

The Public Debt and Indirect Taxes

By Sam Meyer

In all civilized countries, every year, the preparation of the budget attracts general attention to the importance of the public debt. The growing difficulty which governments experience in meeting from the ordinary resources of the budget the heavy obligations resulting from this debt sometimes obliges them to borrow, and this results in increasing the difficulty of the situation instead of remedying it. Can this state of affairs continue?

It is of interest to examine this problem more closely by studying first the public debt in its diverse aspects, namely its origin, its judicial nature, its moral foundation; secondly the taxes that must be imposed to meet the expenses of the public debt.

After we have studied these questions in their different aspects, we will have to consider whether it would not be possible to solve the problem in a better way than is being done at present and, if not, to face the final consequences which will result from the continuation of the present manner of procedure.

The importance of the public debt is particularly great in the so-called "old countries" where the burden has accumulated for centuries; in the so-called "young" countries the public debt is usually not so great. Such was the case in the United States before the War; the public debt itself and the expenses entailed by it were of little importance, absorbing only a small portion of the annual revenues of the national government. But since the War, even in that new country, the public debt has heavily increased the burden of balancing the budget. It is not perhaps entirely without interest for us to notice that the debts in the new countries, although they may not be so heavy, are not necessarily more easily sustained, because when we take into consideration that the resources of these countries have not been fully developed it is evident that, in the main, the expenses entailed by the public debt must be met by the individual inhabitants whose income is largely dependent upon their work since there are few well-established old fortunes. In such countries the income from direct taxes is small; the resources for the budget come almost entirely from indirect taxes.

The importance of the public debt in all countries is an interesting fact in itself, but it is nothing in comparison with the principal characteristic of these debts—namely, their continued increase.

In order not to make this exposition needlessly long we will give only a few especially significant figures to show the increase in the public debt in

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France and in England with the parallel augmentation of the cost involved in the administration of the public debt. We indicate in addition in the following table of figures the volume of the budget.

Increase in the Public Debt in France and in England during the last fifty years.

FRANCE (in millions of francs)

	Perpetual Debt and Long Term Debt	Floating Debt	Annual Expenses for the Debt	Total Budget
1880	20,391	1,206	1,222	3,364
1885	23,754	1,189	1,273	3,538
1913	31,452	1,524	1,284	5,066
1927	196,828	93,526	23,148	46,085
1934	253,960	35,518	27,323	48,606

ENGLAND (in millions of £)

	Total Debt	Annual Expenses for the Debt	Total Budget
1880	774	28	79.3
1885	740	28.8	88
1913	717	24.5	188.8
1927	7,721	378.6	805.7
1933	7,860	220.6	828.4

We must notice that in England, before the War, serious efforts had been made to diminish the sum total of the public debt and, that, in the course of the last few years, thanks to successful conversion transactions, it has been possible to reduce the annual expenses necessitated by the debt. However, these diminutions do not affect the general trend which still tends towards a continued increase and we shall see later that it is an accelerated increase.

These examples having shown the increase of the public debt and the consequent burden imposed upon the budget, we shall try to explain how and for what reasons the debt follows this tendency.

The public debt is the result of a contract between two parties : the State and private individuals. This contract stipulates that the private individuals place at the command of the State a stipulated sum to be used for its needs ; the State, in turn, agrees to pay a certain interest until the day, sometimes very remote, when the principal is refunded to the lender or his heirs.

The public debt is created by the need on the part of the governments to meet their expenses. These expenses have increased because the State in modern times has undertaken numerous new functions. In this discussion we will not consider the reasons for this increased activity of the State because our study would become too involved ; we will limit ourselves to a recognition of the fact that the State has extended its activities and a consideration of the consequences that this development entails.

The expenditures of the State are of three kinds : the ordinary current ones which recur generally every year ; the extraordinary expenditures that the State enters upon under certain conditions and with a definite end in view which are not recurring, for example expenditures for public works ; thirdly the expenditures that may be called exceptional such as those for carrying on a war. These last ones differ radically from the others.

