THE TOWNSEND PENSION SCHEME

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THIS period of economic debacle is the springtime but not yet the harvest of the Sunday school economists and camp meeting sociologists. The historian of the future, writing of the Great Depression, might well designate it as the Era of Townsendentalism, from "transcendental", which in the non-Kantian sense means "fancifully or ambitiously extravagant." There is an appropriateness in such a designation, for all the plans directed toward social security and economic prosperity—Scott's *Technocracy*, Long's *Share the Wealth*, Coughlin's *Social Justice*, Sinclair's *Epic*, and Aberhart's *Social Credit*, to mention only a few—have a yellowish tint when compared with the incandescence of Townsend's *Pension Plan*.

It is said that Dr. Francis Everett Townsend's double-barreled utopian Plan, consisting of pensions for the old and prosperity for the nation, was born of a saddening experience. From his window the good doctor of medicine had seen three wretched old women vainly attempting to salvage some scraps from a garbage can. His heart was touched. His mind went to work. Having upon reflection found the solution to the world's greatest economic problem, he announced it to the people of the United States, and then proceeded to establish clubs in most of the important communities. In a space of about two years the Townsendites have, it is reported, placed twenty-five million names on Congressional petitions, and they are now electing representatives to the legislative halls on their so-called economic platform.

The Townsend Plan is simple enough. In the last session of Congress Dr. Townsend's seventy-two year old poet friend and neighbor, John Steven McGroarty of California, introduced a bill embodying the Plan, which would provide $200 a month for every person over sixty years of age not an habitual criminal, provided he discontinue gainful employment and agree to spend the money within thirty days of its receipt for goods, commodities and services within the jurisdiction of the United States. The necessary money would be raised by a two per cent. transactions tax.

Irrespective of the worth of the Townsend Plan, no sincere person can condemn an attempt at economic and political thinking. The United States has no particular dearth of brains, energy or resources. That under such circumstances there should be resort, either literally or figuratively, to the garbage can for sustenance, has no parallel in the history of the world. We are a country of abundance—too much abundance, according to the New Deal philosophy. We have an inventive genius in the scientific field which actually opens the doors to the vaults of wealth. We have man and horse power unmatched by any nation in history. In view of all this, is it any wonder that millions are asking why there should be so much economic sorrow? Does it occasion surprise that cheated, despairing individuals should *en masse* follow a leader who through their dimmed eyes reveals himself as another Moses to lead them to the Promised Land of perpetual plenty?

But a sympathetic understanding of the economic background has nothing to do with the merits of the Townsend Plan. That Plan must be submitted to honest intellectual analysis. Neither religious fervor* nor righteous sympathy for the unfortunate can be substituted for economic and social law.

The Townsend Plan is economically unsound. Let us suppose that a giant American insurance company had bought Dr. Townsend's idea and then set to work to underwrite it. With about twenty-five billion dollars to pay annually in annuities, what would such a company have to collect in premiums? If the workers of the United States were all twenty-one years of age and wanted a life income of $200 a month to begin at age sixty, the cost through this insurance company would be about $325 a year for the intervening thirty-nine years. Unfortunately, from the actuarial standpoint at least, we are not all twenty-one. Probably the average age of the economically productive (excluding those above sixty) is nearer forty. At this age the annual premium necessary to produce a life income of $200 monthly would approximate $1000 a year. But we have an institution known as marriage which, for the most part, eliminates the female from income producing activity. Under such circumstances the male must carry the load. For the young man of twenty-one it would mean an annual premium payment for thirty-nine years of approximately six hundred and fifty dollars; for the man of forty an annual payment of $2000. Nor is this all. Under the Townsend Plan approximately ten million old people with a life expectancy of about fifteen years would receive 250 billion dollars toward which they have contributed nothing. This would, in addition to the premiums

* An Eastern Regional Director is said to have spurned objections to the Plan with this remark: "We believe God is on our side, and with God all things are possible"

which have been mentioned, create a debt of $2000 for every man, woman and child in the United States, to be liquidated before arriving at the age of sixty. The share of the debt to be carried by a married man with two children would be $8000. To amortize this debt would require $200 a year to be added to the premium of the man of twenty-one, and $400 for the man of forty. For the present generation, at least, the premium for the twenty-one year old male with a wife would reach the sum of $850 a year, and $2400 a year for the man of forty. This, in brief, would be the approximate financial requirements on the part of the insured if an insurance company, national in scope, should undertake to underwrite the ideas of Dr. Townsend. Could you afford such fantastic premiums? Do you know very many who could? Would you like to be the president of this insurance company with the responsibility of keeping these policies in force? The whole thing is so ridiculous that it should not be a subject of serious conversation outside the parlors and dining rooms of the hospitals for the insane.

