

# The Barigoule



HENRY GEORGE SCHOOL OF NEW JERSEY

No. 22

APRIL 1958

## A TAX CUT

In their anxiety to end the present downturn in business and improve employment, the politicians have virtually promised the people that a cut will be made in income taxes. This is pleasant news to all of us, but some still question its wisdom.

However, the graduated income tax is one of the worst types of taxes which can be levied as it destroys incentive, penalizes heavily those who produce the most wealth simply because they have it, and as it is based on the leveling principles tends to put all of us on the same depressed level of income. This concept is the outgrowth of a warped concept of democracy.

It is true the income tax does get a large share of unearned income as ground rent, but the disastrous effects on producers more than outweigh any advantages accruing from collecting this monopoly income.

The income tax has been called little better than disguised robbery as it is the compulsory exaction of that which an individual produces for some presumed benefits. That being the case, as anything which lessens robbery is good, the politicians by cutting our income taxes will be doing something wise. This is, indeed, a pleasant change.

The main contention of those who feel that income taxes should not be reduced is that the government will make up the lost income by one inflationary device or another. It is perfectly true that it might do that but it does not necessarily follow.

If it is bad for a man to drink spirituous liquors he should cut them out. The fact that to replace that pleasant vice he might take up another, as smoking, is no reason for him to continue drinking. And just as there is no need for this man to take up smoking instead, there is no reason for the government making up its loss in revenue by inflationary devices, as selling its bonds to commercial banks, instead, it should operate on a reduced budget, which it could do very easily if it will cut out such unwise spending as foreign aid, farm parity, and the like.

Of course, as long as our government is

actuated by the philosophy that it can spend the country into prosperity, it will undoubtedly adopt inflation as a means of paying the bill. But it would do that anyway, regardless of whether it reduced taxes or not. However, it knows what a tremendously dangerous weapon inflation is and it is possible that because of that it will be restrained in using it.

To the extent, therefore, reducing taxes it must reduce needless spending. No one can say it will. We can only hope. But, at any rate, as it is right to eliminate income taxes entirely, anything along the lines of reducing them is right.

O.B. Johansen

You who know fundamental economic principles know that both reducing taxes and curtailing government expenses - both in themselves good, ultimately result in increased rental and selling value of land and land speculation.

Mr. Lurto, President and Director of the Boston HGS has prepared an excellent reply to Murray Rothbard's criticism of Henry George. We have in the school library, Mr. Lurto's paper which you may borrow.

## ON THE BANKS OF THE OLD PARTMAN

Dr. G. W. Esty, President of Board of Trustees of HGS-NJ, reported to the last meeting of the board that Rutgers, the State University of New Jersey will make available their facilities for the 1960 Annual Conference of the Henry George Schools. See you at New Brunswick, N.J.

## NEW GRADUATES

An informal reception was held at the school Friday April 18th for the following:

Mrs. Ethel T. Bethae  
Mr. Robert Cerrato  
Mr. Bernard Chyyn  
Mrs. Richard Deane  
Mrs. Dixie Hey Hissen  
Mr. and Mrs. Samuel Katz  
Mr. Edward H. Kingsbury  
Mr. and Mrs. Bernard Klein  
Mr. Albert Leslie  
Mrs. Bella Levine  
Mr. Roger Marino  
Mr. Peter A. Polney  
Miss Sophie Semczenko

Leaders: Phil Grant, Dave Sklar, Jack Tetley

Speakers: G.W. Esty, A.M. Goldfinger



### "PERSONALLY SPEAKING"

Of Mr. V. H. Blundell, Director of Studies at the Henry George School in London, and Secretary of The United Committee for the Taxation of Land Values, and Free Trade, publishers of "LAND and LIBERTY".

