



"Government spending assures prosperity."

THE IDEA that the public sector of our economy is being "starved" while the private sector is becoming more "affluent" is gaining popularity in the United States. Perhaps the most famous disciple of this idea is Professor John Kenneth Galbraith. In his book, *The Affluent Society*,¹ he stated:

"The community is affluent in privately produced goods. It is poor in public services. The obvious solution is to tax the former and provide the latter — by making private goods more expensive, public goods are made more abundant."

Yet in 1927 the tax and other governmental revenue take of the net national product by local, state, and Federal authorities came to but 13.8 per cent, and in 1961 the take had risen to 34.4 per cent, and today it is higher still.

The following table measures the growth of the public sector in terms of the tax and other governmental revenue take by Federal, state, and local authorities as a per cent of net national product.

But even the bare statistics of the heavy increase in the financial magnitude of the public sector, sometimes called the "starved" public sector, do not imply enough about the growing role of the state in our lives. For the public sector intervenes in a million and one otherwise private decisions.

Consider, for example, the pervasiveness of the Federal income tax — or should I say loophole — mentality in our day-to-day lives. Thus, coupled to the common mod-

¹ Houghton, Mifflin, 1958, p. 315.

GOVERNMENTAL REVENUES 1902-1961

<i>Fiscal Years</i>	<i>Total Revenue (Millions)</i>	<i>Per cent of Net National Product</i>
1902	\$1,694	9.0
1913	2,980	8.9
1922	9,322	14.0
1927	12,191	13.8
1932	10,289	17.3
1936	13,588	19.3
1940	17,804	20.3
1944	64,778	34.0
1946	61,532	30.7
1950	66,680	27.1
1952	100,245	31.8
1956	119,651	31.8
1958	130,403	32.4
1960	153,102	33.9
1961	158,741	34.4

SOURCE: U. S. Bureau of the Census, *Historical Summary of Governmental Finances in the U. S.*, 1957; U. S. Bureau of the Census, *Governmental Finances in 1961, 1962*; *Survey of Current Business*, November, 1962.

ern dilemmas of how many calories, and where do I park, nowadays Americans also have to confront the problem: Is it deductible?

Many Forms of Control

Still, taxation is but one part of state intervention. For under state power, rents will be controlled, coffee burned, cotton propped, foreign competition subsidized, the underdeveloped world aided in perpetuity, wages raised by fiat, tariffs erected, trade made "fair," currency inflated, farmers paid not to farm, prices fixed, and mergers forbidden.

Little wonder then that in his *Revolt of the Masses*, the Spanish philosopher Ortega y Gasset wrote:² "This is the greatest change that today threatens civilization: State intervention—the ab-

² Norton, 1932, pp. 120-121.

sorption of all spontaneous social action by the State . . . Society will have to live for the State, man for the governmental machine. And as, after all, it is only a machine whose existence and maintenance depend on the vital supports around it, the State, after sucking out the very marrow of society, will be left bloodless, a skeleton, dead with that rusty death of machinery, more gruesome than the death of a living organism."

Of course, some public officials argue the larger the public sector the better. In a Presidential talk we were asked to consider how public expenditures "help determine the level of activity in the entire American economy." According to this line of reasoning, the more the government spends, the more activity it creates in the economy, the richer we all become. One rub to this line of reasoning, however, is that government has no spending money other than that which it taxes or borrows from its people. To be sure, the Keynesian economist may point to the possibility of deficit financing — of spending without equivalent taxation. This deficit finance, though, when based on a permanently expanding bank-financed public debt, can only be maintained through the printing press — through inflation — through this hidden and highly regressive tax upon the people. Hence, either one way or the other, the people are taxed; government has no source, has no resources, other than those it appropriates from the people.

This is the irony of those ad-

vocates of a larger public sector; they would pile greater debt on our already debt-ridden economy. In 1958, for the first time in history, Congress raised the debt limit twice in one year. In 1963 Congress was forced to raise the limit again — and again. The situation reminds one of the drunk who asks for but one more for the road and then argues that there are still quite a few more roads to travel. Meanwhile, the Federal government distributes its welfare largesse with a free hand, in effect buying votes with the taxpayer's own money. How much money can be gauged from the fact that the Federal, state, and local governments cost the American people \$158.7 billion in 1961, or some \$900 for each American. This figure does not include indirect costs for bookkeeping, report-filing, legal fees, and accounting and various clerical expenses. Direct bene-

ficiaries of this spending include some 40 million individuals regularly receiving monthly government checks. This huge bloc and their families are not likely to approve candidates, proposals, or philosophies calling for diminution of the public sector. But this bloc is not alone in securing government favors. Other blocs include beneficiaries of tariffs, defense contracts, favorable tax rulings, regulatory privileges, price supports, and the like.

Or as political analyst Samuel Lubell wrote in his *The Future of American Politics*:³

“The expansion of government to its present scale has politicalized virtually all economic life. The wages being paid most workers today are political wages, reflecting political pressures rather than anything that might be considered the normal working of

³ Doubleday Anchor, 1956, p. 274.

supply and demand. The prices farmers receive are political prices. The profits business is earning are political profits. The savings people hold have become political savings, since their real value is subject to abrupt depreciation by political decisions.”

To sum up, the public sector is a necessary sector. But so too is the private sector. Each depends on the other, but as one expands at a faster rate of growth, the other necessarily shrinks in proportion. The American dilemma seems to be that the public sector is expanding rapidly without discipline, without plan, without the constraint necessary to preserve the private sector — the sector of individual liberty. ♦

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