

THE GREAT ECONOMIC DELUSION

— AN ANSWER TO THE —

Townsend Pension Plan

By DON L. THOMPSON



Can We Make Him More Prosperous by
Adding to His Load?

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"What Ails Business"
"Our Unemployed Problem"
"Our Deluded Overproductionists"
"The Profit System"
"The Farm Problem"
"Our Protective Tariff Racket"

Let us be honest with ourselves as well as others by calling a spade a spade and by hewing to the line regardless of where the chips may fall. Nothing is gained in the long run by compromising with evil or by yielding to error. God hates a moral coward.

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By Don L. Thompson, Spokane, Washington

THE GREAT ECONOMIC DELUSION

The latest and most astounding proposal for the ending of unemployment and the restoration of prosperity is to be found in the Townsend so-called Revolving Pension Plan. Dr. F. E. Townsend, a California physician, is proposing to remedy the job situation and bring about better business conditions, not by giving industry greater encouragement and by reducing the number of idlers which live off the labors of others, but by adding to its burdens and increasing the number of non-producers. To be more specific, the doctor is proposing that all people over 60 years of age be retired from active industry on a pension of \$200 a month providing they are not habitual criminals and will agree to spend the money monthly.

While we have always been led to believe that the thing to do is to try and provide useful work for both young and old, providing they are able to work and are in need of it, we are now being informed by this man Townsend and his followers, that this is a mistaken policy, that what should be done is to *keep more people from working*. It is now proposed to make idleness so attractive for those over 60 years of age that they will give up work entirely and become objects of public charity the remainder of their lives. In order to reduce the idleness among the younger people, it is proposed to increase it among the older citizens. Strange as it may seem, this new doctrine is called an economic program.

Our revolving pension crusaders, like many other superficial economic reformers, figure that we have too many workers and that it is impossible to create employment for all of them. They also labor under the delusion that because of a lack of spenders, goods pile up on the market which cannot be sold, with the result that industry is compelled to slow down, causing hard times. The first fallacy leads them to conclude that it would be to the best interest of the community as a whole to pay the older workers for not working so as to make more work for the younger people. Fallacy number two leads them to conclude that if the payment for not working is made high enough, it would result in greatly increasing the demand for

*Read "Our Unemployment Problem" and "Our Detested Overproductionists", by the author.

goods, thus doing away with imaginary surpluses and starting the wheels of industry.

If national prosperity can be attained by paying people for not working and creating more consumers that are not producers, then the thing to do is to greatly increase the size of our standing army and double the number of other public employees, whether we need them or not. If the Townsend theory is sound, we should also double the pay of all public employees so as to enable them to buy more goods, which they haven't helped to produce. Many people are prone to denounce our idle rich, yet if Dr. Townsend is right, this class of citizens is a blessing in disguise. They do not enter into competition with the workers for jobs and they are among our best spenders. What is more, we do not have to pay them an "annuity," as this pension scheme is called, to keep them from working.

If making idlers out of any class of citizens is the way to make a country prosperous, then the more idle rich a country has, the better for all concerned.

If it is true, that by retiring those over 60 years of age and paying them a monthly pension of \$200.00, it would be possible to greatly improve business conditions, then it should follow that if the age limit was reduced to 40 years and the amount of the pension increased to \$300.00 a month, a still greater improvement should be experienced. If this \$200.00 a month pension would not be of any burden to producers, but to the contrary, would actually benefit them, then, there is no reason why a pension of \$300.00 or \$400.00 should not benefit them to a much greater degree. The lowering of the age limit should also have a similar effect. Will our advocates of this pension plan be so kind as to point out the flaw in this reasoning?

No one questions the fact that creating more idlers will make more work for the balance of the community who will be called upon to support them, if this is what is wanted. The only objection to such a proposition is that the more non-producers the community has to support *the less there will be left to distribute among producers*. No amount of juggling with words or figures can alter this fact. *It is simply impossible to get something for nothing without someone being the loser*. Unless producers are going to receive the benefits of this extra labor, they have nothing to gain by working more. If we are wise we will try

and save ourselves all the work we can. Only the fool wants to make himself more work. It is the results of work that count. If producers only had the good sense to rid themselves of the idlers that now live off their labor, they could save themselves a considerable amount of unnecessary work. It is therefore an insult to the intelligence of every industrious citizen to be told that his economic condition can be improved by adding to the number of loafers he must support. Not until we make *self-sustaining producers out of everyone capable of working, will there be the slightest chance of increasing the earnings of producers as a class.* To argue, as do the "Townsendites," that we can take from producers through the process of a sales tax to give to non-producers without impoverishing producers, is absurdity gone to seed.

