social security fund is not affected, one way or the other, by its holding of bonds as evidence that the government is indebted to itself.

A governmental promise is a promise, whether backed by a bond, or by a social security account, or by a whole pyramid of promises, one upon another. To cancel or destroy the bonds held in the social security fund would not change anyone's equity in anything. The promise of a social security pension has value only because the government holds the power of taxation—not because it issues bonds or makes promises. The validity of social security claims against future taxpayers would not be changed if there were a thousand times as many bonds in the social security fund as at present—or if there were no bonds in the fund at all.

The Inflation Tax

INASMUCH as the redemption values of all government bonds, social security benefits, and other governmental promises of future delivery are contingent upon the future collection of taxes, it must be seen that each added bond or promise tends to weaken the financial position of the government. There is a limit to the tax burden which future generations will be willing and able to bear.

Actually the mushrooming of governmental promises of future delivery is a form of current taxation—a method of dipping into private savings, which is commonly known as inflation. When the government sells one of its bonds, or collects the social security tax, it obtains a given amount of real purchasing power from individuals. The dollars with which the government eventually redeems its promises lose purchasing power in proportion to the volume of such outstanding promises. Meanwhile, all other promises which are payable in dollars, including the dollar obligations contracted by individuals, also lose their purchasing power. This encourages private spending and discourages saving and private capital formation. Inflation is a subtle and destructive method of taxation. And the social security program is a part of that destruction of private enterprise in America.

It was a somewhat arbitrary decision which recently halved the returns to beneficiaries of the Anthracite Health and Welfare Fund—a decision forced by the hard economic fact that declining productivity necessarily means a lower standard of living. Likewise, when the day comes that American taxpayers will no longer tolerate a tax burden which robs them of incentive to produce and earn and save, then it will be an arbitrary decision which bears the