In normal times a State pays for its ordinary expenditures by means of its annual revenues and does not contract loans except when the funds are not sufficient for the payment of its normal expenditures. Everyone agrees in the condemnation of making loans in such cases ; it is therefore unnecessary to dwell on this point further here. As far as extraordinary expenditures are concerned they are generally incurred with the view of undertaking public works that require a long time to accomplish and which may be a source of revenue or may increase circulation of goods. There is a general agreement that it is right to finance these activities by means of loans. However, the point on which everyone does not agree is the matter of the time duration of these loans. It is argued that the benefits derived from these public works are not limited to a period of a few years ; in fact but little profit may be achieved immediately. Therefore, there are many people who contend that the costs incurred by the loans made to carry on these public works should be distributed over a rather long period of time, fifty or ninety years perhaps. But on this point there is no general agreement. Many feel that these loans should be redeemed within thirty or thirty-five years, that is, within one generation.

The question arises what right have we to impose the burden of taxation upon future generations to pay for expenditures made by previous generations ? If it is just to avoid immediate payment, on the other hand it is unjust to impose the burden of debt upon generations that have not been consulted upon the question of the advisability or utility of these expenditures. Besides, although we admit that the benefits resulting from the expenditures endure longer than one generation, we cannot deny that it is the generation that makes these expenditures that reaps the greatest benefit from them. For in addition to the direct results coming from the work itself, which is extended over several generations, it is believed that there are incidental results of importance which come only to the generation that undertakes the work. These incidental results are determining factors for the undertaking of large public works, namely : the provision of new work for the unemployed and the encouragement of industry and trade by the increase in purchasing power on the part of the wage-earners employed and by the demand for materials used in the construction of these works. It seems, therefore, that if the reason which decides that the work should be put in hand is the interest of the present generation, it is unjust to impose the larger part of the taxation burden for these works upon future generations even though there may remain some benefit to be enjoyed by these later generations. The fact that the generation raising the loans is not required to redeem the greatest part of them, but leaves that responsibility to future generations, may encourage the undertaking of work the utility of which may be questionable and this postponement of payments may even encourage wastefulness in the use of the money borrowed.

If we pass now to the exceptional expenditures, especially those for carrying on war, it also seems very difficult to justify postponed payments. The difficulties that governments would experience in procuring money for the

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needs of war would serve as a serious check upon entering on wars of conquest. On the other hand, when it is a question of raising money for defence, the situation is very different and governments should be able to procure the necessary funds easily by mobilizing the wealth of their citizens as they do the citizens themselves. For, as Henry George points out in Chapter XVI of his book *Social Problems*, it seems disgraceful when we demand of some citizens that they sacrifice their lives in defence of their country, to beg others to lend their money with the promise of high interest and of the reimbursement of their capital within a more or less long period of time. This obligation to reimburse being, of course, left to be met by coming generations. And yet the money loaned to the State does not come from future generations; it is in the country at the time it is borrowed; furthermore it brings no benefit to these future generations; there is no reason, except that it is convenient, for laying the costs upon those not yet born. When all the forces of the nation are requisitioned, it seems normal to requisition a portion of the wealth as well.

Thus, we have seen how difficult it is to justify imposing the burden resulting from loans contracted by one generation upon following generations, and we have also seen how the possibility of doing this affords an invitation to make expenditure. It is quite worth while to insist on this point because it reveals all the danger involved in this possibility.

Raising loans provides a convenient means of spending money without increasing immediate charges. Under these conditions why should we not be tempted to resort to them? Why not accumulate for generations to come these difficulties when it is so easy to escape them ourselves?

The foregoing observations, if they have made us consider it justifiable, under certain definite conditions, to resort to loans, the redemption of which is limited to a certain number of years, have also brought out the fact that this recourse may in other cases constitute an abuse of power in respect to those who are called upon to meet the costs involved. These observations have also helped us to understand why the public debt must necessarily increase and with an accelerated speed that might be compared to that of a falling body; all because of the deferring of costs to future generations and because of the accumulation of interest. We shall now in the second part of our discussion try to set forth the direct consequences of the existence of an increasing public debt, that is to say, the parallel increase in taxes especially in indirect taxes.

Almost all the revenues of the State are derived from taxes. It is superfluous to dwell on the principal characteristics of the two classes of taxes to which the State may resort, namely direct and indirect. Very few countries use only one form of taxation; very seldom do countries use only direct taxation.