The influences of Mr. Blundell's early years were all toward socialism since his friends viewed unemployment and other social ills as evidence that capitalism had failed. However, during his teens, he enjoyed wandering among competing political soapbox orators in a popular open-air parkside forum. Logical reasoning caused him to gravitate repeatedly to the speakers for "The Commonwealth Land Party" and he learned from them the principles of free enterprise and social justice.

From there it was a short step to discovery of the George theories. Through many years, the source of his very greatest satisfaction has been that of conducting classes for the George Schools. He says his wife early grew tired of staying home; came to the school for a "look see" to discover what made it so fascinating; and has long since become an enthusiastic worker there. Their son at age 14 is also "under the influence."

Mr. Blundell began all things early in life. By the time he was 19, he had, among other things, become retail manager for leading shoe firms, and at 26, was General Manager and Buyer of a group of 26 shoe shops.

At some point during his constant studies, he developed a lively interest, in music, gardening and politics. And for relaxation, this energetic man enjoys painting and decorating his home.

Mr. Blundell writes us - "One of my ambitions is to visit your country." We do hope opportunity to do so will soon permit and to meet him personally.

Virginia Harvey

### BANKNOTES

The issuance of banknotes by commercial banks has probably caused more confusion among monetary theorists than any other type of money substitute with the possible exception of checks. The fact that a bank issues promissory notes called banknotes has been both defended and denounced.

Those who decry the practice would have all banks become "banks of deposit". These are banks which merely accept deposits of money. Any account established for a depositor represents money or money substitutes which he actually deposited. Any paper substitutes issued by the bank are certifi-

cates backed 100% by money. As long as banks of deposit acted as such, history indicates that they remained solvent and performed useful, if somewhat limited, service. Usually, however, for various reasons eventually they departed from their avowed practice. In most instances they secretly began issuing money substitutes which were not backed 100% by money and/or short term commercial paper, and sooner or later found themselves unable to redeem all the paper money-substitutes outstanding.

But it must not be assumed because of this that banks of issue, that is, banks which issue banknotes are indulging in a practice which is unsound. On the contrary, they are rendering a real service to the members of the community. A little example may illustrate the point.

A young man starts a business. Other than some small savings with which he buys some land and some equipment, he has nothing but excellent merchandizing ideas and lots of energy. Having established let us say a lumber yard, he goes to lumber and hardware producers, tells them what he plans to do, and gets loads of lumber and hardware on credit, putting up his personal IOU's. If successful in his venture, he pays off his IOU's, and is a recognized substantial citizen. As it becomes obvious that his business is a success, the IOU's he issued are recognized as being sound and almost certain to be paid off. Although it is probably not generally done, a merchant possessing one of these IOU's who owed some other individual might discharge his obligation by endorsing the IOU over to the other party, if he were willing to accept it. This party might be willing to do that if he knew the young man and realized how well his business was coming along. In other words, the young man's IOU's could conceivably circulate throughout the community, and through successive endorsements discharge obligations, much as though they actually represented money. Of course, the IOU's would not be money and nobody would consider them as money. As a matter of fact, they probably would pass around at a discount from the face amount with the discount possibly becoming less and less the closer the IOU approached maturity.

Although businessmen do loan material on personal IOU's, it is probable that when the young man first went around offering his IOU for merchandise, the merchants were reluctant to extend credit on the young man's own note and might have asked him to have it guaranteed by some well-known and respected member of the community, whose financial rating was high. Anyone who guarantees the note accepts the young man's liability in the event that the young man defaulted. This endorser, if he is of sound judgment, will

young man the service of putting his superior credit rating at the disposal of the young man. The endorser might even receive some compensation for rendering this service.

In an analogous fashion, the bank really did nothing but put its superior credit rating at the disposal of the young man, for which it receives a fee (the interest on the loan). And, since the young man pays off the loan to the bank, by, in effect, returning the bank-notes he had borrowed, all the bank need do is to destroy the notes. It does not have to draw on its gold, anymore than the endorser had to draw on his money.

