

# Problems of National Defense

## I. The Financial Problem

By THE STROLLING REPORTER

**I**N the midst of a great World War, in which the United States is becoming more and more involved, many problems present themselves. One of the most pressing to the forefront today is the financing of the vast defense program in which we are engaged. The American people are on the verge of being taxed in amounts reaching geometric proportions. But so generally recognized is the national emergency that little or no objection is being raised against increasing income taxes, both on past as well as future earnings.

The latest reports from the Treasury Department indicate that the taxes for national defense will be as heavy, if not heavier, than those in Great Britain. A ten per cent. tax on incomes has already been approved by Congress and now an additional fifteen per cent. is proposed by the Treasury Department. In addition to this, citizens will be compelled at the beginning of 1942 to pay their income tax for 1941 and then have their wages deducted for the 1942 tax in advance.

No account has been taken of the income taxes which must be paid to the various states which impose such a tax. In the State of New York the income tax is four per cent on incomes of less than \$5,000 a year, with a rising scale for higher incomes. In New York City we still have a sales tax, although it was cut in half for political purposes during the last Mayoralty campaign. Few persons recognize that the State of New York collects a tax on the total amount of earnings, allowing no deduction for the tax paid to the federal government.

While all sorts of taxes are leaping skyward, a great untapped source of revenue remains ignored by the government—the land values of the nation, which, if taxed, would go far toward financing the defense effort.

The present administration is called by its proponents a "New Deal," in contradistinction to what is called a "raw deal" given by former administrations. A glance at the record of the New Deal and at the direction in which it is going indicates that the people are now getting as raw a deal as they ever got.

Few recognize exactly where the administration is leading us. Every move indicates that it is in the direction of state socialism, where the government will control all the means of production and distribution as well as the means of transportation and communication. An illustration of this trend is seen in recent public finance and tax developments, spurred by the defense effort. Since the expenditures of the national government have been increasing from the inauguration of the

New Deal, bonds have been sold by the government and taken up by the banks. In order not to frighten the depositors, all accounts are guaranteed up to \$5,000 by the federal government. This keeps the depositors from giving too much thought to governmental affairs, being assured that their savings are safe. Otherwise, they would be taking their money out of the banks and hiding it in the mattress, as was done before savings banks were introduced.

It is interesting to note that in most of the states, savings institutions invest the largest portion of their deposits in real estate mortgages.

The government has now gone into the housing business and is erecting dwellings throughout the country for the benefit of the poor who cannot pay a rent dictated by the market—with the result that in the urban centers the subsidy amounts to approximately \$250 a year per family. This is guaranteed for the next sixty years. It has had a tendency to discourage private industry to the point where the construction of dwellings by private enterprise is reaching a low point. At the same time, existing dwellings are gradually losing value, for the reason that there is a fear of increasing governmental competition. Improvements have not been made in the older houses, with the result that they are losing their tenants, and the property is being taken over by the mortgagees.

Insurance companies and savings banks hold practically all the mortgages throughout the country. They are loaded down with foreclosed properties—"cats and dogs," as they are called—entailing a heavy loss to the mortgagees, for under the law they must dispose of them within a limited period. The result has been a decreased interest paid to depositors in the savings banks and the lowering of premiums given to the holders of insurance policies.

The indications now are that if this condition continues the federal government will step in and take over the institutions. As an illustration, a \$5,000 mortgaged property will be sold for \$3,000, *i.e.*, at a loss of \$2,000. The depositors in the banks are guaranteed \$5,000 by the federal government. The cumulative losses will be made up through increasing taxes paid by the citizens. So on the one hand the government protects the depositor and with the other hand takes it away from him in the form of taxes due to losses. Here we have an illustration of how the federal government, if the trend continues, will be in control of the savings banks and insurance companies.

The business banks hold untold millions of government bonds. In my opinion there will be no repudiation of those bonds, but when they fall due they will be called in and paid off with new bonds, perhaps at a lower rate of interest. This is a lesson the "brain trust" have learned from the railroads and utility corporations.

