



“What this country needs is Creative Federalism.”

EVERY PROMOTER wants an attractive label regardless of what goods or services or ideas his package contains. So, we sometimes find pronounced discrepancies between the label and the content.

The word *liberal*, for instance, once fairly labeled those who stood for the liberation of the individual from government domination. But this attractive and desirable label has since been expropriated by those favoring what the original liberals opposed — until it now means nothing more than a liberality with other people's money.

*Creative federalism* is one of the newer masterpieces of labeling. *Creative* conjures up man's highest aspiration; *federalism*, in the American tradition, calls to mind the separation of powers, the checks and balances against unlimited political authority, always with a view toward maximizing the freedom of choice of the creative individual.<sup>1</sup> Taken together, the two words constitute a semantic *tour de force*.

Each word, however, has been lifted from its traditional setting and made to adorn a concept of opposite content. Yet, a certain rationalization supports the use of both *creative* and *federalism* in the current context. To see the substance beyond the label, we must examine the rationalizations.

*Federalism* here, of course, denies the historical concept. Instead of the Federal establishment having only those powers specifi-

cally ceded by the people and by the states — really their agency and nothing more — the new *federalism* aims at the states having such powers and monies as are ceded by the central government, a reversal of roles, with citizens as mere wards of the government. This proposed new relation between national and local governments still may be deemed a type of federalism, but lost entirely is the original emphasis on the dignity of the individual.

But just how can the word *creative* be rationalized in this new strengthening of the governmental monopoly at the national level?

The states and municipalities, as well as the Federal government, have the power to impose direct tax levies. But political expediency limits the percentage of the people's wealth that can be obtained in this manner. Beyond a certain point — usually when the total take exceeds the 20-25 per cent level — the voters revolt; they'll have no more of it. Thus this method serves to put a crimp in spending and to keep governments within bounds, more or less.

But the Federal government — alone among the more than two hundred thousand units of government in the U.S.A. — has a way of *creating* funds beyond what can be collected by direct tax levies, out of thin air, seemingly! Not only is it now creating all of the funds it wants for ever-expanding Federal activities, but it urges the use of these Federally created funds upon the lesser governments. Indeed, foreign governments are urged to feed at its cornucopia. Because the desires

of governments are insatiable, the program is not difficult to sell. More than anything else, this “creativity” accounts for the shift in political sovereignty from the states to the central government.

When we observe a magician at his trade, we ask, “Where, really, does that rabbit come from?” And, in this case, we are warranted in wondering from where these countless billions come. We know, in our saner moments, that real wealth can no more be created from thin air than from direct tax levies.

These “created” monies come from an indirect tax on savers and lenders, in short, a confiscation of capital. The effect, unlike a local tax or a bill from the IRS, is not immediate but, instead, is indirect and delayed or, as the Spanish put it, *mañana*. The method takes advantage of, and at the same time fosters, the prevalent urge to spend and live it up today with no concern for the morrow.

Too technical for a brief explanation, the Federal “creativity” is achieved, in a word, by the monetization of debt; that is, the Federal government's IOU's are turned into money. The more the government spends, the more it goes in debt; the greater the debt, the more IOU's; the more IOU's, the more money.

But not at all technical is a demonstration of how this *mañana* byplay works in large-scale practice: Only 26 years ago, two Argentine pesos were exchangeable for a 1940 American dollar. That dollar, in the meantime, has declined 60 per cent in purchasing power. Related to the 1940 dollar,

<sup>1</sup> See Gottfried Dietze's *The Federalist: A Classic on Federalism and Free Government* (Baltimore: Johns Hopkins Press, 1960), especially pp. 255-285.

it is now worth 40 cents. Today, 240 pesos—not two—are exchangeable for our cheapened dollar.

Now observe how this type of "creativity" taxes capital: In 1940, let us say, you stashed 240 pesos under the mattress. What in 1966 remains to you in terms of 1940 purchasing value? Exactly 40 centavos! In brief, the Argentine policy of diluting the medium of exchange (inflation) as a means of financing governmental activities—precisely what we are doing, although on a lesser scale, as yet—has taxed away 239.60 of your 240 pesos!

Unlike a direct tax levy which garnishees your income and/or capital right now, this "creativ-

ity" takes the form of slow capital erosion. For the most part, erosion goes unnoticed: one rarely feels older today than yesterday; one senses no less capital today than the day before, particularly if one has more dollars; yet erosion, though rarely perceived, leads to the point where finally nothing remains to erode.<sup>2</sup>

To conclude our look beyond the label and at the substance, social-

<sup>2</sup> A government resorts to inflation because the process garners billions in revenue with very little protest from the owner sources. The reason for the lack of protest is an unnoticed erosion of the medium of exchange. For instance, the dollar that has lost 60 per cent of its purchasing value in the past 26 years has eroded at the rate of 1/158th of a cent per day. Who can notice that?

ism is the state ownership and control of the means of production (the planned economy) and/or the state ownership and control of the results of production (the welfare state). The new *federalism* qualifies as socialism pure and simple. Socialism—all of it—is founded on coercion. Were coercion absent, then it would not be socialism.

Thus, if *creative* and *federalism* were to be defined in their traditional sense, *creative federalism* is the same contradiction in terms as *creative socialism* or *creative coercion*. The label can only become popular among those who do not know or care what the substance is.

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