The above illustrates that banks of issue render invaluable service to the community, and are not, as those who oppose them believe, indulging in unsound practices. There is nothing wrong in an individual issuing IOU's. Equally, there is nothing wrong in a corporation or a bank issuing IOU's.

The bank acts, in effect, as a guar-dian of the community, determining which new as well as old business ideas, shall be in operation. They cull out the un-sound, hair-brained propositions of men by refusing to loan their credit to these men. The bank can do this better than individuals as a result of their experience and knowledge. They do not stand in the way of any individual who wishes to invest in some shaky enterprise, which might eventually work out very well. But, instead, the bank acts to aid pro-positions which are reasonably likely to succeed. This is what is desired by people who invest their funds in a bank. In effect, they are saying "we are depos-iting our money in your bank and expect you to use it for conservative proposi-tions." If the people wish to speculate, they will invest other funds in more risky enterprises directly.

If banks were all banks of deposit, of course, they could not put their credit rating at the disposal of enterprising men, and young men, as in our example, would be stymied in their attempts to build up a business which is of benefit to themselves as well as the community. Such a society would not advance as quickly, and many of the people with the best ideas would be unable to put them into action.

One additional point should be noted, and that is if banknotes are issued ac-cording to sound principles, they are backed by money (gold) and/or goods coming to market. Back of the banknotes is a cer-tain fraction of money in the bank's vaults. But also back of them is collat-eral, such as the young man would put up for the loan, which collateral would re-present the actual goods being produced and marketed, that is, the lumber and hardware.

If the worse came to worse, the bank would have not only some gold but commo-dities back of the banknotes. Money is the most marketable commodity in the commu-nity. When you can't redeem the banknotes

in money, the next best thing would be other commodities. While these are not the most marketable, they are of a high degree of marketability. This is the reason that sound commercial practice re-quires that banknotes should be backed by money and so-called short term self-liquidating commercial paper. In effect, the banknotes are backed 100% by commo-dities of a high degree of marketability.

O.B. Johannsen

#### SALT OF THE EARTH

A good way to widen the straight and narrow path would be for more people to walk it.

Today the only way some people can face bills is with pills.

Anybody who's not neurotic these days is probably under-privileged.

The trouble is that so many of us are saying, "The trouble is ...."

A wealthy Texan bought a new Cadillac ... and took his change in Volkswagens.

#### Definitions:

Junkyard: - Chinese harbor.  
Daffydill: - A crazy, mixed up pickle.  
Commenator: - An ordinary spud.  
Optimist: - One who goes into restaurant without any money and expects to pay for the meal with the pearl he hopes to find in the oyster.

Fact: - Getting your point across with-out stabbing someone with it.

#### ADVANCED OPTIMSES

Course II (of the three basic courses) Applied Economics, will be offered at Newark Headquarters this Fall. This is open only to graduates of Fundamentals. It is in two Parts, the first, Inter-national Trade, and Part II Social Prob-lems, five weeks each part. No charge.

#### EVENTS AT HEADQUARTERS

to which you are invited - 8 p.m.  
Thursday Discussions - May 1st and 15th

Henry George School  
of New Jersey  
78 Clinton Ave.,  
Newark 2, N.J.

Non-Profit  
Organization  
U.S. POSTAGE  
P A I D  
Permit #2136  
Newark, N.J.

Mr. Ray E. Cozad  
1610 Woodward Ave.  
Springfield, Ohio

Form 3547 Requested



be careful not to endorse the notes for any amount which he could not handle in the event the young man defaults. Just how large and how many IOU's the man would guarantee will depend on many factors, such as the endorser's wealth, his estimate of the young man, his views on economic conditions and his general philosophy on such matters. A wealthy man in the prime of life probably will be able to endorse a greater percentage of notes in relation to his wealth, than a poorer man, or even an equally wealthy man who is in retirement. If the endorser over-extends himself by being too generous in endorsing notes, he runs the risk of having to make good on many of them. In such an eventuality, he undoubtedly would cut down on future endorsements. Again, these notes of the young man which are now guaranteed by the endorser also might circulate throughout the community discharging obligations. The fact that they are guaranteed by a substantial citizen of the community would enable them to circulate quite readily and probably at very low discounts, maybe no discount at all.

