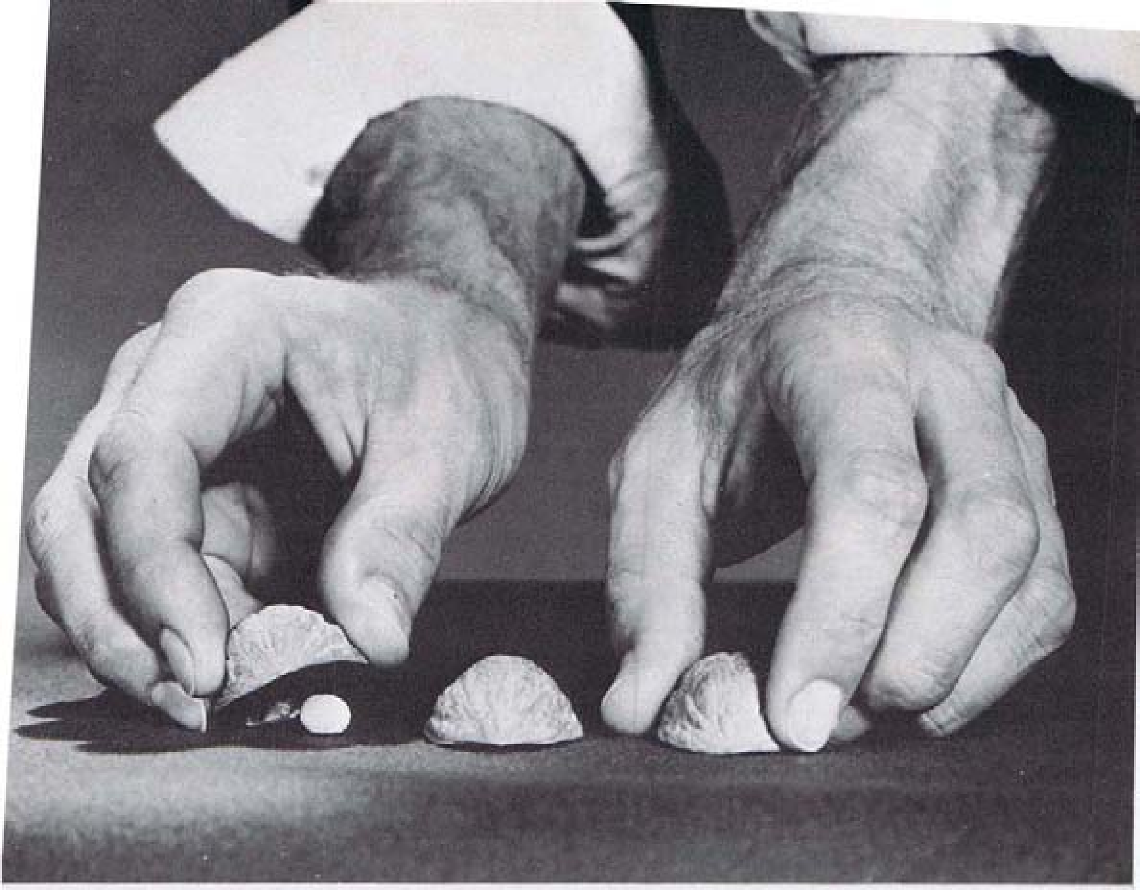

H. Armstrong Roberts

THE TAX SHELL GAME

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■ NOT MANY YEARS ago the economy appeared reasonably healthy, the cost of living was inching up only a percent or two each year, and the future seemed to promise a rose garden. Oh, having Castro in Cuba was unsettling, but the superiority of American military might was unchallenged. A few alarmists were upset about the outflow of gold, federal deficits which sometimes zoomed as high as three or four billion dollars a year, creeping socialism, and the fact that the Social Security system was based on the concept of a chain letter. But the great American middle-class paid little attention. The New Frontier and the Great Society would provide.

Now it all sounds like something out of "Happy Days." Camelot has

Ninety percent of income taxes are paid by persons earning between $5,000 and $30,000 a year. Counting indirect taxes, government now takes 44 cents of every dollar of American income. More is taken from the average worker to support Big Government than he spends on his family for food and housing combined.

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been revealed to have been a Potemkin Village disguising Sodom and Gomorrah. The economy is alternating between freezing and overheating. Most of our gold is gone, and what remains has been cut loose from backing the dollar. Those deficits of four billion dollars now seem paltry compared to today's monster deficits of seventy-five billion. The former jump in the cost of living of one or two percent seems like price stability compared to the enormous bounds during the past five years. Creeping socialism, then only a playful pussycat, has since grown into a government tiger threatening to swallow us all. And Social Security, that most holy of sacred bovines, is now so shaky that even some of Washington's most determined milkmaids are quietly retreating from the barn after checking the figures.

