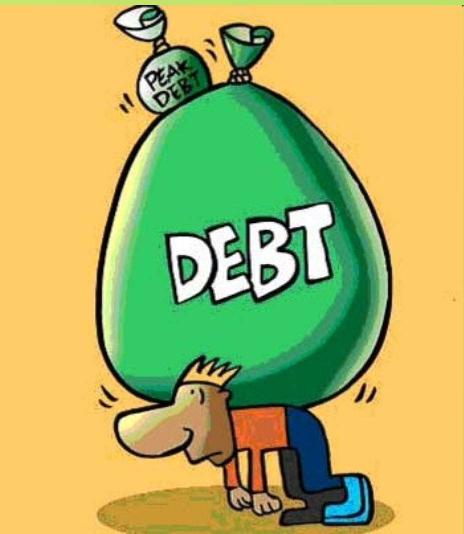
THE ABSURDITY OF THE NATIONAL DEBT



By
The Duke of Bedford

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IT is a remarkable proof of the ignorance of politicians in regard to matters of finance and, in consequence, of their unfitness to play the important part which of necessity they do in the conduct of the nation's affairs, that neither the Conservatives, Labour nor Liberal Parties, not to mention the I. L. P., Communists and Common Wealth, have ever made any important statement of a policy in connection with the National Debt, nor shown the slightest indication that they realize that it is desirable to do anything about it.

HOW IT STARTED!

The National Debt started in 1694, when the Government of the day unwisely arranged that a private syndicate, which later became known as the "Bank of England," should lend it £1,200,000 in gold, at 8% interest. With even greater stupidity, they then allowed the syndicate to issue bank notes to the value of £1,200,000 which it was able to lend into circulation, charging interest.

Thus, although the Bank of England was not put to any expense beyond the cost of the paper and printing, it was allowed to draw interest on two lots of money—its own gold and the new notes to the value of the gold! Later, the Bank of England managed to obtain still more gold which they also lent to the Government at interest, and, whenever they did so, they increased their issue of virtually costless paper money until they were getting interest on £16 millions in gold and £16 millions in paper notes. If the Government had done the obviously sensible thing and, instead of borrowing, had decided to issue its own paper money, it could likewise have done so at the mere cost of paper and printing; there would have been no need for interest to be paid to anybody; and the taxpayer would not have been burdened to provide interest.

As time went on, the Bank of England increased the amount of the paper money it created over and above the amount of gold it held, until it was soon lending out in notes nearly ten times the value of its gold holdings.

During the first half of the l9th century the Commercial Banks invented and began to use, "cheque" money. This new kind of money did not exist even in the form of paper notes, but was brought into being by the simple process, either of entering in bank books the figures recording the granting of loans; or of filling-in cheques to enable the banks to buy themselves Securities. These cheques, it is important to note, did not, like a private individual's cheque, draw on and transfer money already in existence; they created new money to the value of the figures written upon them.

SWELLING THE DEBT

Gradually, also, as the years went by, the Government increased the National Debt by borrowing at interest more and more money. It borrowed, either new money from the banking system, or existing money from private individuals and organizations, instead of keeping out of debt by causing the banks to create the money which it required, without any interest-charge, using anti-inflation taxation, when necessary, to keep the money-supply within proper bounds.

The practice of the Government when borrowing and adding to the National Debt, is to issue Government Bonds and Securities of different kinds, of which Consols, War Loan and War Savings certificates are familiar examples. These Government Securities are really bits of paper giving the holders the right to receive interest. This may sound all very nice, but there is a snag about the practice which will be explained later. The Government Securities, or in other words the holdings of the National Debt, are bought by private individuals and organisations with money already in existence. In the case of banks, however, they are bought, as already indicated, with newly-created money, for, according to banking practice, a Commercial Bank like Barclay's or the Midland, can, by the mere filling-in of the cheques making the purchase, create new money for buying Securities (or making loans) up to about nine times the amount of its "cash reserves."

These latter consist of coin and notes and cheques drawn on the Bank of England. For example, someone banking with the Midland might deposit £100 in notes, or a cheque to the value of £100 drawn on the Bank of England. That would give the Midland Bank the right to create, either for buying Securities (including Government Securities which add to the National Debt) or for making loans, or partly for the one purpose and partly for the other, up to £900 of new cheque money.

The National Debt, always increasing, has, within the last half century, gone up by leaps and bounds. We will first consider the extent of the increase, and some of the mathematical problems and absurdities involved. We will then proceed to deal with some of its other highly objectionable Features.

