

The Economic Club of New York

102nd Meeting

David Lawrence
Editor, United States Daily of Washington

Gifford Pinchot
Governor of Pennsylvania

George McAneny
President of the Board of Aldermen
and Chairman of the
New York Transit Commission

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Introduction

Mr. Ely

It gives me great pleasure to present the new president of the Economic Club, Mr. Thomas J.

Watson. (Applause)

Thomas J. Watson

President, The Economic Club of New York

Mr. Ely, Honored Members, Ladies and Gentlemen. It gives me great pleasure to have the privilege of presiding over this meeting. We are to discuss the topic which is uppermost in the minds of all the people who are connected with the Economic Club. George Bernard Shaw said once that we must share in the evils of the world or move to another planet. (Laughter) That is another subject that is on people's minds also which we hope will be removed. But we are very fortunate tonight in having with us men who can discuss this subject based on their experience. The mere recital of their names dramatizes to an unusual degree the subject for discussion, How to Reduce the Cost of Government, which is a three-fold problem, National, State, and Local.

It is no mere figure of speech to say that few people in the United States have such intimate knowledge of the intricate and manifold problems of the Federal government as our first speaker. In addition to a long and distinguished career of journalism, faithful portrayal of events at the

National Capitol, he has also played an important part in the drama of international affairs. Presidents and statesmen have availed themselves of his wife counsel and high sagacity. In representing the Associated Press he was with Woodrow Wilson when Governor of the State of New Jersey and continued with him during two years at the White House. Later he was in charge of things relating to neutrality in relation to Germany. The trust imposed in him has been matched by the devotion to public interest which has brought honor to the fraternity which he represents. Sensing the need for wide knowledge of the activities of the Federal Government on the part of business leaders and citizens generally, he conceived and established a great national daily newspaper. Ladies and gentlemen, it gives me great pleasure to present to you at this time Mr. David Lawrence, editor of the United States Daily of Washington. (Applause)

Mr. David Lawrence

Editor, The United States Daily of Washington

Mr. Watson, members of The Economic Club. You have invited me to speak frankly about expenditures of the Federal Government. If I do not join in the hysteria which decries most federal expenditures as wasteful and inefficient and if I point out to you that both political parties are still engaged in the process of deceiving the American people by purchasing the support of large groups of voters with government subsidies, I know you will regard such observations as hardly constructive unless I can lay before you some definite principles upon which the sane and

sober public opinion of Americans can crystallize in bringing about a reduction of federal expenses.

We shall make little progress in economy by hit-or-miss selection of items. This invariably results in taking out only the defenseless expenditures, many of which may be worthwhile, and in retaining those which have behind them the militant support of political groups.

We shall make little progress by horizontal cuts, which merely mean waste because there are some activities which should be subtracted altogether, or which, when reduced by a horizontal cut, might as well be abolished. There are three basic principles upon which the fiscal affairs of the United States Government should be conducted. They are:

First, we need a definition of the Federal function.

Second, we need efficiency of operation which includes the delegation by Congress of administrative power so that the Congress may formulate the policy but the executive branch shall be permitted to execute it without restrictions that are really administrative in purpose.

Third, we need a proper audit of the expenditures as well as the receipts of the Federal Government so that there may be a comprehensible classification of items with due regard to the capitalization of expenditures for plant and equipment as distinguished from current operating

expenses, and with due regard also to the crediting of fees and receipts attributable to particular activities of the Federal Government.

Let us examine each of these principles and their implications.

First, what do we mean by defining the Federal function? It involves, of course, an agreement upon foreign policy as well as domestic policy. Are we to maintain an Army and a Navy for purposes of defense against attack on both the Atlantic and the Pacific, or are we to maintain an Army and Navy on the theory that international cooperation will reduce the chances of war, and that a police force will be needed only for the minimum probabilities?

If we cannot resolve these questions clearly at this time, it is inevitable that public policy will demand that no risk be taken with the national safety. We can say what we will about the wisdom of such a course but the people of the United States will never consent to the elimination of their Army and Navy or to a reduction which actually cripples the efficiency of these two services in withstanding attack from either coast. (Applause)

We might as well consider that principle settled at least for the time being especially in a world which is as topsy-turvy as ours is today. The cost of national defense in the budget proposed for the fiscal year beginning next July is about 15% of the total budget of appropriations to be made. Is 15% too high as an insurance charge? Let us assume that by rigid economies and further

efficiency we can reduce the insurance charge somewhat but certainly we cannot count on its complete abolition.