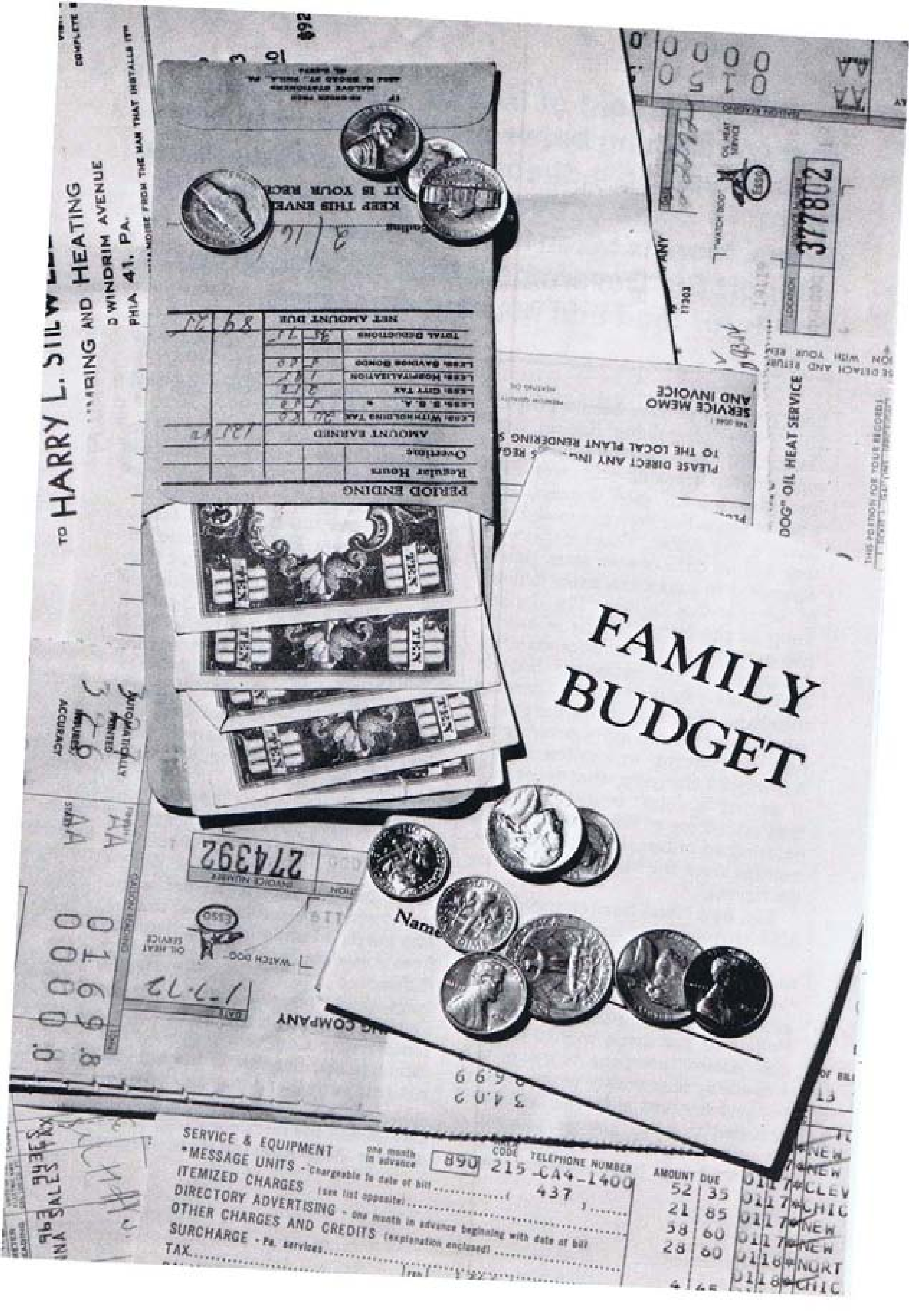
My, how times have changed. And Middle America is angry about it.

Today, any politician who goes about informing people that they "never had it so good" is in danger of getting himself punched in the nose. Pollyanna has given way to Cassandra. Almost everyone is aware that something is seriously wrong. A Gallup poll released in November of 1975 revealed that sixty-seven percent of Americans wanted the federal government to cut both taxes and spending. Only nineteen percent opposed such action.

Instead of feeling like Mary Poppins skiing down the hill of happiness, the Middle American now pictures himself as a hamster on a treadmill. One can run faster and faster, but get nowhere. Even academic sociologists are noting the resultant frustration. Professor John Raines of Temple University recently observed: "The class that calls itself 'middle' is in fact up against the wall; it is going nowhere . . . . For the middle-class, affluence is a fable. On the contrary, there is 'less upward mobility' . . . less middle-class affluence than middle-class moonlighting, worry and exhaustion."

The professor points out that "the average American family is not enjoying affluence so much as end-of-the-month panic, supermarket defeat (high prices) and persistent arguments with wife and kids over money. The average family is not benefitting from American productivity the way it deserves . . . . The middle-class is increasingly powerless. It is increasingly ineffective in getting its representatives in Congress to vote for the interests and benefits of its own constituencies rather than for the interests and benefits of the organized interests and the large corporation. The average American family is stagger-

H. Armstrong Roberts



FAMILY
BUDGET
Name
SERVICE & EQUIPMENT
*MESSAGE UNITS
ITEMIZED CHARGES
DIRECTORY ADVERTISING
OTHER CHARGES AND CREDITS
SURCHARGE
TAX
TELEPHONE NUMBER
AMOUNT DUE
SERVICE MEMO
AND INVOICE
PLEASE DIRECT ANY INQUIRIES REGARDING
TO THE LOCAL PLANT RENDERING SERVICE
KEEP THIS ENVELOPE
IT IS YOUR RECORD
PERIOD ENDING
Regular Hours
Overtime
AMOUNT EARNED
TOTAL DEDUCTIONS
NET AMOUNT DUE
TO HARRY L. STILWELL
HEATING
PHIA 41. PA.
"WATCH DOG" OIL HEAT SERVICE
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As you labor to balance your family budget the Carter deficit spending amounts to $1.5 billion a week. This year's Carter deficit would make a pile of one-dollar bills reaching 5,100 miles into space. The interest alone on that single year of deficit will cost each American family $125 in taxes a year until they die.

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ing under an increased tax burden and under inflation . . . . Inflation is targeted at the average American family. The things that they spend their money on — food, clothes, fuel, gasoline — are the very things that are being hit by rising costs. There is no escape. At the same time, more and more cities are putting in an income tax."

A study conducted by the Detroit Bank & Trust Company confirms the views of Professor Raines, finding that the typical family is "barely making it." Unless the wife is working, it reports, few families can afford a "sound financial balance sheet." The Bureau of Labor Statistics estimates that to maintain a standard of living at "an intermediate budget level" a family must make $15,500. That kind of money, which today just gets a family by, would have been considered a very comfortable figure only a few years ago. Many Americans have been keeping up their standard of living only by robbing the family piggy bank. According to the *Baxter Letter* of May 30, 1975: "It is estimated that 60% of the people with savings accounts have dipped into their nest-egg just to make ends meet. Over 30% have already exhausted their savings."