In the sale of the bonds for defense it is stipulated that they are redeemable in ten years and, in order to avoid a fall in the prices, they may be redeemed only by the purchaser. This is a point in favor of the New Deal. It was done to avoid a repetition of what happened after the last war, when government bonds fell to around eighty. There was speculation and millions were made at the expense of the poor man, who from patriotic impulses bought bonds to help defeat our enemy.

Another point in favor of the present administration is the effort to prevent "wildcat" speculation in Wall Street, such as occurred during the easy money days of the Harding and Coolidge administrations. The "boom" exploded in 1929 during the incumbency of President Hoover. The public lost heavily, "paper millionaires" had to go to work, and the conservative political party was practically wiped out.

The investigations of the railroads and holding companies lead in one direction only—they will eventually be taken over by the government, since they will be unable to finance the improvements needed to meet modern methods of transportation.

We are witnessing the steady growth of "control from the top" in other ways. A sermon recently prepared by Mayor LaGuardia, Director of Civilian Defense, and sent to ministers of various denominations for delivery in their churches, is only a beginner. (Later on the newspapers and magazines will be told what to print and when.) The sermon in itself was excellent, but the idea behind it is control of the pulpit and the press.

That we are leaning towards regimentation is becoming more evident every day. Regimentation is nothing more than control of groups who will support the administration.

The farmers are getting subsidies, likewise the cotton growers. Labor unions are organizing everywhere and under the Wagner Act have certain advantages when it comes to strikes. The poor are being controlled through relief and modern charity housing.

Statisticians who deal with governmental finances say the cost of the federal government is now ten times what it was in 1940 and the interest-bearing national debt is fifty times what it was then. The cost of government in cities and states is increasing, and before long the bulk of incomes will have to go to the support of government. Excessive taxation has ruined many nations and will ruin ours if the cost of government is not reduced and the people be not allowed to retain their incomes instead of turning them over to the government.

This is not to say that the people should not be called upon to support the defense program. In a period of emergency

like the present the people have demonstrated beyond doubt their willingness to sacrifice for their country. When called upon to reduce their own expenses, to tighten their belts, and pull together for the defense effort, they respond. But should not the government be expected to do the same? There is no tightening of the belt of the federal government. Governmental employees are on the increase constantly. There is no attempt whatsoever made to reduce national expenses. And when the world disturbance comes to an end, if it does in our own time, and we move from a war period into one of peace, the employees in the federal government will make every attempt to hang on to their jobs. There is nothing unnatural in this, for if they are let out they will be unable to secure work that will provide for themselves and their families.

The longer the excessive cost of government and the high taxes continue, the more difficult will be the solution. Every effort should be made by the people as a whole to at once impress upon Congress that the cost of government must be materially reduced.

The American people have never yet opposed supporting the government, physically or financially, when there is need. They have willingly stripped themselves of nearly everything they possessed for the successful outcome of any difficulty the government has engaged in, but the administration must do something too, and that is to reduce the cost of government by cutting out all non-defense expenditures, and to cut taxes to a minimum.

A continuance of the present methods indulged in by the federal government will undermine and destroy the democracy which we have built and lead us straight to state socialism and slavery.

## Congress in a Tax Dilemma

By J. RUPERT MASON

CAREFUL students of Political Economy who had forebodings about the 16th Amendment to our Constitution, predicting that it would tend to open the door for special privilege and extravagant spending, would perhaps be listened to today, as they were not at the enactment of that legislation.

Although we had conflicts of interest aplenty before the passage of the Income Tax Amendment, there was no opportunity for conflict then between those who believed government should be supported according to "benefits received" and our latter-day "ability to pay" saints.

In the feverish search by the Congress for any sources that still may be suspected of having left any "ability to pay," we have witnessed the swing of the pendulum to the point where currency inflation is rearing its ugly head. The one ray of hope that the President will make some serious effort to stay this growing tempo of inflation was his veto of the