While men do start businesses as explained above, it is difficult for a young man to get credit directly from merchants, and he might have even greater difficulty finding someone willing to guarantee his notes. Therefore, it is quite likely that he will go to a commercial bank. After explaining his position, showing that he has put his savings into the building and equipment, and giving the bank evidence of his knowledge and understanding of the business, and after a thorough investigation by the bank, it may decide to lend him money to buy the lumber and other goods he needs.

In so doing, however, though it could give him money, it probably will give him banknotes instead. It prints these banknotes, which are its own IOU's. They are promissory notes which state that the bank will pay on demand certain sums of money to the bearer. Although they are beautifully engraved for purposes of preventing counterfeiting, they are nothing more or less than IOU's, no different from anyone's IOU's, except that because they are issued by a bank they are probably more readily accepted by people.

The young man takes these IOU's and presents them to the merchants for the goods. As they know the bank, they are certain of its solvency, they probably will accept them willingly. (Through long usage of banknotes and the fact that the government has entered into the field of banking, people today think that bank notes are accepted uncritically, but such is not the case, especially where there is no government interference. Banknotes are scrutinized carefully by businessmen as anybody's IOU's, and those of banks having the best reputations are accepted more readily than of other banks. Some banks' reputations may be such that their banknotes will only be accepted at a discount. The merchants in this community knowing the bank accept its IOU's and give the goods to the young man.

Actually what has happened here is no different than what occurred when the young man presented his own IOU. In exchange for an IOU, the merchants extended credit in the form of lumber and hardware. The only real difference is that the bank's IOU has better standing--the credit-worthiness of the bank is superior to the young man's.

It should be pointed out that strictly speaking the bank did not lend credit, but rather it is the merchants who did. If we define credit narrowly to mean the loan of wealth, obviously the merchants loan the wealth--the bank doesn't. All it does is to give its IOU. In effect, the bank is in the same position as the endorser of the young man's note. It stands ready to make good if he defaults. It could only be said to extend credit if all the banknotes it issues to the young man come back to the bank for redemption into money before the loan was repaid. In that case it really becomes the owner of the lumber and hardware.

In view of the fact that the bank is so well-known, its notes instead of being immediately redeemed in money may circulate throughout the community as though they were money because of the greater convenience of using paper claims to money. In the case of very sound banks, banknotes have actually circulated at a premium because of the convenience of handling.

Sooner or later, the banknotes will return to the bank for redemption, if for no other reason than the bills are worn. Regardless of the reason, the bank, if it is to remain solvent, must be in a position to redeem the notes. The amount of actual money it must have on hand to redeem any notes presented will be determined by its experience, just as would be the case when an individual guaranteed a note. Based on his experience, he knows how many notes he can endorse. Similarly the bank, based on its experience, will know how many banknotes it can issue. The amount of actual gold on hand to redeem the notes will probably only be some fraction of the notes issued. What the percentage will be, whether very high, medium or low, will be different for each bank and be determined by a host of reasons all calculated to ensure the bank's solvency.

The bank will know, for instance, that many of the banknotes it issued will be returned to it to pay off loans it has made. Maybe the young man in paying off his loan to the bank will use the same banknotes he gave the merchants. These notes he would have received in selling the lumber to his customers. If the loan is paid off by all these banknotes, the bank will cancel the loan and then destroy the banknotes. No money will have had to be used to retire these notes.

In a sense, the bank is in a position analogous to the endorser. If the young man is successful and pays off his IOU's no money does nothing. He puts up no money; does not have to redeem any notes. All he has done is to render the