Our economic wizard, Dr. Townsend, has the audacity to tell us that his fantastic plan of taxing producers for the support of idlers is going to put more money into producers' pockets. In effect he says to us, you permit me to take your money by means of a sales tax so as to give me greater purchasing power and I will return it to you in exchange for your labor or your goods. This will make it possible for you to have more work to do and enable you to find a market for what you produce. Sounds great, doesn't it? My answer to Dr. Townsend is, that while he may be returning our money to us he will still be getting *our labor or the products of our labor and getting them for nothing.* The person who cannot see this has no business dabbling in economics. Like the proverbial shoemaker, he should stay with his last.

The reason our Townsend doctrinaires are unable to see this is because they permit themselves to be fooled by the talk of the tremendous business turnover which Townsend tells them will materialize when his plan is in operation. The fact of the matter is, the business turnover instead of being greater, *would be less than it is today.* This is because the total output of wealth would be less, as there would be fewer actual producers. We must not overlook the fact that *the volume of business is determined by the amount of output.* This is conceded by all the economists. Unless it can be shown that the total output of wealth will be increased, there is no basis for the assumption that the business turnover is going to be any greater. The only

possible way of increasing the total volume of business, or business turnover, which is the same thing, is by *adding to the number of producers and by speeding up production.*

What applies to the business turnover likewise applies to purchasing power. It is folly to assume that purchasing power can be increased in the aggregate by merely taking it from one class of citizens through the process of taxation and giving it to another. It is clearly evident that *what one class would gain the other would lose.* As a matter of fact, purchasing power in the aggregate *would be less than it is today, for as we have seen, the total output of wealth, which gives rise to purchasing power, and which in fact is purchasing power, would be less.* Please keep this fact in mind that in the last analysis *we buy goods with either services or goods, money being merely used to facilitate exchange.* If we are unable to clearly grasp this fact, we should at least be able to see that the tax levied upon sales to raise the money for these pensions will be included in the price of the things bought. If prices are higher as a result of this, it is obvious that the buyer's dollar will not buy as much. This being true, purchasing power will be reduced to the extent that prices are raised. Any raise in prices, no matter how small, is equivalent to a lowering of wages. Surely no one will attempt to dispute this self-evident fact.

In principle there is little, if any, difference between this proposed pension racket and our present public relief program. Millions of people have been forced to become idlers since the present depression set in and for more than three years they have been provided for at the expense of the nation. Millions of dollars of public funds have been placed in the hands of these public charges to increase their purchasing power, yet strange to say it hasn't resulted in any noticeable increase in business in general. What little increase has taken place of late has come about not as a result of the wasteful spending of public funds *but in spite of it.* The only result of this reckless spending orgy has been to put the government deeper in debt, frighten investors, prevent the return of confidence and make it more difficult for private industry to finance itself.

Most thinking people are agreed that should the expense of this relief program continue to mount, it will finally become such a burden upon the balance of the community as to drag

everyone down to the level of those being helped. This is a perfectly logical conclusion. On the other hand, if Townsend is right, we should increase the monthly allowance of those on relief to two hundred dollars a month. The fact that many of those being helped are under 60 years of age would not change in the slightest degree the principle involved. The economic effect would be exactly the same. What is more, many now on relief are much more in need of it than a large percentage of those who would be assisted under the Townsend plan, which makes it more deserving of support. I am wondering how many of the followers of Townsend would be willing to throw their support to the above plan, providing the allowance is raised to two hundred dollars a month and the spending of it is made mandatory every month. Is there any good reason why they should not support it? The writer can see none. They cannot be consistent and not do so.

No one wants to see those in need suffer, be they young or old, regardless of where the responsibility rests. On the other hand, it would be most unwise, in fact dangerous, to place a premium on idleness and penalize thrift in an effort to improve economic conditions. The only effect of this would be to make for still more idleness, especially among those nearing their sixtieth birthday. Everyone wants to see old age provided for, but it isn't the duty of the State to do the providing, except in extreme cases. This duty is up to the individual and the only obligation that rests on the government is to see that the citizen is given the opportunity. When it does more than this it is depriving some people of their rightful property to give to others. A pension scheme such as Townsend is proposing is nothing more nor less than public charity which no self respecting citizen will accept, unless he is forced to do so. The writer has always favored an old age pension over the present poor farm plan for taking care of the destitute who are physically unfit to provide for themselves. He is not, however, so deluded as to believe that public charity is any cure for industrial depressions, or the other evils which spring from the failure to adhere to economic laws. The most that can be said in favor of even a reasonable old age pension plan is that it is a *necessary evil*. It is an evil because it imposes a *burden upon those who are taxed to support it* and because it *discourages thrift and frugality*. The more at-

tractive any pension plan is made, the more far-reaching are the evils which spring from it.