In most countries where both forms of taxation are levied, the income from indirect taxes is much greater than that coming from direct taxes. In France, for example, one may safely say that two-thirds of the tax revenue comes from indirect taxes.

The direct tax is unwieldy in its nature. It does not lend itself to the adjustments necessitated each year in balancing receipts and expenditures. It is difficult to vary the rate to any great extent from year to year. It is even more difficult to exact this tax from people previously exempt from direct taxation. It is not the same with the indirect tax which is, as it were, a hidden,

secret tax. Its rates are incorporated in the price of a product or of a service, and are scarcely perceived. Because even though everyone who buys a box of matches knows that he is paying a certain sum for the matches and another as a tax, he does not know what amount of the total sum is for the article itself and what amount for the tax. It often happens that the amount paid for the tax is greater than that paid for the article itself.

The direct tax, in principle, demands that each one contributes to the total tax in proportion to his ability to pay; the wealthiest are taxed the heaviest, not only in proportion to their fortune but to their ability to pay, their tax burden is increased by the fact that they have to pay progressive rates of taxation on their resources. The indirect tax works quite differently as it has no direct connection with the ability to pay of the taxpayer. This tax, most often, falls most heavily upon those who are least able to bear it, that is to say upon the poor and upon large families.

The very nature of the indirect tax makes it an extremely flexible device in the hands of governments. If it is difficult to modify frequently direct taxation, there is nothing easier than raising the rates of indirect taxes; the operation is almost un-noticed by the taxpayer whereas it is very profitable for the Government. And if raising the levels of existing indirect taxes is not enough it is easy to create new taxes upon goods that did not pay any tax before. These increases in taxation entail an increase in the cost of living which is particularly hard on poor people. This increase in prices is, besides, always greater than that of the tax because the one who has paid the tax first is entitled to make the buyer of his goods pay him back for it. The increase in the price of the goods will always be greater than that of the tax because both the general expenses and percentage of profit are calculated on the whole sum. Since the process is repeated several times for the same merchandise, the consumer ends by paying much more than ever enters the coffers of the Government.

We have just seen that the increasing of public debt is the cause of an increase in taxation, especially in indirect taxes; we have seen at the same time that the large sums, imposed for the greater part on the poorest classes of the population, do not all benefit the public treasury; that is to say in other words that the poor people are taxed more than is necessary to cover the expenses of the nation. The rise in the cost of living which results from the increase in taxation deprives wages of a portion of their value when, at the same time the rate of interest paid to those who lend money to the State tends to reach higher levels.

It is obvious that such a state of things cannot last for ever, a time will come when the whole device can no longer work. This point is precisely attained when the cost of living has become so high and buying power is so diminished that the receipts from indirect taxation disappear almost completely, the buying power for all goods in general and taxed goods particularly having become extremely low. At that moment one may say that the whole mechanism is out of order and suddenly stops.

The only remedy consists in looking for the source of the evil and, once this is determined, to adopt a complete and reasonable solution which will allow people freely to spend their activities and enjoy the produce of their labour. We have sufficiently revealed the connection between the volume of

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indirect taxation and that of public debt to be able to affirm that the one is a consequence of the other. Devaluation is a remedy resorted to when the burden of taxation has become unbearable.

This solution has already been applied in several countries, and an apparent stimulus to economic activity has resulted. But one must not believe that a lasting recovery will ensue. If methods are not changed, if governments do not cease to borrow and make future generations pay for the debts they enter into, the evil will reappear in the same way and for the same reasons. Each generation has to support itself and cover by its resources its own expenses. These expenses should always be paid out of the normal and present resources of the country, raised by the device that would least trouble its economic life. Existing taxes seem to be easily replaceable by a single tax on land values which, on account of the continual increase in the value of the land on which it is based, would be borne without great inconvenience by the proprietor. By the way in which governments would use the receipts from this tax for their expenses it would be possible to distribute the increase in land values among the people. Land value by its nature does not admit of private appropriation. For us, in short, the only satisfactory solution of the problem we have been considering is to be achieved by a complete reform in the whole system of taxation and associating that with the extinction of public debts and the cessation of public borrowing.

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