Now what shall we say is the definition of Federal function in domestic policy? This opens up a number of significant questions. What is the responsibility of the Federal Government for the welfare of its citizens? We have insisted that the care of the individual is a state and local responsibility. With respect to veterans, however, we have taken over the entire job of caring for millions of individuals who are receiving a regular compensation from the Federal Government though many thousands of them have other means of support and are not at all disabled. The argument usually made in favor of Federal care of veterans is that the soldiers and sailors served the entire nation and not a particular state. But there is no precedent for the present allowances being paid to individuals who have disabilities not connected with war service.

This brings us again to a determination of the responsibility of the Federal Government to its citizens as a whole. In cutting expenses what approach shall we use? Shall it be the business approach which is based on the theory of profit and direct benefit or shall it be the social approach which would measure expenditures in terms of service?

Many millions of dollars have been appropriated for public works on the theory that it would create employment. These building and projects are, of course, of benefit to the whole nation in the sense that they increase the efficiency of our national plant and equipment. But is it the

responsibility of the Federal Government to provide work for the unemployed, or is this a local and state function? To what extent is private philanthropy capable of handling relief and to what extent are local agencies of government responsible for that task? It is really a federal function?

Quite recently we have introduced the principle that the Federal Government may lend to the states in order that the latter shall extend relief. This is not considered direct Federal appropriation for relief of individuals because the states are expected to repay the Federal Government. But it will be noted by examining the budgets of the last 3 years that the Federal Government has yielded to the temptation of spending large sums for public works in order to stimulate employment and in order to aid in economic recovery. While the many millions of dollars have thus far assisted to some extent in keeping people employed, they have not, by any means, cured America of its depression as so eloquently promised by the sponsors of these appropriations.

In defining the Federal function we must settle the question of Federal subsidies. Business has asked and obtained these subsidies over a long period of time. Today we subsidize agriculture, shipping, aviation, newspaper and magazine mail, and not a few industries which are protected by tariffs that enable them to exact their tribute of price from the American people.

We are being asked in the present session of Congress to continue granting subsidies.

Agriculture, which has always obtained a subsidy in one form or another, is seeking what will

amount to a consumer's tax on bread, meat and clothing. This is the meaning of the "domestic allotment plan". The agricultural interests ask that they be put upon an equality with those who have tariff protection. So it will be observed that the principal of Federal subsidy instead of being gradually curtailed is actually being enlarged.

The only justification for any governmental appropriation is that it benefits a large number of our people. There are many services performed by government which are open to question but the test always must be whether the service rendered is for the people as a whole. Many of these services cannot be measured in dollars and cents like the average business. They are as intangible as are sometimes the services of welfare agencies. They are designed for the public's good. By those who are not directly benefited, some of these services are classified as luxuries.

Conversely, some of the subsidies granted to special groups are paid for by the mass of people for whom various federal activities have been inaugurated under the general welfare clause of the Federal Constitution.

It is obvious that we cannot have a government of special privileges. If it is within the Federal function to grant subsidies and privileges to one group on the theory that it is of benefit to all the people, then we must face the fact that all groups which have a justifiable claim will insist upon such benefits directly from the government at Washington.

A definition, therefore, of what is the Federal function with respect to the economic evolution of the country and with respect to the economic fortunes of the individual or groups in our midst is essential before we shall make any considerable progress in reducing Federal expenditures.

The second major principle relates to efficiency. It is commonly believed that the bureaus and commissions at Washington are inefficient in the sense that they have more personnel than is need to do the job. It is also frequently contended that many of the activities are neither essential nor effective even within the sphere of their own objectives. There never will be much progress made in the efficient organization of the administrative arm of the Federal Government until Congress gets over its habit of writing into the statues specific instructions of an administrative character which tie the hands of those who are expected to execute the orders of Congress.

Examine any appropriation bill and you will find instructions and directions therein which make it difficult for any administrative official to exercise the ordinary discretion common to a manager in a position of responsibility in private business. Even if receipts are shrinking it is difficult to curtail from month to month without permission from Congress. If Congress specifies that certain service shall be rendered and appropriates the money for it, no administrative official has the right to violate the law by refusing to perform the mandate imposed upon the executive establishment by the legislative bodies.

For a long time Congress has been jealous of its right to dictate to the executive departments. It probably never will give up this power unless there is some system of supervision set up which

amounts to a congressional checking of administrative activities. Thus the office of the Comptroller General which has been pestering the life out of administrative officials in recent years is able to defy the latter simply because a Comptroller General is responsible to Congress and Congress alone.