The federal monkey on our backs has now become as big as King Kong. And King Kong is demanding more and more bananas to assuage his insatiable appetite. Government spending, taxes, bureaucracy, and inflation are all manifestations of the same problem. When the public realizes the relationship between these and the size of government, their vague disenchantment with Washington will give way to rage and a lot of politicians are going to have to find other ways of supporting themselves.

Government spending is the key to taxes and inflation. During the first one hundred and eleven years of our national history (1789–1900), the federal government spent a cumulative total of $16.5 billion. Now we spend that much in two weeks! In the next forty years (1900–1940), Washington spent $149.5 billion, or the equivalent of what Uncle Kong will have spent between January first and March thirty-first of this year. From 1941 to 1950, the federal politicians spent $535 billion, or about fourteen months' worth at the current rate. Of course there was the little matter of paying for World War II.

Then the escalation really began. From 1951 to 1960, spending was $744 billion. From 1961 to 1970, it was $1.4 trillion. And from 1971 through 1977, the federal government will have spent $2.1 trillion.

Looking at it another way, it took

Harold M. Lambert

173 years, until 1962, for federal spending to hit one hundred billion dollars. But, by 1971, only nine years later, annual federal spending had been escalated to two hundred billion. In 1975, a scant four years later, government spending had added yet another one hundred billion dollars, reaching total spending of three hundred billion. Two years later, Fiscal 1977, it swelled to four hundred billion dollars, and this year will add another sixty billion. By next year, Fiscal 1979, we will be adding federal spending at the rate of one hundred billion dollars in a single year.

In his excellent book, *The Biggest Con*,* Irwin Schiff informs us: "In 1950 total government expenditures were equivalent to 83.5 percent of the gross produce of all U.S. manufacturing; however, by 1972, they equalled 98.53 percent of the *total* gross product of: 1) All U.S. manufacturing; 2) All U.S. agriculture; 3) All U.S. mining (including petroleum and natural gas production); 4) All U.S. communications; 5) All electric, gas, and sanitation services. So, government is now spending more than the total GNP value of all the food we produce, all the minerals and fuel we extract, all the products of our factories . . . .

"Since more and more of our economic activity is diverted to finance government activity, less and less is left to support the rest of the economy. All kinds of shortages must be expected because of this. In essence, shortages and a substantially lower standard of living are the price America now pays for government . . . . The American economy developed into the world's most powerful and efficient when government consumed only a meager portion of its national product; however, future historians may record that its demise quickly followed when government consumed too much . . . ."

*New Rochelle, 1976, Arlington House, $9.95.

This year, as we have noted, federal spending will jump from four hundred billion dollars to four hundred sixty billion. Columnist James Jackson Kilpatrick explains that the reason it didn't go up more was that a new President is cramped for time: "Within the fixed timetable, Mr. Carter's people, competent as they are, cannot do much tinkering with 1,300 budget accounts. Some large lump sums can be added — another $4 billion for public works spending. Some large lump sums can be subtracted — $2 billion in tax cuts for business. The deadlines will not permit the thousands of individual revisions that would have to be made to accommodate a national health insurance plan or the federalization of public welfare . . . ."

But, as the football fans say, just wait 'til next year.

The one part of the Budget that President Carter will not increase is the defense budget — federal spending upon which our very survival depends. Defense is the perennial whipping boy whenever the talk is of increased government spending. But, it won't wash. In 1952 the U.S. spent 13.5 percent of the G.N.P. for defense. Since 1959, the level of defense spending has dropped from 8.9 percent of the G.N.P. to 5.9 percent. National defense now takes only twenty-nine percent of the federal Budget. So-called "social services" absorb fifty-eight percent — double the percentage spent for our defense. The greatest part of the Budget consists of what economists euphemistically label "transfer payments." These, to put it bluntly, are the funds the government seizes from one citizen to subsidize another.

(*Continued on page seventy-one.*)

From page six

TAX SHELL GAME

Syndicated columnist Victor Riesel apprises us that Welfare spending for Fiscal 1976 was a spirited four hundred billion at federal, state, and local levels. That represented an increase from the previous year of forty-five billion dollars. This past fiscal year, that gargantuan social welfare expenditure was escalated at a swifter rate than the G.N.P., increasing by 15.9 percent while the G.N.P. rose at a bare eleven percent.

What we have now is a society based upon robbing Peter to pay Paul. Don't get the idea that only the Pauls are on Welfare. We not only have Welfare for the poor, we also have Welfare for the rich. The latter takes the form of federal subsidies, contracts, loans, special tax treatment, and import quotas. The middle-class gets it from both ends. The wealth of Middle America is transferred both downward and upward.

Meanwhile, everyone hopes that he can get more money for himself through the government than is being taken from him. For the middle-class this is virtually impossible because it is necessary for an ever-expanding bureaucracy to supervise the Peters and Pauls as they rob each other. If the thievery were not supervised, you see, it would get out of hand. This bureaucracy not only handles the "transfer payments" in such a way as to choke Middle America, it does well for itself also.

The government work force has more than doubled since 1950, rising from 7.5 million to 16.7 million. This represents a 126 percent increase. The number of private-sector employees increased from 53.1 million to 70.3 million in the same period, for a growth of only thirty-two percent. This means that the number of tax-supported government workers has grown four times as fast. Seventy million workers (supporters) are now financing sixteen million government "workers" (supportees).

