

Mayhem on The Dollar

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THE FIRST ORDER of business for the Roosevelt Administration was to establish control over the nation's money. At the time Roosevelt took over the only direction in which the economy could move was up. The Roosevelt Administration started the planning of the economy at the very bottom of the Depression, a most propitious time to innovate on matters economic.

In order to advance his government planning of the economy, Roosevelt had to eliminate the possibility that citizens would refuse to honour government-issued paper money. Traditionally, when a people had wanted to thwart the economic designs of those exercising political power, the people simply turned to gold in their daily economic transactions.

Back in the year 1933 any American could legally hold gold, gold coins, or gold-backed currency. In order to eliminate the possibility of citizens using gold bonds, coins or gold-backed currency, Roosevelt's economic planners decided it was necessary for the United States to abandon the gold standard and devalue its currency. As Harvey W. Peters points out in his study*, the whole purpose behind the Gold Reserve Act, the repricing of gold from \$20.50 to \$35.00 per ounce, and the related laws and Executive Orders, was to raise prices by devaluing the purchasing power of the American dollar.

The manipulation of the currency was described by Budget Director Lewis Douglas:

"The Government, by its fiscal policies, has deliberately laid the base for another inflation on a scale so gigantic that the bubble of the 1920's may finally seem small by comparison. We are now evidently going to have bigger and more painful inflation under Government sponsorship and induced by direct Government action. The New Deal is only the former 'New Era' dressed up in different clothes. When the next bubble bursts, let it not be forgotten that the responsibility lies directly at the door of the present Administration."

Peters notes that, as is so often the case with economic forecasts which are proved accurate only after the passage of time, the results predicted by Budget

Director Douglas did not take place immediately. However, he adds, viewing Douglas's forecast from the perspective of three decades later, "we find his words to be nothing short of prophetic. And it is hoped that when, as and if the inflation bubble finally bursts, Douglas's words will serve as a reminder of where to place the blame."

Peters explains how the Federal Government sowed the seeds of inflation by increasing its spending during the Great Depression, by perverting the income tax, and by debasing the currency during and since World War II.

The original intent of the Federal income tax law was primarily an assessment upon income from accumulated wealth in the form of stocks and bonds rather than upon the earnings of workers. Peters explains how the objective of collecting massive amounts of taxes was accomplished by maintaining the illusion that the tax "soaked the rich" even though Congress knew that alterations to the law involving a decrease in the annual exemption base and a perceptible increase in the tax rates, while ostensibly imposing confiscatory tax rates on high incomes, actually provided exemptions which allowed the wealthy to escape through tax deduction gimmicks.

The outbreak of World War II in 1939 came at a time when America was still trying to recover from an economic slide that had lasted a decade. During the 1930's unemployment remained at high levels and the nation's productive plants had been allowed to deteriorate below levels that had existed at the close of the New Era boom. In one respect, however, America had experienced a most substantial expansion. This was in the size of the Federal Government bureaucracy.

At the time the war started this massive government bureaucracy was hard pressed to find something to control so as to justify its size. The war allowed the recently developed skills of the Federal Government in collecting taxes and spending money to be promptly converted to the financing of a war economy, and to pull several "quick switch" operations in the process. Instantaneously those in government reversed their claim that productive capacity had been overbuilt and promptly offered tax incentives to manufacturers to expand plant capacities that had been

**America's Coming Bankruptcy: How the Government is Wrecking Your Dollar* (Arlington House, 1973, \$7.95).

proclaimed as overbuilt only a few months earlier. During the depression the Government had urged a reduction in food production, but after the war started food immediately proved to be in short supply, so the Government invoked food rationing.

V.J. Day signalled the end of World War II and the entire nation was happy. But, Peters notes, the greatly expanded Federal bureaucracy was in a dilemma. During the depression the Government had an excuse for tinkering with the economy, and during the war the war itself gave them the authority.

Peters suggests that at the close of the war members of the oversized Federal bureaucracy were logical candidates for unemployment. But the termination of the war caused neither the bureaucracy to reduce its size nor the Federal income tax burdens to be reduced, as could have been expected. Nor were the continuing income tax collections used for the worthwhile purpose of paying up the heavy Federal debt that had accumulated during the war.

One can only conclude, Peters states, that the members of the Federal bureaucracy and the politicians knew that they had a good thing going in the income tax and were not about to perform what was logical. One new law after another, and one new executive order after another, allowed the Federal bureaucracy to expand by extending into new fields. Peters states, "Never, except perhaps at the time of the building of the Pyramids of Egypt, had there occurred the expenditure of money and manpower representing so great a proportion of national wealth on projects that had little or no connection with the more mundane purposes of supplying products and services to satisfy man's daily living needs."

The Kennedy Administration set in motion the greatest boom-bust pattern in American history which was to turn the "creeping inflation" of 1946-1960 into a gallop. Peters explains how the "investment credit" and "tax cut" gimmicks fed the inflationary spiral.

He feels that the sum of the matter is that massive government spending has overloaded the economy with high prices and high taxes. The American people can no longer carry the burden of the cost of supporting literally millions of non-producers employed in various government programmes that have spurred supposed economic growth. "The American consumer has paid for Government's inflating the economy by being forced to pay higher and higher prices. And when those consumers who were factory workers demanded exceedingly high wages with which to meet their kiting budgets, the Government blamed the consumer-workers for causing inflation! This is hard to believe, but it happens to be the truth."

Peters writes that when the antics of the Federal Government in using its power to inflate the economy

are analyzed the conclusion which emerges is frightening. It seems as if the Federal Government has reversed the procedure of Joseph and Pharaoh Potifar. In that Biblical story Joseph counselled Potifar to store up the excess crops so as to support his people during the seven years of famine. Contrariwise, the Federal Government is seen as having expended the surplus of many years of plenty upon projects that cannot possibly contribute to the support of the people should a period of famine (depression) occur in America's future.

Peters ends his woeful tale about the wreckage of the American dollar with the hope that Americans will not allow a government by dictatorship to be forced upon them. But, he says, that hope must include a prayer to the Almighty that Americans shall, by legal means, terminate the existence of the Federal income tax and establish a new "Magna Carta" that, like its English predecessor, shall remove from the American people a tyranny: the tyranny of a tax system that has denied Americans a right to their earnings.

Adam Smith "Celebration"

THIS MONTH sees the 250th anniversary of the birth of Adam Smith, author of *The Wealth of Nations* and *A Theory of Moral Sentiments*, the greatest figure of the Scottish Enlightenment, a social philosopher from whose teachings we can still profit, and the father of modern political economy.

Yet how does his birthplace, Kirkcaldy, celebrate this event of world importance? With pride, pomp and distinction assuredly. But *fittingly*? Alas, no. Speakers at the commemorative symposium and dinner are drawn mainly from the ranks of those sceptical of - or hostile to - the capitalism which Adam Smith championed. Mr. Vic Feather of the TUC, Dr. Andrei Anikin of the Moscow Institute of World Economy, Dr. Sicco Mansholt, the Socialist apostle of artificially dear food, are among the celebrants - with a final debate on "Adam Smith and the Problems of today" between Prof. J. K. Galbraith and Mr. James Callaghan. It is as if celebrations in honour of Karl Marx were to be conducted by Prof. Sir Karl Popper, Lord Robbins, the President of the World Bank and Dr. Ludwig Erhard with a summing up on "Marxism Today" by Prof. Milton Friedman and Mr. Enoch Powell.

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