It must not be forgotten that administrative officials are usually appointed by the president and are not subject to removal by Congress. If it were possible to set up a board of efficiency to act on behalf on Congress in checking the effectiveness of work prescribed by Congress, some progress might be made toward a better coordination of the executive and legislative branches of the Federal Government. As it is today, congressional committees once a year listen to detailed statements about the operation of bureaus which they cannot possibly pass upon with their limited knowledge of what is actually happening in the administrative branch of the government. Theoretically, every Cabinet officer is a general manager of a department but actually he is responsible to the President and not to Congress. So long as the bureau official must serve two bosses, namely, Congress and the Executive and there is no independent agency free from politics to check and recheck the effectiveness of governmental activities, we cannot hope for the saving of any considerable sums through the exercise of discretionary power on the part of administrative officials who are given lump sums each year which they have the right to spend in full and are often compelled to spend irrespective of changing conditions and circumstances.

The third major principle, proper audit and classification of expenses and receipts, is indispensable to any clear understanding of what the Federal Government has done in the past or what it is likely to do in the future. One of the most useful things that Congress could do would be to appropriate a few thousand dollars to audit the books of the government for the last twenty years, so that items could be properly classified and comparisons made and the public advised as to the items in which increases have been made and the purposes for which public monies have been spent.

All of the classifications published in the annual reports are, in the main, useful but they do not get to the heart of the problem. Thus, capital expenditures are lumped with current operating expenses. We may build a building which will last at least twenty years but we charge it off in a single year on the government ledgers. Private business would depreciate a similar structure over a period of years.

If we had separated our expenditures for plant or equipment in the past, we would have had limited amounts for construction and financed it through bonds especially floated for that purpose. Another defect in our system of auditing, or rather our lack of system, is that we lump all manner of receipts together as “miscellaneous”. Thus there are many bureaus and departments which receive special fees for service rendered. The United States Patent Office takes in about five million dollars a year, more than enough to pay for its expenses. The same is true of the Panama Canal. Yet in examining the Federal budget we do not readily find the revenues that

should be properly credited to a particular department subtracted from the expenses of that department so that we may deal with a net expense over and above receipts in a particular bureau or department.

Take the expenditures of the District of Columbia. They appear in the Federal budget as \$40,000,000. Yet the people of the District of Columbia, by direct taxation, pay approximately \$32,000,000 of that sum and the Federal Government contributes less than \$8,000,000. When you examine the Federal budget you do not find this item credited but you do find an expense of \$40,000,000. Somewhere in the general receipts, of course, on the other side of the books that \$32,000,000 is included, but how is the layman to know whether that \$40,000,000 is borne by all the people of the United States or by a special group within the confines of the District of Columbia?

There are many government bureaus which do not charge fees for services they render. They could increase the revenues of government and help to pay the expenses of their bureaus and departments if they were permitted to charge low fees for special services rendered to individuals or companies, which are today getting free service from their government. Thus the Department of Commerce receives something like 80,000 inquiries a week from businessmen and assists materially in getting foreign trade. Last year there was considerable debate as to whether an appropriation for the Bureau of Foreign and Domestic Commerce should be retained or curtailed. There would be no question about the effectiveness of this particular Bureau if the services

rendered by that Bureau could be properly measured and classified by disinterested agencies set up by the government itself for checking purposes. Similarly fees for services rendered, if credited to a bureau, often would more than offset its expense.

This is only another way of saying that the bureaus which are conducted for the particular benefit of groups might be made to pay for themselves in large part by being permitted to charge fees, all of which of course would be turned into the treasury of the United States. Some progress has been made in this direction but we have not scratched the surface of possible revenues.

Every year as we examine the miscellaneous receipts we see proceeds from the sale of capital items lumped in with receipts from taxation. Some day when the Farm Board, for example, is liquidated, the proceeds will be turned into the Treasury as miscellaneous receipts. Indeed, in the years following the war, some of the surpluses proclaimed annually were possible through the sale of war materials and other assets, a total of three and a half billion dollars in ten years. This is one reason why the application of the surplus funds to debt retirement was justified in the last decade. It would seem proper that all proceeds from miscellaneous sources that have to do with the sale of property or assets possessed by the Federal Government and all repayment of loans through various enterprises of the Federal Government should go directly by statutory instruction toward the reduction of the public debt and should not be used to build a surplus and hence made the artificial basis for tax reduction or tax re-adjustment.