And, the taxpaying sector has been required to be increasingly generous in supporting its government masters. According to the Bureau of Labor Statistics, the average government employee in Washington, D.C., earns about seventeen thousand dollars per year. Other workers earn an average of only a little more than ten thousand dollars per year. So the spongers live about seventy percent better than the spongees. They also get better fringe benefits. The average employee of the federal government receives fifty percent more paid time off than the worker in private business. Federal employees with three years service receive forty-four paid days off per year, including thirteen sick days and eleven paid holidays. When they reach fifteen years service, they receive fifty paid days off per year. And, adding financial insult to bureaucratic injury, government employees work shorter hours and have greater job security than those in private enterprise who must pay for government salaries and benefits.

It is after retirement that the gap between private and government employees really turns into a chasm. Federal employees can retire with full pension at age fifty-five — a decade sooner than the typical employee in private enterprise. The lavish government pensions now threaten the entire economy because the Federal Pension System is set up so that retired bureaucrats actually profit from inflation. Every time the cost of living goes up three percent, a retired government employee gets a four percent adjustment. A former chief actuary of the Social Security Administration, Robert Myers, calculated that the "One Percent Add On" alone could cost taxpayers as much as four hundred billion dollars. Since there are only about sixty million actual taxpayers, your share would be somewhere in the neighborhood of sixty-five hundred dollars. After a few years of retirement, former government employees may receive more than when they were working. Democratic Senator Thomas Eagleton of Missouri, a member of the Subcommittee examining the problem, calculates that if the current formula is maintained the costs of all federal pension programs will quadruple in twenty-five years.

And, as you know, soon after the 1976 elections Congress voted itself a pay increase of thirteen thousand dollars a year and a hike for most government agency heads of fifteen thousand dollars a year. These *raises* amount to more than most American breadwinners *earn* for the whole year. Oh, the life of a public servant!

Not only are the government employees overpaid and overly numerous, they are underproductive. According to economist Pierre Rinfret, each private employee produced $14,750 of goods and services in 1975, compared to $8,789 in 1950 (measured in 1975 dollars). But, each employee in the public sector produced the same $8,683 of services in 1975 as in 1950. And the bureaucrats are even antiproductive. We are not sure how economist Rinfret is measuring "services," but we assume it is how much of his own work a bureaucrat accomplishes in a given period. In many cases, the more the bureaucrats accomplish the more work they make for those in the private sector. As Professor James Miller points out, "regulation is a growth industry." He observes:

". . . over the period 1970 through 1975, for example, the number of pages published annually in the *Federal Register* more than tripled — from 20,036 to 60,221. From 1955 to 1970, the number of pages in the *Federal Register* grew at a compound rate of just under five percent. But between 1970 and 1975, the compound rate of growth was nearly 25 percent. Since 1970, the number of major regulatory agencies has grown from 20 to 27, a 35 percent increase. Between 1970 and 1975, the budgets of the major regulatory agencies grew from $1.6 billion to $4.7 billion, also a 35 percent increase. While the budgets of these regulatory agencies are insignificant compared with the total federal budget ($325 billion in fiscal 1975), one should bear in mind that the effects of regulations on costs and, presumably, benefits are great multiples of the expenditures of the individual agencies."

It now takes forty-five thousand pages of small print just to *list* the federal rules and regulations promulgated in a single year. Gerald Ford ordered a cutback in the number of federal forms, but the result was not what he had expected. According to Associated Press on December 19, 1976, "the remaining forms take 13 million more hours to complete because more people are filling in the blanks. Ford's campaign succeeded in its major stated goal — eliminating more than 700 different federal forms. But the effort to ease the burden of government paper work — as emphasized by Ford in speech after speech — was thwarted by new programs, more people in old programs, and perhaps consolidation of old forms into longer new ones."

The cost to taxpayers of filling out some seventy-one hundred different federal forms, and having them processed, is forty billion dollars a year, or five hundred dollars per household. But this is only the icy tip of the bu-

The government work force has doubled since 1950, with the average federal worker in Washington making a salary 70 percent higher than the average employee in private employment. There are 80 million Americans who are mainly dependent on government checks, compared with 71 million private workers.

reaucratic cost. Collectively, says *U.S. News & World Report*, regulators add an astronomical one hundred thirty billion dollars to the costs of the products we buy, or two thousand dollars per family per year. Everything we purchase costs more because of the bureaucrats. While this cost is never labeled a tax, it ought to be. It should be called *The Bureaucracy Tax*. The more bureaucratic productivity there is, the less private productivity. All those long vacations, paid holidays, and long lunch hours, while madding, probably help the economy more than if all the bureaucrats were conscientious.

The problem is getting worse all the time. An economist at the Ford Motor Company added up the number of government employees, plus those on Social Security, Welfare, and the like and found that there are eighty million Americans who are mainly dependent on government checks, compared with seventy-one million who earn their incomes producing marketable goods and services. With a clear majority on the take, it is not so surprising that fewer and fewer politicians support reduced government spending.

Today the largest portion of the average family budget is devoured by federal, state, local, and sales taxes. While Americans curse the high cost of food, fuel, and housing (themselves inflated by hidden taxes), they are bargains compared with the cost of the budget-busting government. According to the Tax Foundation, an average worker toils two hours and forty minutes each day to finance the government, but earns his food, beverages, and housing in two hours and thirty-seven minutes. Big Government costs the worker more than food and housing combined.

Since 1950 the total retail food price index has risen 146 percent, while the total price of government has gone up 597 percent, or nearly four times as much. In 1950 you spent as much per capita for food as for government. Now, you pay two and one-half times as much for government as for food. The *direct* taxes that one pays, says the Tax Foundation, take the equivalent of every working day from January first to May first. Ironically, May Day is when the Communists celebrate the fact that *their* workers have the privilege of working for the government all year long.

But the tax bite is worse than presented by the Tax Foundation because it is counting only direct taxes. Hidden in the price of everything we buy are many, many indirect taxes. Indirect taxes are the taxes the consumer absorbs from all of the taxes paid by those responsible for bringing a product to the market. For example, the price of a loaf of bread contains one hundred fifty-one separate, hidden, indirect taxes. When you buy bread you are paying a part of the combined taxes of the farmer, the miller, the trucker, the baker, and the supermarket. Obviously these people all have to recover the taxes they must pay, and they do so in the prices they charge for their goods and services or they lose money and stop producing. So the final sales price of everything includes all the taxes paid by everyone involved in making it available. The consumer pays all.