In 1914, before the outbreak of the First World War, it had increased from the original £1,200,000 to £700 millions; income tax was 1s. 4d. in the pound; and the average of taxation per head was about £3 per annum. During the seventy years prior to 1914, some £1,500 millions had been spent from taxation in mere interest charges, without the capital of £700 millions being in any way reduced.

This is important, and indicates one way in which the mad practice of borrowing at interest from the banking system and other sources is so thoroughly unsatisfactory and unfair. As year succeeds year, and interest payment piles up on interest-payment, the time comes when the unhappy country has paid out, in interest-charges much more than the original sum borrowed. and yet it is as far as ever away from making its escape from debt, for, in spite of the huge sums paid to the lenders, the principal remains unreduced and the right to go on levying interest continues indefinitely!

It is important to note that, because of this ridiculous state of affairs, although the last bill for munitions, etc., was probably met within a year or two of the conclusion of hostilities, we are still paying interest on money borrowed for the Napoleonic Wars; still paying interest on money borrowed for the Crimean War; and still paying interest on money borrowed for the Boer War, not to mention, of course, money borrowed for the two World Wars!

By the time the 1914-1918 war had ended, the National Debt had risen from £700 millions to about £7,000 millions at which figure it stood during the period between 1918 and 1939. The average interest charges during this period of twenty-one years, amounted to £240 millions a year or just over £ 5000 millions drawn out of the pockets of taxpayers yet without ever reducing the capital sum of £7,000 millions.

The first World War, it is important to remember did not materially decrease this country's capacity to produce and import real wealth in the form of goods and services. Indeed, it is probably correct to say that, by reason of war inventions and discoveries, the capacity of Britain to produce and import goods actually increased.

In spite of this, however, the power of people of all classes to buy and enjoy the goods and services which either were produced or could have been produced, was diminished by the vastly increased taxation. Rich people had to pay far more in super-tax. Poor people had to pay more in "indirect taxation." (Indirect taxation means Customs and Excise dues on imported goods, which add to the price of the latter and increase the amount of money which purchasers, including the poor have to pay in order to obtain them.)

USURY CREATES POVERTY

Educated people who were wealthy, or had once been wealthy, never had the sense to ask themselves why, when the nation's power to produce goods and services was greater than before, they, because of increased taxation, must be content with less; nor did they ever enquire why the poor could not be given a larger amount of the increased wealth in goods, without their own standard of living being reduced. Most of them attributed the heavy taxation and diminution of their power to purchase what they needed or desired, to the increased expenditure on Government services, including education, unemployment relief, etc.

Here their ignorance of financial matters led them into error, for as far as its effect on taxation was concerned, increased expenditure on Government services was a mere flea-bite by comparison with the amount they had to pay in order to provide interest on the ever growing National Debt. The more selfish among the complainants, and those who were not eye-witnesses of the sufferings of the poor, grumbled because more money was being spent—and rightly spent—in helping members of the weekly wage earning class. They remembered cases they had come across of lazy workmen, and they thought and argued as though all the unemployed were lazy.

The weekly wage-earners, on the other hand, equally ignorant of financial matters and naturally angered by the selfish and unfair criticism of those who, in spite of their reduced standard of living, were still far better off than themselves, hated their critics and demanded that they should be taxed still more heavily, believing that only by such means could their own lot be improved. Thus it came about that the spirit of class hatred and antagonism tended to increase, largely because both sides were putting the blame in the wrong place!

As a result of the borrowings at interest made during World War II, the National Debt has now increased from £7,000 millions to £20,000 millions and it has not stopped rising. It is indeed doubtful if it can stop rising! If the Government started repaying the National Debt at the rate of one million pounds a week, it would take more than 400 years to clear off the capital alone, regardless of the interest-charges which, if these were only 2½% would exactly double the capital sum every 40 years.

If every male worker in this country were to give £l a month to repay the capital amount, it would still take 130 years to clear, without taking into account any interest charges at all. If current interest-charges are reckoned at only 2½ average, the sum which must be drawn out of the pockets of the people year by year, without ever starting to reduce the principal of the debt, is £625 millions, or about £10 millions a week, which is equal to every male worker contributing about £32 15s. 7d. a year, or £2 14s. 7d. a month. Is it any wonder that we feel crushed and strangled by taxation? Is it not incredible that none of the major political parties are in the slightest degree interested in this vital matter?