While the Budget Bureau data and classification are each year being presented in more detail, we still do not find that the government issues a balance sheet. There is no statement that tells us the value of the properties held by the government or the assets which can be liquidated.

We are getting more information now about the sources of taxation and the productivity of different tax rates.

One of the reasons why today we are having such a low return from income taxes is that we have not developed a broad base of taxation. We were misled by the large surpluses, so many of which were due to the sale of capital items, or the return to the Treasury of funds originally loaned for war purposes.

We have neglected to establish a wide base for taxation and now in a period of adversity it is difficult to re-adjust the whole tax base. In a mad effort to may a balanced budget, the Federal, State of and City governments are competing with each other for the taxpayer's dollar. There is an overlapping and duplication of tax effort and undoubtedly many millions of dollars are wasted because tax collections are not properly coordinated. Certainly there is room for much economy in the administration and collection of taxes in America.

One of the common tendencies today is to lump Federal, State and City expenditures together and to divide the total into the national income. I submit this is not fair to the Federal

government. Neither the State nor City governments are helping to pay the cost of the world War. Let us examine the Federal budget as proposed for the fiscal year which begins next July. It amounts to approximately three and a half billion dollars and of that sum exactly \$2,200,000,000 is directly due to war. This is made up of \$1,260,000,000 in interest and sinking fund on the public debt and \$931,000,000 as the cost of veterans. So when you subtract the annual installments paying the cost of war, you have left \$1,369,000,000 out of that three and a half billion.

Out of this \$1,369,000,000 we then subtract the cost of the Army and Navy which amounts to \$584,000,000. This leaves \$785,000,000 as the remaining cost of the entire government and out of this sum, \$141,000,000 is for public works and \$32,000,000 should be subtracted as offset by the tax contribution of the District of Columbia, leaving a total of \$612,000,000 as the entire cost of the civil establishment. But even out of the \$612,000,000 we ought to eliminate \$67,000,000 which is the deficit in the Post Office Department, because it ought to be made up out of Postal revenues so that strictly speaking, we find ourselves with \$545,000,000 as the real cost of the civil establishment of the government of the United States in the new budget just laid before Congress this month.

This is approximately 15% of the total Federal budget and compares favorably with the cost of the civil establishments in 1915 which took 30% of that budget. In other words, the civil

establishment comes down now by more than half the percentage it bore to the total budget 18 years ago.

I said that he proposed cost of the civil establishment in the new budget is \$545,000,000.

Virtually all of this amount is met by the taxes on cigars and cigarettes and by miscellaneous fees so that, if you like, you can consider that all your income taxes together with all the revenues from imports and other sources to pay the cost of past and future wars and the special expenses that have arisen in connection with the economic depression.

Is \$545,000,000 too much to pay for the cost of the civil establishment? Is it too much to pay in a country which spends three billions annually for amusements in recreation or three billions for tobacco, candy and soft drinks, or two billion six hundred million for personal adornment apart from clothing? I am tempted to ask these questions because apart from the cost of past war and national defense the civil establishment usually receives most attention from the critics who little realize that it includes not only the protection of our sea coasts from smuggling of goods and aliens but maintenance of navigation on the sea, in the air and on inland waters, collection of taxes and duties, enforcement of federal statutes and protection of the weak in business against the ravages of the strong, as well as the safeguarding of health against the sale of adulterated foods and beverages to say nothing of the scientific researches that have conserved for the American people hundreds of millions of dollars of their resources.

The high cost of government is related to the shrinkage in national income. We can and must reduce for efficiency sake our current expenditures, but, unless we are prepared to take those steps in national policy which shall make it possible for the nations of the world to interchange goods as well as capital, we shall find the cost of government rising even higher in proportion to our diminishing national income.

Fifteen billions of dollars is not too much to spend for all government and service to the people when we are earning ninety billions in national income and when we are conserving and protecting a national wealth of three hundred and sixty billions. It is too much to spend in depression times. I have indicated that out of a federal expense of three and a half billions, the war takes about three fourths, and that we cannot repudiate the commitments arising from the war.

It is characteristic of us to look for a scapegoat. We must find someone to blame for the high cost of government. We spend out time blaming the bureaucrat of the extravagance of Congress itself. But what is the truth? The truth is that the American people are not paying as high taxes in proportion to their income as are the people of other countries which participated in the World War. Also, it is a fact that war is really responsible for the high cost of the Federal Government. We have long since ceased to try to find out who was responsible for the outbreak of the European War and we have long ceased trying to find out which group in America or which groups forced American entry into the war. Certainly some of the same people who felt that we

did not enter the war early enough and who were most passionate in their demand that the United States should enter the European War, are today in the front ranks prating about the high cost of government.