Up to half the price you pay for a product may simply be reimbursement for the taxes already paid to the government. Businesses collect their taxes for the government and pass the cost along to the consumer.

The most accurate way to compute the total tax burden is probably to consider government spending as a percentage of total individual income. According to Wesley Hillendahl, director of Business Research for the Bank of Hawaii: "Following the great depression when combined government spending rose to between 20 and 23 percent of personal income, World War II briefly required a level of government spending amounting to more than 62 percent of personal income, accompanied by acute inflation of prices. By 1947, government spending returned to about 23 percent. Subsequently, over the years, government spending has gradually taken an increasing share of personal income. Spending reached 35.8 percent in 1960, and 41.8 percent in 1970. Presently, government absorbs 43.5 percent of personal income, twice the share of 40 years ago."

In just forty years we've gone from a chicken in every pot to a hand in every pocket.

Using the Hillendahl figures, which allow for indirect taxation, the average worker toils from January first to June sixth for Big Brother. The historically minded will recall that June sixth was D-Day, on which the Allied forces invaded Normandy. That should help you remember that June sixth is now T-Day — tax freedom day.

In other words, with forty-four percent of all income being ripped off, almost all of us are justifiably approaching the feared fifty-percent tax bracket. Very few Americans are aware of that fact. If they were, there would be a political revolution and most of our current crop of Congressmen would be retired.

Since there are approximately eighty-five million Americans employed (including those working for the government), each worker on the average will have to pony up $5,410 to cover his share of the federal Budget. State and local governments consume another one hundred forty billion tax dollars. Proportioned out among the eighty-five million employed, this amounts to almost $1,650. Adding the federal taxes with the state and local taxes, it becomes clear that even direct taxation is costing the average employed American $7,060. And, according to *U.S. News & World Report*, that spending will jump another eleven percent this year.

How can the people allow it to continue? Politicians, if nothing else, are sly. They do everything possible to try to camouflage the impact of their spending, devising a myriad schemes to hide from the taxpayer the real cost of government. While Jimmy Carter plans to spend four hundred sixty billion dollars this year, he will tax us for only about three hundred eighty-five billion. The other seventy-five billion will be pumped out in deficit spending.

The debt Mr. Carter will accumulate this year is more red ink than was accumulated from the founding of the country through the middle of World War II. While the Man From Planters has promised to balance the federal Budget by 1982, this year he will miss by $1.5 billion *per week*. And, remember, a stack of one billion one-dollar bills would reach sixty-eight miles high. This year's total deficit would make a pile of Federal Revenue notes fifty-one hundred miles high. The interest on the Carter deficit for this one year, alone, will cost the average family one hundred twenty-five dollars in taxes next year, the following year, and as long as they live — compounding as it goes.

When Richard Nixon, supposedly the very essence of prudent pachydermism, ascended to the penthouse of the federal zoo in 1969, the National Debt stood at three hundred sixty-eight billion dollars. After eight years of G.O.P. trumpeting about fiscal responsibility and balancing Budgets, the Debt amounted to six hundred twenty billion dollars. The per-capita Debt had been kicked up from seventeen hundred dollars to almost twenty-nine hundred. According to *U.S. News & World Report*, "when the next fiscal year closes on September 30, 1977, the public debt will stand at about $699 billion. . . ." The editors of *U.S. News* project that the formal Debt will hit one trillion dollars by 1982.

You may remember when our politician benefactors were telling us that the National Debt was nothing to be concerned about because "we owe it to ourselves." You don't hear that one very often anymore, do you? This is because interest on the National Debt is now the third-largest item in the federal Budget behind social welfare and defense. In 1965 the payment due for money spent in the past was just over ten billion dollars. By 1976 the single-year tab had escalated to $44.6 billion — greater than the total annual *sales* of General Motors. By 1982, says *U.S. News & World Report*, the annual interest on money the politicians have wasted in past years will be an unbelievable sixty-five billion dollars. A chart of the increasing cost to the taxpayer of the National Debt looks like a rocket taking off for Mars.

These monstrous deficits have been piled up despite the fact that we are now employing in the marketplace the highest percentage of our population (forty-one percent) in American history — and both individual and corporate taxes in current dollars are at an all-time high. But even with more taxpayers paying more taxes than ever before, government expenditures are to exceed tax revenue by seventy-five billion dollars. In the last ten years, federal tax receipts have grown over one hundred twenty-eight percent, nearly eighty-three percent faster than the cost of living. At the same time, federal spending has increased one hundred forty percent, or more than twice the rate of the cost-of-living increase.

The pattern is well established — and it isn't going to be changed until Congress is made to cut spending or increase tax revenues. But higher taxation is unpopular, and the recipients of the government largesse are happy with the increased spending. Furthermore, we are told, deficit spending is supposed to stimulate the economy. If this were true our politicians would by now have stimulated us into perpetual prosperity. Instead they have wrecked the economy.

England has been down this same road before us. If you want to see where America is going in a decade, look at Great Britain today. Even the English admit that this policy has

Senator Proxmire notes that for every $10 billion drained from capital supplies by federal borrowing, there will not be private capital for 500,000 housing starts. That causes a direct loss of one million jobs and an indirect loss of two million more. Last year government borrowed 80 percent of funds in the market.