In attempting to justify this racket of getting something for nothing, the Townsend pension advocates boldly argue that they are entitled to the privilege of taxing other people for their support. In other words, they insist they have earned this so-called "annuity" and are merely asking that restitution be made to them. While it may be true that many of them haven't received all they have earned, it is also true that some of them have received more than they are justly entitled to. It also happens that millions of people who will be called upon to help pay these pensions are as much the victims of unjust wealth distribution as those who will receive them. Any attempt to make a restitution at this late day would be impossible without giving to those who are not deserving and depriving millions of others of honestly earned wealth.

While it is true that there would be some contributors to this pension fund that would have their money returned to them in later life, there would be millions of people who would not live long enough to ever get the pension. In fact, over 50 per cent of them wouldn't. I think most of us will agree that it would be much better to have some of this pension money to spend as we go along rather than take the gamble of living to be over 60 years of age to get it. Even if we should be so fortunate as to live long enough to be eligible for this pension, it occurs to the writer that the receiving of so much money and having to spend it in such a short time, might not prove to be an unmixed blessing. It would undoubtedly result in throwing restraint to the winds by a great many people unaccustomed to having much to spend. Whether or not idleness would prove to be any more beneficial to the old than to the young is also a debatable question.

If this pension proposal had been limited to the taxing of unearned wealth to support the aged who are unable to help themselves, it would not be so objectionable. But when honestly earned wealth is taken from those who have worked and saved to acquire it to support millions of other people in idleness who may have had as good a chance as they to lay something up for a rainy day and perhaps have more laid up, it is asking altogether too much. In many instances, those who are

to receive this pension do not need it, while others are not deserving of any such amount as this pension provides as they have made little effort in their younger days to provide for their old age. We can all point to case after case where people have been negligent about doing this. We can also give plenty of examples where people have had money but have thrown it away in extravagant living or speculative investments. What right, let me ask, have such people to demand, or even expect that the frugal and the industrious now share with them their hard-earned savings? The answer is no right at all. To expect it, is to be most inconsiderate of the rights of others. If most of our old people who are for this plan could be made to see that they are asking their children to impoverish themselves to keep them in idleness and make spendthrifts out of them, they undoubtedly would denounce the scheme in no uncertain terms, as the writer is convinced that most of them want to be just.

Having little or no understanding of political economy our "Townsendites" are like the blind men and the elephant. They see only one side of the picture. This leads them to conclude that the way to remedy the economic evils from which we suffer is for the government to re-distribute purchasing power and make the spending of it mandatory. While we are quite willing to admit that if people could buy more, times would be better, we realize that *they must first produce before they can spend, unless we listen to Dr. Townsend and permit them to spend the other fellow's money.* In this case, others would have less to spend. If we will only see to it that people are given an opportunity to produce and are not deprived of their earnings by *monopoly and other special privilege legislation, such as this pension scheme,* there will be plenty of spenders. Merely to take from some citizens to give to others isn't going to add to the sum total of spending. One doesn't have to be a political economist to see this.

If it is only necessary to create spenders at the expense of others in order to bring about better times, we should be enjoying unparalleled prosperity right now, as our government now enjoys the reputation of being the greatest and most reckless spender of modern times. Our failure, thus far, to experience any beneficial results from this policy, which is rapidly bankrupting the nation, is ample proof that buying power cannot be

increased in the aggregate by helping one class at the expense of the other. It also proves that we are not going to be able to squander our way back to prosperity.

If we are to follow the advice of such dangerous and impractical dreamers as this man Townsend, we had better start in right now building more poorhouses, as we will need them. Such a brazen idea for exploiting one class for the benefit of another would lower the earnings of labor to a point where it would reduce the masses to a state worse than slavery. Instead of giving us more prosperity it would bring us much harder times.

Industry has all it can do as it is to keep its head above water without adding to its load. The tax burden is already unbearable. To add to it at this time might prove most disastrous. It is this tax load which is helping to bog down our old industrial machine and in doing so is only feeding the depression. To impose still more taxes upon business, even if it is in the nature of a sales tax, would by increasing prices only result in a further curtailment of buying, the very thing which these enthusiastic pension crusaders expect to encourage by the adoption of their plan.