The time to have prevented the present high cost of the Federal Government was in 1917. If the rights of the American people were worth protecting, if we believed then in asserting our rights on the high seas, then we must be prepared now to pay for the cost of defending our rights as well as our prestige as a nation. If it was patriotic in 1917 to defend America's entry into the war, it is patriotic today to make every possible sacrifice to pay the cost of that war.

Unfortunately this doctrine is not any more enthusiastically acclaimed on this side of the Atlantic than it is in Europe. We are witnessing an effort on the part of leading nations to avoid payment of war obligations. In some instances there is willingness to pay but no capacity to pay. But what shall we say of our allies who now decline to pay and who thus add to the expense of our Federal Government? We cannot contemplate lightly the addition of \$250,000,000 a year to our tax burden. Certainly we cannot call this and "extravagance" of Washington bureaucracy.

We could probably swallow the debt repudiation policies of some of our war allies if we could see ahead of us a willingness to cooperate for the prevention of future wars. Economy in government cannot be achieved unless there is cooperation to prevent war. This does not mean merely reduction of armament but it does mean a restoration of international good will. It does

mean a readiness to eliminate the friction caused by economic nationalism and to substitute a reciprocal spirit in trade as well as diplomacy. This would lead to more confidence everywhere in the world in the effectiveness of representative government. (Applause)

President Thomas J. Watson: I would like to announce that our speakers will be very happy to answer any questions you may desire to ask. We would like to have you write out your questions and pass them up to our secretary who will handle them at the close of the meeting.

If I could sum up in one phrase the long and distinguished career of the next speaker that phrase would be, “useful public service”. In the classroom, in Legislative halls, in the forum of public opinion with zeal and energy he has pioneered for national conservation and championed the cause of economy in government. To his untiring efforts we owe the establishment of the United States Forest Service and the inauguration of those sound policies of conservation which have brought about the more economical and efficient use of the natural resources of our country. Both state and national governments have drawn on his wide knowledge of the principles of economics and conservation, as witnessed by the many commissions and scientific bodies to which he has been called to serve. Twice he has been elected Governor of the Commonwealth of Pennsylvania. In entering upon his first term he assumed a State debt of \$32,000,000 which he has paid off and has balanced his budget and is furnishing employment to thousands of peoples on the highways, which he is paying for as he goes along. It is a very great pleasure for the Economic Club to have you with us. I now take pleasure in presenting Governor Pinchot.

The Honorable Gifford Pinchot

Governor of Pennsylvania

Mr. President, Distinguished Guests and Members of The Economic Club: I need not say that it is a very great pleasure for me to be here to listen to the discussions which are being presented before you tonight. Before I go on with what I have to say, I want to express my very peculiar pleasure at having been fortunate enough to listen to Mr. Lawrence's clear, philosophic and penetrating analysis of Federal expenses. (Applause) I was fine.

More hot air is talked about cutting down Government expenses than is thrown into the atmosphere on almost any other subject, and when Mr. Lawrence pointed out to you that the total civil list of the Federal Government out of three and a half billion dollars was only \$545,000,000 he put his finger on the essence of the whole problem and showed how exceedingly difficult reduction is as compared with the usual attitude of the man in the street that most government expenditures are ridiculous and that all you have got to do is cut them off. I think Mr. Lawrence has rendered a real service to all of us and I want to add my testimony to the fact that he has rendered a real service to me. (Applause) Reduction in the cost of government is the most popular war cry in America. Therefore, I am delighted to discuss it at the invitation of the Economic Club.

There are two phases of the question. Because reducing government costs is only half the story, I have taken the liberty of enlarging the scope of my remarks to include the other half also. I shall speak tonight on how to reduce the cost of government, and for whom.

Reducing the cost of government is, of course, merely a roundabout way of saying reducing taxes and the question of reducing taxes cannot without evasion be separated from the question of reducing whose taxes. For the problem of lowering taxes is no whit more important than the problem of lightening the burden in the right place. A fat man with skinny legs will not profit much y reducing his weight if his legs bear the brunt of the reducing.

I do not have to tell you that our taxes have become a national fat man, badly in need of a diet. I shall not go into detail about the 400% tax increase in the past 20 years, about the fact that taxes now eat up a quarter of our national income, about the 67% increase in our tax burden since the depression started, when figured in terms of actual purchasing powers.