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been an abject failure. Prime Minister James Callaghan confessed to the Labor Party Conference in September 1976:

> *We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you, in all candor, that that option no longer exists, and that insofar as it ever did exist, it only worked by injecting bigger doses of inflation into the economy followed by higher levels of unemployment as the next step. That is the history of the past twenty years.*

To which economist Milton Friedman, the Nobel Laureate, comments: "That must surely rank as one of the most remarkable and courageous statements ever made by a leader of a democratic government. Read it again. Savor it. It is a confession of the intellectual bankruptcy of the policy that has guided every British Government in the postwar period — not only Labor Governments but also Tory Governments; of the policy that has guided almost every other Western Government — including the U.S. under both Republican and Democratic Administrations; of the policy that is now being recommended to Mr. Carter by his advisors."

The problem is that bad economics is good politics when the public does not understand the basics.

There are only two ways the government can obtain money to support its deficits. It either has to borrow the cash or print it. Both have terrible consequences for the economy and the taxpayers. If the government borrows money out of the economy to give away to welfreeloaders, then that money cannot be used as capital. Just as a farmer is more productive when he uses a tractor than when he tills the soil by hand, so workers in general are more productive when they have more and better capital per worker. The primary determinant of wage rates is productivity, which in the modern world is chiefly increased by an expansion of new capital equipment. Thus, the bleeding off of our capital by government holds down wages and prevents the creation of jobs.

If the money goes to social-welfare programs instead of capital goods, most of it evaporates in instant consumption. Senator William Proxmire, Chairman of the Senate Committee on Banking, Housing and Urban Affairs, has pointed out that for every ten billion dollars drained from capital supplies by federal borrowing, there will not be private capital for approximately five hundred thousand new housing starts. That causes a direct loss of one million jobs and an indirect loss of two million more. The more money the government has to borrow, the more jobs that are destroyed or never come into being. Money that is loaned to the U.S. Government cannot be loaned to the Amalgamated Widgets Corporation to create more and better widgets to improve our standard of living. This phenomenon is known as "crowding out."

Last year borrowing by the federal government absorbed some eighty percent of available funds in capital markets, which means quite simply that this amount of money was diverted from productive, job-creating purposes to nonproductive, job-destroying ones. When we add the fact that profit margins have been declining, it is small surprise that rates of capital investment in this country are half those prevailing in some other industrial societies.

The only alternative to starving the economy for capital is for the government to print the money it needs to cover its overdrafts. The consequences of this stratagem are also catastrophic.

Printing money causes inflation. Whoa. Strike that. Printing money *is* inflation.

Check your dictionary. It defines *inflation* as "an increase in the amount of currency in circulation, resulting in a relatively sharp and sudden fall in its value and rise in prices." Notice that this is not how the "Liberal" news media use that term. Their polemicists have led the public to believe that inflation and an increase in the cost of living are synonymous. But, your dictionary accurately tells you that it is the increase in the money supply which comes first to bid up the price of available goods and increase your cost of living.

Our economy is one huge auction with millions of buyers and sellers all interacting every day with the prices of goods and services cited in terms of a dollar percentage of the money in circulation. When the government prints dollars to cover its deficits, the introduction of that currency in the economy lowers the value of all the dollars already in circulation and bids up the price of everything in terms of dollars. You can readily see why the politicians want to keep the public confused about inflation.

Not that individual prices cannot move up or down without changes in the money supply. Just as dollar values are changed by the variations in supply of money, prices are also changed by variations in the supply and demand for goods and services. Let's say that freezes and drought cut the food supply. Scarcity will push up the prices. If this scarcity is accompanied by government inflation of the money supply, prices will go just that much higher. If the politicians respond by fastening price controls on the economy, food will be less economic to produce, will become in even shorter supply, and a black market will arise. Whatever the politicians do artificially to try to manipulate the economy, it always backfires on the consumers.

The politicians blame unions, business, and consumers, but none of them have the ability to increase the money supply. The culprits are the politicians themselves. It is they who run up the deficits of seventy-five billion dollars a year. Occasionally a politician gets sick of it all and admits the truth. Secretary of the Treasury William Simon did that in a speech at Southern Methodist University in early September 1974, declaring: "Either we get higher taxes directly, or the resulting budgetary deficits produce inflation, which is the most insidious and indiscriminate tax of all."

Secretary Simon is, of course, completely accurate when he characterizes inflation as a tax, since that is precisely what it is. If the cost of living goes up ten percent this year because the government has inflated the money supply to pay out billions of deficit dollars, you have paid an additional ten percent tax. As Irwin Schiff comments in his book, *The Biggest Con*: "There is nothing mysterious about inflation. The government could stamp it out tomorrow if it really wanted to. After all, inflation is conceived by government, nurtured by government, perpetuated by government. *Inflation is government's silent partner. Inflation permits government to bestow increased 'benefits' on taxpayers without the apparent need for increased taxes. Inflation permits government to retire huge debts without being inconvenienced for honest repayment.* . . ." (Italics in original.)

Senator Jesse Helms gets down to the basics of inflation when he states: "Inflating the currency is tantamount to theft. It is a form of embezzlement, a 'covert operation' if there ever was one, and an immoral act. Inflation is destructive of free enterprise, since it discourages saving and the investment of capital. Who will save dollars that are certain to become worth less and less?"

What has the inflation tax cost the taxpaying middle-class? From 1970 to 1976 the cost of living was escalated fifty percent, thanks to the "necessity" of cheapening our currency to cover all the debt voted by Congress. Indicative of the sinking purchasing power of the woebegone dollar is the fact that the two-dollar bill brought back in 1976 bought exactly what $1.15 would purchase only a decade earlier. Projecting inflation a decade into the future, if the dollar loses its value at only six percent a year — a very optimistic assumption — today's dollar will shrink to fifty-five cents. If as is more likely there is a ten percent rate of decline, the spending power of that dollar in your wallet will be worth only thirty-eight cents.

How much "inflation" we have depends on how much red ink the politicians use. It also depends on whether the deficits are financed by borrowing real savings from public institutions or whether money is printed. During the past year most of the Debt was covered by borrowing genuine savings, and the Federal Reserve System kept the increase of the money supply under ten percent. But here, as we have noted, we are paying the price for these deficits in terms of antiquated equipment, and jobs destroyed or not created.