A new arrangement made since the Bank of England was nationalised, whereby the Bank pays into the Treasury an annual sum of £I,746,360 "which will be applied to the payment of any interest which would otherwise have fallen to be paid out of the permanent annual charge for the National Debt," in reality does nothing useful to effect a progressive reduction in the burden of the Debt.

This is so, because we find elsewhere in the Nationalisation Bill that the same amount—£1,746,360—is to be collected by taxation for the benefit of the former stockholders of the Bank. This tax in effect adds to the interest-charge on the National Debt, so that the arrangement whereby the Bank pays an equivalent amount into the Treasury, merely cancels out an annual addition to the debt and fails, as I have already pointed out, to reduce progressively either the colossal principal sum of £26,000 million, or the interest which has to be paid thereon.

WHO BENEFITS?

We will now proceed to consider other aspects of the folly or iniquity of the National Debt. Remember that all the interest on the Debt, or in other words, all the dividends paid to holders of every form of Government Securities, come out of. taxation; and remember that every citizen who is a holder of Government Securities is also a payer of taxes, direct or indirect, and usually both.

Absurdity No. 1 is that those who are holders of Government Securities, or in other words, investors in the National Debt, themselves, through taxation, provide the Government with the money wherewith to pay them their dividends! They might therefore be as prosperous, and in many cases, indeed, much better off, if they had no money invested in Government Securities and no dividends paid to them for their holdings, but, as a result, no taxation to provide such dividends, either!

Not only do the holders of Government Securities themselves, as a class, have to provide all the dividends that the Government pays them; they also have to provide a substantial sum of money to pay the salaries of the host of persons, who doing no creative work of any kind, merely take their money away from them and hand it back again. In other words if the interest on the Government Securities is 2½%, then probably some 3% is actually needed and collected to include the remuneration of those who administer the scheme. This means that the people are paying £3 out of one pocket in order that the bureaucracy may hand them back £2 10s. to put into the other pocket!

Absurdity No. 2 is that the taxpayer cannot spend on his own needs and desires money which he has to keep in reserve for paying taxes, including, of course, interest-on-National-Debt taxes: and, equally, the State cannot spend on any good purpose or social service, money which it has to keep in reserve for paying interest to the holders of Government Securities! A large number of persons, therefore, are being employed, quite uselessly, in the endless collection and transfer, backwards and forwards between the taxpayer and the State, and the State and the taxpayer, of vast and ever-increasing sums which neither party can spend in any useful way whatever!

Absurdity— and injustice—No. 3 is that the holdings of the small investors in Government Securities and the National Debt, the "men in the street," as it were, who have not more than £500 shares, only amount to some 20% of. the total. Eighty per cent. is held by banks, insurance companies, and other large organisations, and, as we have already seen, banks obtain their holdings, as a general rule, by creating new money by a stroke of the pen.

Banks also, it might be added, have means denied to the small investor, of disguising their profits and escaping taxation.

Absurdity No. 4 is that the small investors pay in taxation, in order to provide dividends on their holdings of the National Debt for the big investors, about four times as much money as they ever receive as dividends on their own holdings! Another racket in connection with the National Debt, quite common in the 1914 - 18 war, was for the banks to create new money in the form of loans and lend it to the insurance companies, etc., to enable the latter to buy Government Securities and a share in the National Debt. The holdings in such cases would stand in the name of the insurance companies, and not of the banks, but might be dividends on the holdings (obtained of course from taxpayers) would be shared between the banks and the insurance companies. Sometimes, too, an insurance company or other big concern would, during the war, sell shares in some industrial enterprise which produced goods and services (or sale at a profit (and quite rightly paid dividends), and use the money so obtained to buy Government Securities, thus placing itself, as it were, on the taxpayer's already over-burdened back. The opinion of experts is somewhat divided on the question of whether there has been any repetition of this practice during the last world war.

Before we leave the question of "rackets" it may be well to call attention to another dishonest practice in connection with the National Debt to which governments are prone to resort.

Investors are sometimes tempted by the assurance that at a future date they will be paid a larger sum for their investments in Government Securities than they originally gave. It has originally been stated, for example, that the original National Savings Certificates were first issued at either 15/6 or 15/9, to be worth 21- in seven years' time. When the seven years had elapsed no allowance, however was made for the fact that the purchasing power of the £ had declined to about 8/- by comparison with its value at the time that the National Savings Certificates were first issued.

The result was that the people who invested 15/6 worth of purchasing power in 1940, in 1947 got back 21/- worth in name, but only 9/- worth in actual fact! In other words, they made no real profit at all, but have incurred a loss of 6/6 on every 15/6 invested! In spite of this, people have again been invited to invest 10/- on the understanding that they will get 13/- back in ten years' time!