These facts are symptoms of the disease which we all recognize. We are here to consider the cure.

Three billion dollars of taxes were levied in the United States in 1913. By 1929 they had grown to thirteen billion. In 1932 they have reached a figure estimated by the National Industrial Conference Board at a little more than fifteen billions dollars.

Of this fifteen billion dollars which one year of government costs us in taxes, or in debts piled up for future taxpayers, not quite 30%, or a little less than four and a half billion goes to the Federal government. About 15% or two billion three hundred odd million goes to our state governments and 55%, over eight billion dollars, goes to counties, cities, township and other local government subdivisions.

In other words, of every dollar spent on government in this country, thirty cents goes to Washington, fifteen cents goes to the states and fifty-five cents goes to the smaller government units.

If any substantial saving is to be made in our annual tax bill, the bulk of it will have to be taken where the bulk of it is paid, from local and federal expenses. To cut all our state expenses even in half would save less than eight cents of the tax dollar.

I do not mean that the states should not economize in their spending. They should, and I think my own record in Pennsylvania bears out that position. The Keystone State has no general debt, and what is more, it has no deficit. Its government, reorganized throughout during my first term and put on a pay as you go basis by paying off a debt of \$32,000,000, is able to meet every obligation on the nail for the simple but sufficient reason that it has been economizing to the limit and living strictly within its means.

Not only most of the spending, but also most of the unnecessary spending, is done by the local and national governments. For that reason, most of what I have to say tonight will deal with them, or rather with the local governments.

Moreover, and this is the essential fact, most of the unfair tax burden borne by the average man consists of local and Federal taxes. Local governments, with their general property taxes, and the Federal Government with its taxes on almost everything the farmer, the home owner or the worker buys, levy the taxes that hurt. Remember that we are considering not only tax reduction, but tax reduction for whom.

First as to local government units. Far and away the largest part of the money they spend goes to roads, to schools and to the salaries of innumerable local officials, from county supervisors down to dog catchers. How can we reduce these costs and the taxes that pay for them?

Take roads for example. Sixteen months ago yesterday Pennsylvania took over for construction and maintenance 20,000 miles of county and township road, enough road to circle the United States 2 ½ times. We have already built 4,600 miles of these roads with a permanent foundation and a hard surface at an average cost of less than \$6,000 a mile. And our last report shows that we are giving employment at road work to as many as 55,000 men. The Pennsylvania Highway Department is one of the greatest work relief organizations in America.

Up in Pike County, near my home, there are two roads which run into each other. One is uneven, rutted and full of loose stone. It cost \$9,000 a mile. It was built by local authorities.

The other is smooth, uniform and solid to withstand the traffic and the weather. It cost \$6,000 a mile. It was built by the State Highway Department as part of our rural road program.

What is the answer? The answer is efficiency and engineering skill. It is the difference between haphazard work by local politicians and a professional job under the supervision of trained road builders. Nationally applied, it is also a difference of millions of dollars of taxpayers' money, saved by the elimination of waste and incompetence. It has already reduced local road taxes by more than \$2,000,000 a year in Pennsylvania.

In a lesser degree, the same principle applies to our school systems. As they are now set up, each tiny local school district is a taxing power unto itself. Consolidation or centralization by counties would reduce needless expenses and also better our children's education. Moreover, when coupled with the state road plan, it would do away with the last excuse for countless local government units and offices.

Most of these were justified when they were established, when transportation and communication were timed to a horse's trot. In those days each small community had to be

largely self-governing and self-sufficient. But today with our telephone and our automobiles, and here the good rural roads come in again, one man can easily do the work and cover the territory which required four or five men when transportation was slow.

Science has brought close together towns and people that used to be hours apart. But our units of government have not kept step with science. Today, in addition to Federal and State governments, we still have our county governments, and our townships, and our boroughs, and our cities, and our school districts, and our poor districts, and others, most of them overlapping, all of them supporting office holders and levying taxes to pay them. The reason is not far to seek. The reason is that local political jobs still bring power and pay salaries, and local politicians are not interested in a reorganization of local government which would drastically cut local taxes at their own expense.

Last Spring I tried to get the Legislature to do away with the needless and costly overlapping county-city government of Philadelphia. Not one single argument was advanced in favor of continuing it. There isn't any. But my consolidation proposal never got to first base, simple because it would have taken many fat jobs from organization men.