While the fraud of deficit spending is the politicians' most important contrivance for keeping taxpayers unaware of how heavily they are being taxed, it is not the only arrow in their quiver. Another pointed ruse is to make the public believe that the "rich" are the ones being made to bear most of the tax load. As Irwin Schiff informs us, this is utter nonsense. "It is those in the vast middle and lower income brackets," says Schiff, "who pay the bulk of the taxes. For example, using IRS figures for the year 1971, out of total tax receipts of $188.4 billion, only $13.9 billion, or about 7 percent, was collected in income taxes from those earning over $50,000 a year ($10,000 in 1945 dollars) while another $3.8 billion was collected in estate and gift taxes from those who might presumably be in the wealthy class. So, a grand total of $17.7 billion in federal taxes (or less than 10 percent of the total tax bill) can be said to have been paid by America's wealthy . . . ."

The truth is that almost ninety percent of our taxes are paid by families earning between five thousand and thirty thousand dollars a year. The poor on one side and the wealthy on the other combine to pay but ten percent of the taxes. According to *U.S. News & World Report* for June 3, 1974, some "402 Americans with income of $100,000 or more in 1972 escaped income taxes entirely — and four of them made more than a million dollars." But, lest we forget, there were 1,011 people who reported incomes of a million dollars or more in 1972. Of the 1,007 who paid taxes, their average tax was 47.2 percent of their income. Even if you took *all* of the income from each of those 1,011 millionaires it would run our federal government for only two days. So the pretense that a graduated income tax on the tax-ducking rich will finance government is a deception and a fraud.

One of the most easily sold fallacies is that corporations are bearing a major portion of the tax burden. It is true that the corporate income tax is the third-largest source of federal revenues, but it provides only fifteen percent of the federal Budget. And, as we explained earlier, corporations don't really pay taxes. They pass all such levies along to the consumer in the form of hidden or indirect taxes which are included in the price you pay for the product. When you buy a Chevrolet, you are helping to pay the corporate income tax of General Motors. The money G.M. pays the government in corporate taxes is simply one of the costs of producing the car. All such costs *have* to be passed along to the consumer or G.M. will go out of business. It is doubtful that even the demagogic politicians who scream every election for increasing the taxes on the "big corporations" are so economically ignorant that they do not know that any such taxes will mean higher costs for consumers.

Corporate profits run an average of about five percent of sales. As columnist Warren Brookes observes: ". . . the politician who rants about 'corporate rip-off' works for a government which now takes nearly 44 percent of our personal income in taxes and spending — while the corporations collectively, big and small, who provide us with the jobs we have, and the products we use, do all this for less than 5 percent of our personal income in profits." And, says Brookes, "it has also not yet become clear to the public that while government's share of our economy grows larger each year, the share being taken by profits grows steadily smaller."

But, in the long run, the political tax fraud which may turn out to be the most vicious is the one which pretends to be the most humanitarian. I refer to Social Security, realizing that many Americans have been conditioned not to think of Social Security as a tax. Rather, they view it as a forced savings plan and imagine that somebody in Washington is entering their contribution in a savings-account passbook. Nothing could be further from the truth. You don't have an account; nobody else has ever had an account. All the Social Security collections go into the general fund and are spent each year. Every penny that has ever been collected in the last forty years has long ago been spent. The federal government simply absconds with the Social Security cash each year and leaves in its place an I.O.U. in the form of a bond. The Treasury runs the bonds off on a printing press.

All of the money paid into Social Security this year, plus several billion dollars more, will be paid out to people who have already retired. Because politicians have continually expanded Social Security, both in numbers covered and amounts, today's recipient in most cases is getting back far more money than he paid. Social Security in reality is a chain letter or Ponzi game. If you understand why these scams always fail in the end, you understand the fallacy of Social Security. Like all chain letters and pyramid schemes, those in at the top get a good deal. If you happen to be in your sixties, congratulations! But if you are in your forties or younger, you are on the bottom of a crushing pyramid.

This system can last only as long as there are many more workers than there are retired people. The levelling off of the population means that the proportion of workers to retired persons is going to become more equalized. Zero Population Growth is the death knell for the Social Security Pyramid. It guarantees skyrocketing taxes to maintain an increasingly bankrupt Social Security system.

Seven workers paid Social Security taxes in 1955 for each American collecting benefits. By early in the next century, if we survive all of this, only two workers will be paying for each one receiving a retirement check. Nevertheless, Social Security continues to be the most popular hoax of all time. This doesn't mean there will be a cutback in Social Security payments. It just means taxes and deficits are going much higher. Politicians will supplement the Social Security fund with money from the general tax fund, making a bad situation worse. The treadmill, for those still employed, will roll faster and faster.

In the meantime, in an attempt to postpone the day of reckoning, the Social Security tax will be constantly raised. When Social Security was adopted, the maximum proposed tax was to be three percent withheld from the employee and three percent paid by the employer, on a maximum of three thousand dollars, for a total tax of one hundred eighty dollars per year. Now the employer and the employee each pay 5.85 percent on $16,500, so that the total take for the government to mismanage is $1,930.50. This is better than a one thousand percent increase over the original price tag.*

Besides trying to pull the wool over the eyes of the taxpaying sheep they are shearing, the politicians stand ready with a number of phony solutions to propose whenever the bleating becomes too noisome. The idea is to cater to the general feeling of every taxpayer that he pays too much in taxes while others do not pay enough. Senator Russell Long, Chairman of the powerful Senate Finance Committee, has remarked that most of the time tax reform means: "Don't tax you, don't tax me. Tax the fellow behind that tree." The name of the game is pin the tax tail on some other donkey.

