidated—involves paying as much (minus the small per cent cost for collection) to the bondholders as is taken from taxpayers, there can be no net loss in that direct sense. Hence, it is claimed, no national debt, even though stupendous, constitutes any occasion for alarm or discouragement so long as "we owe it only to ourselves."

Thus, Dr. Abba P. Lerner summarizes his position in paragraph headings in *The Economics of Control* (1944) as follows:

> There are effective instruments . . . . for maintaining full employment and preventing inflation, but their use is hindered by strong prejudices.
> The instruments are not available until it is recognized that the size of the national debt is relatively unimportant
> that the interest on the debt is not a burden on the nation
> and that the nation cannot be made 'bankrupt' by internally held debt (pp. 302–4).

But the truth is that the size of the national debt—if debt there must be—is by no means unimportant. And whether or not the interest on the debt is in some sense or other not a "burden," having to pay this interest can involve some unfortunate consequences.

I

FOR WHAT TAX or taxes shall we use to get the necessary revenue? Shall they be taxes on the necessities of the poor, so that critics will say the debt is "a mortgage of the masses to the classes"? Or shall they be pay-roll taxes which will inevitably reduce the take-home pay of workers and which would probably be met with a similar objection? And would either taxes on necessities or pay-roll taxes provide sufficient revenue?

At any rate, these are hardly the taxes that our "liberals" will favor. Instead they are likely to urge sharply progressive income taxes, conceiving that these conform to the principle of "ability to pay."

But what about the consequences of these "ability to pay" taxes if they are levied not merely to provide for current operating expenses of government but also to pay annual interest on a national debt of gargantuan size?

Let us consider, first, taxes on income from labor. Surely the taxes on incomes above the average would have to be far greater than if there were no debt or only an insignificant one. Surely the difference between the incomes received by the well-trained and efficient and those received for ordinary unskilled work would be much less. Even the Russians abandoned —very early in the Soviet régime—the communistic ideal of equal incomes for skilled and unskilled work. How close can we safely come to such a communistic system of apportioning income, and this while still seeking to maintain, in general, a private enterprise system of industrial organization?

Such steeply graduated taxation of income must mean that a worker's income depends more and more on the extent of his ownership (whether by purchase during some earlier period or by gift or inheritance) of government bonds and *depends less and less on his current effort and efficiency.* What right have we to conclude that there is here no weakening of the incentives of the private enterprise system ("capitalism")?

To these considerations, the fact of our owing the debt and the interest on the debt, "only to ourselves" is *completely irrelevant*.

Next we may consider heavy taxes on the income yielded by capital, which are regarded as necessary because of the cost (annual interest) of servicing a stupendous debt. Here, again, we have no right to ignore completely the influence of the taxes on capitalist incentive. If those whose saving and investment make possible an increase of material capital (buildings, machinery, tools, planted fruit trees, steamships, etc.) must anticipate having much or most of the yield of this capital taken from them in order to pay interest on a superlatively large national debt, can we be certain that the motive to save and to invest in capital construction will be affected adversely not at all? Can we be certain that the productive equipment of the country will be no less? If it is less, annual production will be less and current per capita income will be less—and this even though each dollar paid by any taxpayer for the servicing of the debt is in turn received by some holder or holders of government bonds.

There is indeed a kind of taxation which would have no untoward effects on production but which would, in fact, so operate as actually to increase the aggregate of goods produced. This is taxation of the annual rental value of land. Such taxation does not penalize or in any way repress efficiency of productive labor, whether managerial or subordinate.

It does not at all lessen the reward for saving and the construction of material capital made possible by saving. It involves no penalty on "venture capital." It penalizes only the interference with production which comes from the speculative holding of good land out of use. Thus it would tend to increase the productivity of labor. For more available good land to work on and the greater amount of capital resulting from removal of heavy tax penalties on capital, would both mean better conditions for efficient production. Indeed, a thorough investigation of the theory of the subject and of data recently made available on Australian tax experience, indicates that such taxation of land values within the limits of what it could be made to yield, would be more favorable to even the poorest workers than would drastically graduated taxation of incomes in general, and this even though such workers were completely exempt from such income taxation.

But many contemporary economists appear to be uninterested in land value taxation. As an able young economist friend who himself *is* interested in it remarks, they "seem to have closed minds on the subject." One can hardly feel surprised, therefore, on finding that the apologists for a great and steadily mounting debt show no inclination to explore land value taxation as a source of revenue to service it.

It can be fairly argued, however, that merely to meet the reasonable current operating expenses of government at the local, state and national levels would take all—and, some would say, much more than—land value taxation could be made to yield. On this assumption, it can be strongly contended that, even with a land value tax as the main reliance for current operating governmental expenses, a very great national debt would still require heavy taxes of other kinds to service it. Such taxation for this purpose presumably must bring—or accentuate—the undesirable effects on the economy referred to in previous paragraphs. Thus a stupendous national debt must be regarded as undesirable in any case.

Nevertheless, it seems decidedly worth while to note that those economists who insist that the size of the national debt does not matter (if we "owe it to ourselves"), manifest not the slightest interest in having the debt paid, or in having it serviced, from funds raised by the taxation of land values. Nor do they appear to have the slightest interest in using land value taxation as a first or a principal source for meeting the ordinary current expenses of government. Is it not, perhaps, quite in character and to be expected, that economists who do not worry about capitalist motivation or incentives in connection with burdening the wages of labor and the interest on capital to service a great national debt, will be among those who do not object to—but, indeed, favor—the perpetuation of a tax system that consistently burdens wages and interest (because relieving land rent) even if and when there is no debt?