It seems clear that the first step in real tax reduction must be to put local government units on an efficient and modern basis. It will cut out thousands of superfluous local offices and the salaries attached to them and it will save hundreds of millions of dollars to the taxpayers of the nation.

Here then is a workable program for local tax reduction, for cutting down the 55 cent slice of the national tax dollar. First: State construction and maintenance of rural roads as we are doing in Pennsylvania. Second: Consolidation of our school systems under state subsidy. Third: Elimination of useless and overlapping local government units and offices.

These measures would effect great savings, through efficiency and coordination and what is even more important, they would help to shift the tax burden from the shoulders of those who should not and cannot bear it to the backs of those who should and can.

It does not take many figures to make this clear. I have told you that 55% of our taxes are local taxes. From what source do we collect these local taxes? The latest available figures show that 88% of them are general property taxes. In other words, 88% of 55%, or a fraction less than one half of our entire national tax burden is borne by local property taxes and property taxes mean, for the most part, taxes on real estate, on homes and shops and farms.

Is it any wonder that our workers cannot pay their rents, rents that have been boosted sky high by the tremendous taxes on real estate? Is it any wonder that farmers are losing their farms and workers their homes at tax sales, and mortgage sales by the tens of thousands? Thousands of farmers are losing farms which were mortgaged just to pay the impossible taxes levied upon them.

These are the men, the farmers and the workers, the bulk and the backbone of the nation who have been staggering and falling under the gigantic load imposed on them by our archaic system of taxation. These are the men whose interests we must consider first and foremost in any attempt to reduce or revise our national tax bill.

I advocate the abolition of local government sinecures, the taking over of roads and the gradual consolidation of schools, not only as efficiency measures, but because they offer a means of relieving the average man of his present intolerable tax burden.

For while these functions continue to be local functions, their cost, both necessary and unnecessary, will continue to fall on property, on houses and farms. But the states can distribute the burden through graduated income and inheritance taxes, taxes on intangibles such as stocks and bonds and gasoline taxes for roads.

It is altogether wrong that our taxation system should be so set up as to penalize the man who owns a bit of real estate, and through him his tenants, while leaving comparatively scot-free the man whose millions are salted away in intangible securities. It is altogether wrong that the farmer, who is least able to do so, should be forced to carry the whole load of country roads when he may not even own a car. It is altogether wrong that the brunt of paying for our vast and expensive network of government should fall on the poor instead of the rich, as it does now.

In the field of federal taxes this same principle still holds good. Tax reduction alone will not be enough. It must be tax reduction that reduces for the average man on whose buyer power or national well being depends, and not solely or mainly for the millionaires who already have more money than they can ever spend.

There are countless ways of reducing the cost of our Federal Government. Most of them, like local economies, are blocked only by the selfish reluctance of political organizations to do away with the thousand of useless offices which pay fat salaries and make up what is known as patronage. There are thousands of supernumerary federal officials throughout the land whose so called services could be dispensed with at no loss to our people.

But when, and if, inefficiency in this and many other lines is done away and costs are lowered and taxes are reduced, or at least kept from going higher, the benefits must, I repeat, fall to the average man and not to personal or industrial concentrated wealth.

We must not have a repetition of the Mellon or millionaire tax reduction plan. This was the plan that saved the men with million dollar incomes, an average of about a million dollars a year. Yes, a million dollars a year. For their average income was so far over a million dollars that in 1918 their average tax was \$1,326,645 but 10 years later in 1928, the average tax of the same

group was only 362,309, thanks to Mr. Mellon. No wonder they call him the greatest Secretary of the treasury since Hamilton. (Laughter)

To the 513 men who in 1929 had incomes of over a million dollars, this reduction meant an annual gift from the United States Government of about half a billion dollars, enough money to pay off the present Treasury deficit in three years.

The Mellon plan of tax reduction included the repeal of the gift tax. This amounted to taking the stopper out of the inheritance tax bathtub by allowing the over-rich to give away their fortunes tax free before they died.

The Mellon plan of tax reduction was backed by an argument to the effect that great wealth must be released from taxation for purposes of investment and production, even though a greater portion of the burden would then be carried by the poorer man, but that did not work out as advertised. For over production, and under consumption, too much producing power and too little buying power, was the main root of the depression.