We have already established that taxing the rich, the ancient demagogic battle cry, is no solution since there just aren't enough of them. And the concept of penalizing the most competent and successful within a society is suicidal and immoral anyway. This not only discourages excellence, it siphons off the most likely investment capital needed to create jobs, in order to turn it over to bureaucrats who will use it most unproductively.

Another variation of this theme is the call for an increase in inheritance taxes. This has appeal to many because people like the Rockefellers, Kennedys, and Fords have used their huge fortunes to promote an increase

*The idea that the employer is paying half is another bunco game. To the employer, the Social Security tax is simply part of the compensation paid his employee, just like any other fringe benefit. If the employee is not worth the total cost of wages, *and all fringe benefits*, that worker is not employed.

in the size of government at the expense of Middle America. They did this to increase their political power, and as a way to obtain tax subsidies through the government for themselves, while protecting their personal wealth for generations in tax-free foundations and trusts which others cannot duplicate. The reason is that the federal government has strong discretionary power over which foundations and trusts are legitimate and which are "tax dodges." You do not have the same influence in Washington as the Rockefellers, the Kennedys, and the Fords. Their foundations and trusts are "legitimate" and yours are a "tax dodge."

Originally established as a tax on the rich, estate taxes have because of inflation become a considerable burden on the middle-class. Many family businesses and farms now have to be liquidated for cash to pay death taxes. This has led to the growth of conglomerates in both business and agriculture. The government only raises enough money through inheritance taxes to run the federal establishment for two days, but such taxes can wipe out a lifetime of effort and thrift for an entire family. As Professor Hans Sennholz observes: "When applied to confiscatory estate taxation, or any other government policy that causes capital consumption, this principle permits us to conclude: Any policy measure that takes capital from the rich to facilitate consumption actually aggravates economic and social inequality and creates a society of economic and social classes. Progressive estate taxation, in particular, aggravates the inequality. Therefore, anyone genuinely concerned about economic inequality must favor a summary abolition of the tax."

Another of the office seeker's favorite ploys at election time is his promise to "close loopholes." The implication is that if these "loopholes" were closed the government would collect far more taxes from the rich and thus the tax load for Average Joe would be reduced. In the Tax Reform Act of 1976, most of the so-called "loopholes" *were* closed — and all it has done is increase the appetite of the government for revenue.*

Loopholes were the spaces in the bureaucratic curtain through which Free Enterprise breathed. But what a loophole often does is artificially to divert capital into a specific field. For example, until the new tax law, huge write-offs were available in the movie field. Many business people invested in wild movie schemes because it was either that or give the money to the government. An example of a more productive closed loophole was in oil-well drilling, but now real estate and capital gains taxes are about all that remains of the so-called loopholes. All the abolition of these last two would do is transfer more capital from productive private parties to the bureaucrats.

Revenue Sharing and other federal aid programs are also supposed to relieve taxpayers — this time of state and local taxes. But these create another deception. The federal government gets its funds from the same local taxpayers it is supposed to be relieving. A local taxpayer's funds are shipped to federal bureaucrats who send what they do not consume back to local bureaucrats who may or may not spend the money on projects desired by those who put up the money in the first place. As one wit has noted, it is like a transfusion of blood from one arm to another while spilling half of it in the process.

*The 1976 Tax Reform Act conveniently caused a huge increase in taxes for many people without the government officially raising the rates.

In fact the federal Revenue Sharing Act is even *more* treacherous than such a madcap transfusion. In the first place, the federal government has no money to share since it perpetually runs deficits. Revenue Sharing simply allows local governments access to the federal government's ability to spin Debt out through inflation. Worse is the fact that built into the Revenue Sharing scheme are strong inducements to state and local governments to increase their taxes. The amount of revenue Big Brother will share depends upon how much the state and local governments will raise in taxes. So local taxes are ballooned in order for local politicians to get their hands on more federal money. The same taxpayer gets stuck for both tabs — all in the name of saving him money! And federal guidelines are meanwhile added to the whole scheme so that Big Brother in Washington can tell Little Brother in Glenns Falls what to do about everything from schools to local police.

Are we doomed to be tax slaves? Is there no way out? Well, there is no easy way out. But things will either have to get a lot better or they will get a lot worse. If the situation is to get better, we Americans are going to have to stop kidding ourselves. We will have to face the real world — not the one of pleasant delusions that is so often projected by politicians.

The first reality is that there is no such thing as a free lunch. This slogan should be carved on every school in the country. The second is that we must think in terms of cutting all taxes, not just shifting our burden. If we try to shift our burden to someone else, they will only find a way to use the politicians to shift theirs to us and our predicament will continue. The third reality is that government expenditures always rise to meet income. The government's voracious appetite for ever more money can never be appeased. The only way to cut government waste and extravagance *is to cut government income.*

Supertaxing, superspending, supergovernment will only be stopped when the complexion of the House of Representatives, where all spending bills begin, is radically changed. This is the only tax reform that will work. The Congressmen who are busy buying votes with your money are not going to solve the problem. They need to be retired. But they will not retire themselves. Few of them have alternative employment available that is as financially and egotistically rewarding as being a Congressman. That means you are going to have to go to work in your Congressional District to find an Americanist candidate who is dedicated to Tax Reform IMmediately through reducing the size and scope and reach of the federal government.

Having found such a candidate, your job is as simple as working to educate your fellow taxpayers about the voting record of the incumbent spender. To help you do this we recommend that you enquire of the national TRIM Committee, whose address and activities are provided by Alan Stang in the article beginning on page thirty-three. The TRIM people, with education committees in some two hundred fifty Congressional Districts, have a sound program that makes sense. They can show you how to begin effective action today. ■ ■

CRACKER BARREL

■ "When I was research head of General Motors and wanted a problem solved," explained Charles F. Kettering to friends, "I'd place a table outside the meeting room with a sign: 'Leave slide-rules here.' If I didn't do that, I'd find some engineer reaching for his slide-rule. Then he'd be on his feet saying, 'Boss, you can't do it.' "