II

PERHAPS THE LACK of concern regarding the magnitude of the national debt reaches its most extreme form in the view that a nation might indefinitely service its debt (*i.e.*, pay the annual interest on it) *by assuming new and additional debt.* If the annual interest cannot be paid, merely issue new bonds to pay the interest on the old ones!

Lerner expresses this view as follows:

> The government, even if it does not want to raise the money by taxes, can always meet its obligations to any citizen by borrowing from another citizen. . . . The wierd notion of a country 'going bankrupt' because it has a great internal debt can only be explained as a result of private capitalists building up a conception of the State in their own image and impressing this capitalist mythology on the other members of the capitalist society (p. 304).

One might deal with this view merely by ridiculing it. Indeed, I cannot but be reminded of a "financier" I read about many years ago, who promised a preposterous rate of return—my recollection is that it was 10 per cent a month—to any who would invest their savings with him. And for a time, he appeared to be "making good" on this promise. The money sent in by new investors provided the means for remitting the promised large returns to the earlier investors; and these payments caused still other prospective investors to overcome their doubts and join the mad rush to quickly acquired wealth. Conceivably, had the law not caught up with this "wizard of finance," he could have continued thus to "make good" for years. But is such a policy to be urged on the government of the United States by responsible economists? And are the sponsors of such a policy to be flattered by our devoting many and serious hours to its consideration!

Lest some reader think the above paragraph treats the view being criticized too cavalierly, we shall inquire seriously into the mathematics of the problem. In doing so, it should be fair enough, since Lerner does not seem to admit that *any* debt can be unduly large, to assume an extreme case. Thereby we can the better check the contention that no national debt, however large, is reasonable cause for concern if only we "owe it wholly to ourselves."

We shall suppose, therefore, that the national debt has increased rapidly and in geometrical ratio until it totals $200 quadrillion, We shall suppose that the annual interest rate which the government is pledged to pay is two per cent. This would make the total annual interest owed, in terms of dollars, four quadrillion. Meanwhile, however, the total annual product of industry has not risen above $200 billion in value.

If, at this stage, government seeks to service the debt, not by taxation but by the issue of new bonds, what are the possibilities? Will *all* holders of bonds then outstanding, consent to invest *all* of their current interest in the purchase of new bonds? Or—which amounts to the same thing—will *all* holders of outstanding bonds consent to take *all* of each year's interest in the form of additional (newly issued) bonds?

Of course, *if* all the holders of outstanding bonds *will do this* and *will continue indefinitely to do so,* the debt, no matter how immense, need never worry either administration or legislature. (Our "wizard of finance" also, except for fear of formal law, need never have worried if only all investors with him had been and would have continued to be willing to reinvest with him all of their promised gains.)

But what if a part of the owners of the outstanding government bonds want at least part of their annual interest in money (or bank checks) and, fairly soon, in actual goods for which they expect to spend the money? What if the amount so wanted in goods each year is as little as 1/20,000 of the $4 quadrillion owed by the government to all of its citizens? One twenty-thousandth of $4 quadrillion comes to $200 billion. This would equal, on our assumption above, the entire annual produce of the nation. It would, therefore, be as great as the entire annual income. If this amount —*and no more*—were actually taken, as realized interest on the debt, by holders of the government bonds, even though the other 19,999/20,000 were all accepted in new bonds, nothing at all would be left for wages of labor or interest on the buildings and other material equipment of industry. Thus, unless workers themselves owned government bonds, so that they could live on the interest of these bonds, they would, perforce, all die. In that case, all payments of real interest on the debt would cease.

Perhaps, indeed, *some* of the workers might reasonably be expected to be in possession of sufficient bonds and entitled to sufficient annual interest to enable them to live and continue working. But unless *all* lived (individually or vicariously through—on the average—an equally numerous progeny), the production of goods would presumably decline; and it would probably decline greatly even with a very much smaller debt than has been here assumed.

In any case, is it not now entirely clear that the larger the national debt which must be serviced (though, of course, it might be repudiated!), the less will men's incomes depend on whether they work; and the less will the incomes of savers depend on the amount of useful material equipment (capital) which their savings make possible?

In short, is it not by this time perfectly obvious without further laboring of the point, that the larger the national debt is, *the smaller must be those rewards to labor and capital* which are so often referred to as the *incentives* of capitalism or as capitalist motivation?

A large and increasing national debt is not properly to be looked on with equanimity. Increasing the national debt (borrowing by government other than for refunding debt) is not justifiably to be resorted to even for the relief of unemployment and to stimulate revival from business depression. For a proper monetary and central banking policy can accomplish, without an increase of the interest-bearing debt of government, all that can be accomplished by such borrowing, and more. If it were not for the present fashion or style in economics, of looking favorably upon government debt, the minds of more economists would be concentrated rather on considerations of how the desired results may be realized without the untoward consequences that are the inevitable sequel to permitting government debt to become inordinately great.

Chicago

New Trends in the Size of Family Farms

A STUDY MADE by the Bureau of Agricultural Economics shows that a tremendous shift took place from small to larger family farms during the war. The larger farms are now producing much nearer to total capacity than the small ones; they use more advanced technology and are more evenly balanced in production, hence present fewer opportunities for increased efficiency. The larger family farms more quickly take advantage of production gains from newer methods and mechanization, and these present amazing opportunities for increased production on family farms. Production levels are lower on small and medium-sized family farms, and greater gains are possible here.

Larger family farms can increase production by making the most efficient use of the family working as an up-to-date productive unit and using the most modern methods and mechanical aids. Beyond this, problems of hired farm labor arise.

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