**THE $5,000 CHALLENGE: "If Government Collected NO Tax, Would We be Taxed?"**

In the spirit of education, I will award a $5,000 qualifying scholarship or charity contribution in the name of the first person that submits a successful challenge to the logic contained within the article below. The successful contestant may either credibly debunk the logic via similar argument(s), or develop contrary reasoning that establishes the means and methodology of payment for resources allocated to our government purpose that does not reduce valuation of the existing monetary and credit market base, nor deplete existing inventory of any resource. See http://www.austrianenginomics.com/id7.html for deadline details.

## If Government Collected NO Tax, Would We be Taxed?

Assuming all government programs remained in place, how wonderful and magical that would be…! All taxes at every level completely eliminated...! Of course, the response to any serious questions about funding the ongoing government directed activities would be…."We'll grow and, as a result, any future potential tax burden will be manageable".

First, we must understand: "What is the "Real" tax?" If there is not a direct relationship between taxes collected (e.g. income tax) and the actual level of government directed use of resources (via spending), then how do we know what the "Real" tax really is? Can we conduct wars and rebuild devastated cities without raising taxes???

Anyone knows that is not possible. However, most believe the economic consequence of actually raising taxes for these causes could derail a fragile recovery. So, what is the "Real" truth about "Real" taxes??

**What is the "Real" Tax?**
The "Real" tax is the actual level of direct or indirect resource (labor and natural resources) utilization authorized by government whether those resources are government employees, contractors of government work, suppliers of food, medicine, capital goods, or etc. to fulfill a government purpose. This "Real" tax is reasonably close to actual government SPENDING. So, look at the spending side of the ledger to discover the "Real" tax. Economists would describe these resources as lost **opportunity cost**, such that they are not available to produce goods and services for private market consumption.

**Is it Painless?**
How can we painlessly spend money on these extraordinary government programs (Iraq war, Katrina damage rebuilding, etc.) without raising taxes? Simple…! There are two primary steps available for our Federal government to accomplish this miraculous feat!

1. **U.S. Treasury Department Issuance of Bonds, which increases our Debt…** If the government needs to spend more money than it is collecting in taxes and various other revenues, they simply raise the debt ceiling to authorize more Treasury security issues and debt accumulation. Sales of these securities on the open market raise the needed cash.

**What happens if these Treasury sales soak up too much "liquidity" (money) in circulation? No problem…. Go to step #2…**

2. **Federal Reserve Purchase of Government Securities through the Federal Open Market Committee (FOMC)…** Effectively printing money and flooding the market with "liquidity", thus debasing our currency.

**Item #1 Effects All Creditors…**
In the first case above, the issuance of more government debt is purely an illusion (see: "Our Federal Debt is Pure "Bubble"" here… http://www.austrianenginomics.com/id7.html#1 ). All credit holders of **any** type of Credit Market debt will lose approximately on average the valuation of the federal debt outstanding as a percentage of the Total Credit Market Debt. I.e. the current $8 Trillion in Federal Debt represents approx. 23% of the Total Credit Market Debt (as of July – 2005). Thus, if you own a bond with a current market value of $1000, then the REAL current valuation is no more than $770. That is a 23% or ($230) illusion of wealth. Every dollar of new Federal debt issued is yet another dollar illusion of wealth.

**Item #2 Effects All Holders of Dollars and Dollar-Based Assets…**
In the second case the Federal Reserve Board will purchase government securities with "printed money" out of thin air. This "money" is considered "hot" money, which is deposited directly into member bank's reserve accounts and can be fully leveraged to expand the money supply via our fractional reserve system. Thus, as this "new money" enters into the market chasing after the same level of goods and services, it will increase prices and effectively reduce your buying power. This technique of debasing the currency valuation (i.e. inflation) affects all holders of dollars and dollar-based assets, and affects a broader base of people than the first method.

**Does This Shift the Burden to the "Next Generation"? … "NO"**

This does **not** necessarily burden the "next generation" as most economists would espouse. Both methods devalue your securities or dollars at precisely the same time the government issues the new treasury debt or spends the inflated money redirecting resources to its programs. Both methods may take 6-12+ months to fully spread across the monetary and credit base, but the aggregate devaluation is immediate! The problem is that the dollar and dollar-based security holders ***don't know this*** until they attempt to cash in on their spoils later. Thus, the "Boomers" may think they have the "full valuation" of wealth up until they attempt to spend it. THE TRUTH IS THAT THE WEALTH WAS LOST (and the loss was hidden) AT THE TIME GOVERNMENT SPENDING ROSE ABOVE THE REVENUE COLLECTED.

Psssst….! They don't want us to know that because they would not be able to implement an unauthorized agenda, and they want to mitigate risk of a public panic in times of crisis (war, catastrophe, etc.). My vote is for transparency…!

Just remember, when the government at any level says "taxes will not be increased", keep your hands on both hind pockets, because they will empty one or the other via the two methods noted.

**Disclaimer:**

1. This offer is void where prohibited by law.
2. This offer will not be honored in response to a technical legal challenge intended to circumvent the spirit of the logic. It is offered within the context of advancing macro economic education.

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