The defence is sometimes put forward that the National Debt is really quite harmless, as it virtually amounts to taking money out of one pocket and putting it into another and it also operates as a form of anti-inflation taxation. Why it should be defensible to waste a stupendous amount of time and labour and put millions of people to unnecessary trouble in order to accomplish the useless result of taking money out of one pocket and putting it into another, is not revealed!

As for the National Debt operating as a form of anti-inflation taxation, this may be true in so far as it keeps a large sum of money out of effective circulation—regardless, it might be added, of whether general conditions render anti-inflation taxation, or that amount of anti-inflation taxation, desirable or not.

There is, however, a well-known saying about burning down the house in order to roast a leg of pork. By comparison with sensible, businesslike anti-inflation taxation, carefully designed to take out of circulation during a given period that amount of money, and that amount only, which, if left in people's pockets, would prove redundant, the National Debt is entirely comparable to the destruction, by fire, of a splendid mansion in order to reduce raw pork to a cooked state.

If the question be asked, "What should be done in order to put an end to the National Debt and to the evils connected therewith?" the answer is not very difficult. In the first place, a clear distinction should be drawn between those who have bought their holdings of the National Debt with money they have saved, earned, inherited, or otherwise normally acquired; and those who have bought their holdings with newly created money, i.e., the banks and those bankers' nominees who have been granted bank loans wherewith to make their purchases. Banks should be ordered to sell their holdings of Government Securities to the State, which, as a matter of bookkeeping, would pay them with newly created non-debt money.

This money, in accordance with existing banking practice, the banks would then be required to destroy, for, just as under the present system they create new money when making loans or buying Securities, so do they destroy money when they receive repayment of the principal of loans or sell Securities, keeping only the interest for themselves.

If this action were taken, a part of the National Debt would be wiped out immediately, without any risk of inflation, and all the attendant nonsense of endlessly collecting money by taxation, distributing it and collecting it again, would cease. No injustice would have been inflicted even on the banks for they have already done extremely well out of the interest received in the past from Government Securities which were purchased neither with their depositors' money nor with money they had to save or earn. If it were desired to treat bankers generously for the work they do as the nation's accountants, they could be paid the most ample salaries, just like any other public servants, but this could be done without burdening the whole country with the hocus-pocus of the National Debt. With regard to bankers' nominees, i.e., those to whom the banks have lent newly created money to enable them to buy Government Securities, these, if they should still exist, should be dealt with in a rather similar way.

The banks should be directed to call in their loans made to these nominees. The Government would then give the nominees newly-created, non-debt money to enable them to make the repayment, and the banks, on receipt of this money, would, again in accordance with present practice, cancel and destroy it.

There would remain only that part of the National Debt purchased by private individuals, organisations, etc., with money already in existence and obtained in a normal manner. These persons should be paid the full value of their holdings with newly-created non-debt money, as rapidly as could be arranged without risk of inflation, and they could then spend the money so received or invest it in Industry. It might be found possible and desirable to speed up this process by granting fewer bank loans during the period when it was carried out.

The less money created by bank loans, the more can safely be created for other purposes. If it were felt that special consideration should be shown to elderly persons of small means who have been encouraged to invest in Government Securities because of the certainty of the income to be derived therefrom (neither they, nor anyone else, seems to have appreciated the connection between the "certainty" of the income and the "certainty" and inevitability of the taxation which provides it!), an arrangement could easily be made to allow them suitable annuities for which, incidentally, they would not have to help to provide the money, out of the taxes which they themselves paid!

The Government's present policy of reducing rates of interest on holdings of the National Debt, without attempting any fundamental reform of the financial system, is neither fish, flesh, fowl nor good red herring so far as small investors in the National Debt are concerned. The low rate of interest brings them but a miserable and inadequate return for the sums of money they have, with difficulty, saved and invested, while at the same time they get no compensating advantage in reduced taxation consequent on a thorough overhaul of the entire financial system. If the question be asked, "How can the Government obtain the money which it formerly got by borrowing at interest?"

The answer is again very simple. It can direct the banks to create it not in the form of interest-bearing debt, and it can use anti-inflation taxation to collect, from time to time, just as much of that money as may be necessary in order to prevent an excess from remaining in circulation.

Money, it must never be forgotten, derives its value from the presence in the country of an adequate backing of goods and services. It does not derive any value from the fact that it was first created as interest-bearing debt, or, indeed, debt of any kind.

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