Our total retail trade, according to official estimates, now has a money value of approximately \$28,000,000.00 a year. Consumers would have to pay an extra \$19,200,000,000 in order to give \$200.00 a month to 8,000,000 people over 60 years of age. That would be equivalent to a sales tax of almost 70 per cent. And, as a matter of fact the number of people over 60 years of age is now nearer 12,000,000 than 8,000,000.

At the least calculation it would take more than half our present national income to pay these pensions. Think of it, 9 per cent of our people getting over half of the national income and doing absolutely nothing to earn it. Can anything be more preposterous? Nor would this be the only outlay. There would also be the expense of enforcing the provisions of this pension law which in itself would be no small sum. In addition to this, there would be the cost of running down and prosecuting the swarm of confidence men and racketeers who would find a large percentage of these old people easy prey. We are told that this pension scheme would greatly lessen crime but as a matter of fact it would greatly increase it.

We can safely figure that at least 3,000,000 of the older people who would be retired from industry under this pension plan are still quite able to provide for themselves, if given the opportunity. In doing this they would not only add to the volume of business, but would be producing their own purchasing power instead of taking it from someone else through taxation. There isn't the slightest reason except our own stupidity as a nation, why productive employment cannot be found for them, and without taking jobs away from anyone else. There is still plenty of useful work to be done, if we are to give people what they need and are entitled to in this age of tremendous potential possibilities for wealth production. Not until we have exhausted every rational means at hand to bring about the expansion of industry so as to take up the slack in employment, is there any justification for resorting to any such a gigantic scheme of public charity as is being proposed by this California physician.

The most glaring fallacy being preached by these impractical dreamers is that this pension plan can be made self liquidating, or self sustaining. Such a conclusion is akin to the belief in perpetual motion. If it is possible to make a machine that will create its own energy to keep its wheels going once it is given the initial start, then perhaps it may be possible to make this pension plan self sustaining. It remained for this miracle man Townsend to discover that perpetual motion is possible in the realm of economics even if it isn't possible in the field of physics. If this economic invention will give ten to twelve million people twenty to twenty-five billion dollars a year without them doing anything to earn it, and at the same time increase the earnings of those having to pay the bill, then it can truthfully be said that we are again living in an age of miracles. If such a thing is possible then the promoter of the cat and rat farm who expected to make money for his stockholders by raising rats to feed his cats and after skinning the cats feeding their carcasses back to the rats, was not such a boob after all. His scheme had all of the revolving and self-sustaining features of the Townsend plan and should have been just as successful, if not more so. Never in all history has there been such a cruel hoax perpetrated on the old people of any land, nor one that lends itself more readily to the selfish aims of the political demagogue. It is

a crime to raise hopes in the minds of millions of trusting old people which can never be realized, or to take advantage of their confidence for purely selfish personal gain, as is now being done by a few ambitious politicians who see in this growing movement a chance to feather their own political nests.

This latest attempt to locate the pot of gold at the foot of the rainbow is in all probability just another flash in the pan. On the other hand, should industrial conditions fail to show any more improvement than they have been showing, this class movement may develop into a real menace. All such doctrines that have for their purpose the re-distribution of wealth, which in the end would pull the more successful down to the level of those already dispossessed, feed upon unwholesome economic conditions. They are but the manifestations of discontent. The more difficult we make it for the masses to make an honest, decent living, the greater the danger from such movements.

The remedy for "Townsendism" and "Huey Longism" is more prosperity for the nation as a whole. The winning stakes have been placed high by both Townsend and Long, which makes their programs most attractive to many. With millions of people living so close to the bread line and divorced of all property, it is not to be wondered at, that in their desperation they should turn their backs upon justice and reason and be guided solely by what they believe to be self interest. Property rights in this country have never been more insecure than they are today, nor has the threat to business ever been so menacing. Unless we soon awake to the realization of this and take steps that will actually correct the economic abuses which give rise to the present discontent among the masses, private business may be compelled to fold up its tent entirely, in which case we will be forced into socialism. We are heading in that direction very rapidly.

The remedy for our economic ills is not to be found in more class legislation, but in less of it. Our problem is not to be solved by creating more idlers, but *by converting more of them, be they rich or poor, into useful self sustaining producers.* It calls not for more penalizing of thrift and industry, but *greater encouragement.* More generally speaking, it calls for the return to the good old Jeffersonian doctrine of **EQUAL RIGHTS TO ALL AND SPECIAL PRIVILEGES TO NONE.**

Help to preserve the sanity of the American nation by placing this little pamphlet in the hands of others.

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