We have gone far indeed under the driving force of the give-away and attendant rob-Peter-pay-Paul spirals – perhaps further than we realize.

Institutionalized Inflation

Implementing and interacting with these spirals is the inflation spiral. As a peacetime phenomenon I think of it as having two energizing origins. One of them is the insatiable requirements of the give-away spiral. The other is the monopoly power granted to labor unions. Both politically invoke the framework of soft money required for their functioning.

I think I have already said enough for us to understand that once we embrace the policy of having our government take care of those who do not take care of themselves, then the forces of human nature take over to make the process competitively self-perpetuating and self-augmenting. We have to do Lewis Carroll's Alice one better: We have to run ever *faster* just to stay where we are. Ever more federal largess is required and so the persistently recurring question is, "From where is the money to come?" There are only two answers. One is to take it in taxes; the other is to engage in its printing or the modern equivalent thereof. Both present dilemmas that tend to become increasingly unresolvable, and when they become completely unresolvable we have passed a point of no return.

The tax dilemma is a perfectly straightforward one: There is a point – even though no one can define it with precision – when the burden of taxation selectively imposed on the more productive and efficient will substantially destroy both their incentive and their ability to engage in new productive investment, out of which alone comes the creation of new self-sustaining jobs. You recall, of course, that the only way that such jobs ever come into existence is when someone invests savings – supposing they have not already been taxed away – in productive facilities and thereby creates the environment in which men may go to work producing the marketable values to cover their continuing wage. Impair too much the investors' profit in so doing, and the doing of it will be curtailed. There will be fewer new jobs for an expanding labor force to fill, or to replace those constantly being eliminated through technology. In such fashion a vicious spiral is born: The taxing aggravates the unemployment burden on the State, to carry which burden then calls for still more taxing. The Golden Goose in America is a mighty tough bird. It can and has taken a lot of plucking. But our pride and pleasure in its toughness should not beguile us into supposing it can never die.

The record is clear that what has been obtained from taxation has not been enough to meet the peacetime spending requirements, or temptations, of a welfare-minded government. There has been extensive resort to inflationary deficit financing, both before and after World War II, to get additional money to dole out. Although hidden behind a formidable façade of technicalities this inflationary process is relatively simple: We have our government print bonds which are turned over to banks, who in exchange for them create equivalent amounts of the deposits which we use for money. This multiplies the supply of money out of proportion to the goods and services going to market. The result is higher prices.

But this process breeds its own historically familiar dilemma, too. For if prices go up, then government's costs go up. The previously established level of out-go becomes inadequate for the originally intended purposes and so must be lifted. But this in turn increases the need for additional money, and hence for still further resort to the printing press. We thus walk in the shadow of the inflationary spiral, the most vicious spiral known to economic science. It is one which has devastated one country after another in the course of human history. It is loose in the world today as the handmaiden of extravagant governments functioning on paper money standards.

Industry in this country has receded only a moderate amount from the peak of the biggest boom ever experienced. But we find ourselves suddenly confronted with the prospect of huge federal deficits. Corporate job-creating investment in new plant and equipment has been experiencing serious decline. But inflation continues and fear of its aggravation mounts. Many thoughtful people warn of little likelihood that unemployment will be significantly reduced short of many months. We now need maximum incentive, but we fear that we cannot reform our system of incentive-smothering taxation without either withdrawing from the economy the support of federal disbursements or aggravating the inflation implicit in multiplied deficit financing. The several dilemmas I have described as slowly evolving over the long years are drawing into a central and perplexing focus.

I personally am certain that we have not passed a point of no return. The American Golden Goose is a tougher bird than most people