Simple Simons are misled by the mild appearing two per cent transactions tax. Suppose this to be translated into a retail sales tax. The state of Illinois has a three per cent sales tax which brings into the treasury the sum of approximately $4,000,000 a month. Illinois would need $140,000,000 a month to take care of the Townsend pensioners. This would require a sales tax of at least 100 per cent. Workers who are now barely making a living could not pay such a tax; and even if they could, the much emphasized spending power of the Townsendites would be reduced to $100 a month, the other $100 going for taxes.

How much would a 2 per cent transactions tax produce? In 1927—an average year—the transactions in the United States were only 800 billion dollars. A 2 per cent tax would have yielded only 16 billion dollars—about 8 billions short of the requirements under the Townsend Plan. In 1934 the transactions were only 470 billions. In that year the requirements would not have been met by a total of 14 billion dollars. Furthermore, these enormous transaction taxes would greatly reduce the number of transactions, with a result that the shortage would be much greater than the figures would indicate. But there is no use to discuss these figures with the Townsend Plan in operation, for, with increasing prices, business would be about as mobile as dining room flies with their legs caught in an open jar of molasses.

Let us take another illustration. Our federal, state, and local taxes in 1932 totaled a little more than 8 billion dollars. It took a very hard pull to get so much, and the federal Government since then has had to resort to huge borrowings. The addition of 24 billions would not only be unbearable; it would be as crushing as the heavy foot of a pedestrian on a side-walk angle worm. The first step would be the doubling of commodity prices, followed by the doubling of wages and salaries. The cost of government would soon mount from 8 billions to sixteen billions. But with decreased business activity on account of the high taxes, the rate of taxation would have to be increased. The spiral would have begun. The result can be expressed in two words: ruinous inflation.

If more light is needed, here it is. In 1933 our national income was only 46 billion dollars. This was $370 of yearly income for every man, woman and child in the United States. The Townsend Plan requires a sum which is the equivalent of $200 from these same men, women and children. This would leave a net sum annually for each of $170, or $14 a month. Fourteen dollars a month for those under sixty, and $180 net for those over sixty! Fifty cents a day for the young, the vigorous, the growing; six dollars a day for the old, the decrepit, the decaying! "Honor your father and your mother," say the Townsendites. But it should be added, "Honor your children with a little more than a dry crust of bread!"

Perhaps this is no place to present a brief for any particular business. But some of us have always had a special regard for savings banks and insurance companies. They appeal to the conservatism of our people; they represent the flowering of some of our finest altruistic instincts. But under the Townsend Plan the great mass of the people would not save, nor would they insure their lives. Existing policy holders would ask for cash, and these companies would dump their securities for what they would bring. Savings banks would feel the same demand, and their securities would have to be sold. There would be many sellers, but few buyers. In the absence of a market the prices of securities would break wide open.

But the intrinsic value of these securities would be impaired. What would be the value of securities issued by a million dollar corporation with a hundred thousand dollar income produced from $10,000,000 of transactions? One does not have to figure very much to see that it would have a deficit of $100,000 instead of that amount of profit. The bankruptcy of our corporations would be matched only by the bankruptcy of the individuals doing business with them.

Prosperity will be created, the Townsendites maintain, by taking money from 92 per cent of the people and giving it to 8 per cent, with the command to spend it within thirty days of its receipt. As a means of inducing prosperity, exactly the same result would be obtained if everybody were taxed (beyond his means to pay, to be sure), the money (if it could be had) sent to the federal treasury at Washington, five per cent subtracted for administration, and the remainder mailed back in the form of a cheque with the command to spend it within thirty days. To be sure, there would be a difference, but the only practical difference so far as prosperity is concerned is this: If the money could be raised, the tax payer would have the fun of spending it himself.

The fallacies of the Plan are so numerous that to specify them in further detail seems pedagogic. No more arguments would be necessary, if cheap politicians were not attempting to breathe legislative life into this Frankenstein. The Plan violates the fundamental law that wealth is the product of activity, not idleness; it ignorantly challenges the economist who says that money cannot be used as economic dynamite, but only as a medium of exchange; it ignores the fact that an artificial increase in the money supply does not create prosperity, as was only too recently demonstrated by the Germans who went barefooted while they pushed their marks in wheel-barrows to the market place. The Plan would spawn a horde of bureaucratic governmental officials in a vain attempt to supervise the spending of the pensioners. It would either bring business to a standstill or put the government printing presses in operation at top speed. It would create a social problem in the South unmatched in the history of civilization. It would turn business men into swindlers as they attempted to save their economic lives by evading as much of the tax as possible. It would hatch out gangs of racketeers who would find the ignorant and the gullible among the pensioners their easy prey. It would create a nation of young parasites, as ageing people with few demands smuggled or extended an economic existence to their kindred. It would demoralize the old by substituting compulsory spending for useful living.

What significant economic authorities approve the Plan? Booklets issued from Townsend headquarters state that able statisticians and economists "have found the plan thoroughly sound and workable." When the magazine, *News-Week,* asked for the names of five economists who favored the Plan, only two were mentioned. One was Frank Follansbee, formerly employed by Standard Statistics as a salesman and office manager, but never as an economist. The other was Dr. Robert R. Doane, research director of American Business Surveys, employed by the Townsendites to explain certain details of the plan, but who declined to endorse it.

What great authorities oppose the plan? Among the outstanding economists of the United States who see it only as a fantastic, iridescent nostrum concocted by a mind deserving of *summa cum laude* ranking from the standpoint of economic ignorance are the following: Irving Fisher, Professor of Political Economy, Yale University; James Waterhouse Angell, Professor of Economics, Columbia University; Carl Kelsey, Professor of Finance in the Wharton School of Finance and Commerce, University of Pennsylvania; A. E. Monroe, Professor of Economics, Harvard University; Abraham Epstein, Executive Secretary of the American Association for Social Security; Edwin E. Witte, Professor of Economics, University of Wisconsin, and executive director of President Roosevelt's Committee on Economic Security; Walter Lippman, political and economic commentator; and Leonard P. Ayres, famous statistician and economist of the Cleveland Trust Company. To continue the list would be easy but unnecessary.

The pungent remarks of some of these opposing gentlemen, expressed in personal letters to the author of this paper, are of special interest. James Waterhouse Angell says: "The Townsend Plan sets up objectives which, if desirable in themselves, are simply not financially attainable, and is unworkable within itself." Says John L. Gillin, Professor of Sociology, University of Wisconsin: "The theory of the Townsendites that by putting billions of dollars in circulation you would stimulate production... and thus do away with unemployment is an impossible supposition. It would disorganize the whole economic structure, create fear in the minds of the business men and further retard recovery...In my judgment it is unsound in every particular." "I am filled with astonishment," says Carl Kelsey of the Wharton School of Finance and Commerce, "that any informed, sensible man can for a moment believe that the Townsend Plan can be worked. It is so ridiculous that it is difficult to treat it seriously." Edwin E. Witte sums up his remarks by saying that "A tax of 2 per cent on the money value of all business transactions would be so heavy that it would stop all business transactions and could not possibly be collected." Dr. Monroe of Harvard puts the most of what he has to say in one sentence. But what a sentence! "All the alleged special merits of the Townsend Plan," he says, "—large payments, compulsory spending, compulsory idleness—are pure moonshine in any fundamental view of the matter."

The millions are now following the Pied Piper of Los Angeles as he, with ageing joints,—he is sixty-nine—dances and jigs of peaceful old age and national prosperity to the tune of twenty or twenty-five billions. Let us hope that there are enough thinking people who have the courage of their convictions, and who will express themselves at the ballot box, after having identified this Piper as being of the same stripe as Ponce de Leon who sought the fountain of youth, or of Orffyraeus who had some thoughts on perpetual motion.