Finally, the Mellon plan of tax reduction was put into effect by means contradictory to, and destructive of, any democratic form of government. “Men of wealth”, said Congressman Frear at the time, “are naturally interested in tax reduction that will benefit themselves, but the blackjack method of intimidating Congress to relieve a handful of wealthy men to the exclusion of the rest

of the country, is perilous to any system of representative government. Refusal to contribute to Republican and Democratic campaign committees are unanswerable surtax cut arguments”.

I would rather see no tax reduction at all than this sort of tax reduction again. There is no nation in the civilized world that does not actively recognize the principle of levying taxes in proportion to ability to pay, except the United States. We may profess it but we do not live up to our profession.

For it is the average man, the man with a small income, who still bears the brunt of our federal tax burdens, through direct and indirect taxes on everything he buys, in proportion to what he buys and not to what he owns. It is a taxing system which puts a premium instead of a penalty on the evils of concentrated wealth and now the Administration is proposing an additional sales tax, the sort of tax which is directed straight at the poorer man. I hope it is killed as the last sales tax was killed. I hope that whatever new taxes must be imposed, and I am convinced that they would not have to be imposed if government waste and inefficiency were eliminated; I hope these new taxes will be increases on the upper brackets of income, and inheritance rates, coupled with the re-enactment of an effective gift tax to stop inheritance tax evasions. For these are the sorts of taxes which bear directly and inevitably on those who can best afford to pay.

I say again that in the imposing of new taxes or in the lowering of old ones it is fair distribution of the tax burden that mainly counts. Our first task is to lift from the necks of our farmers and

our workers the intolerable yoke of excessive and oppressive taxation. If we can do it without increasing the taxes on the rich and well-to-do, so much the better. To that end, economy is the only road.

To lower our annual tax bill by reducing the cost of our governments, local, state and federal, is extremely important and extremely desirable, but to relieve the plain people of their unfair share of that annual tax bill is absolutely indispensable. That must be done (Applause)

President Thomas J. Watson: Few people of our time and generation have given more thought to the problems of government than has our next speaker whose name is high on the honor rolls in achievement in the solution of our social and economic problems. Aside from meritorious work as a newspaper man, success as a publisher and distinction as a lecturer in leading institutions of learning in our country, his career is studded with service to the public welfare. As an officer of the Civil Service Reform League and the New York Municipal Civil Service Commission, as President of the Borough of Manhattan, President of the Board of Aldermen, Acting Mayor of the City of New York, he has been identified through a long and distinguished career of service with forward movements in our social and political life. His genius for organization and his ability to improve the existing order of things are typified by his service as Chairman of the New York Transit Commission and his appointment by the Government of New York to revise the Charter of the City of New York. We are very fortunate in have Mr. George McAneny with us tonight who will now address us on local government expenditures. (Applause)

The Honorable George McAneny

President of the Board of Aldermen

Chairman of the New York Transit Commission

Mr. Watson, Ladies and Gentlemen: I felt a bit as Mr. Watson unfolded the details of my past life, like that wise man who had his wife's epitaph written in her life time and had it framed and hung on the walls of her room, in order as he said, that she might live up to it. (Laughter)

I am afraid as an exponent of authority I shall fall far short of meeting that test in talking to you tonight and I want to warn you that although I have been given this topic in all of its breadth, of the breadth that has been treated of by Mr. Lawrence and Governor Pinchot, I am very likely to come back frequently to the affairs of the City of New York. We have indeed heard, and heard repeatedly, statistics that the gentlemen who have spoken before me this evening have debated here tonight. I shall not repeat them but there are two or three conjunctions of figures that I do not think can be repeated too often, particularly when we speak of the municipal phase of this problem.

It is true that we have had this vast increase in public expenditure in the last 26 years. It is true that the Federal costs have risen greatly, but we all know and concede that the great moving reason for that were the war and its aftermath. It is true that there is no fit comparison between the

expenditures of the Federal Government and those of the cities. Perhaps that is the more reason why we should decry here that since 1913, for instance, a little matter of 16 years, the aggregate expenditures with the United States for local governments, cities, counties, towns and villages has risen from \$1,844,000,000, that the total figures have risen from the figure that I have cited to a total of \$7,126,000,000 to 1929, which was in a sense the peak spending year. That represents a rate of growth that cannot be accounted for by emergency or national catastrophe or obligations. It represents something different, something much more difficult to fathom and to explain, although it is part of our function to explain it as we lead down to the question of how to redeem this situation or to improve upon it.

The most significant part of this statement is the per capita cost involved in these figures. In 1913 in the cities it was \$12 for every man, woman and child within the borders of these communities. In 1929 it was \$41, and taking the figures of the National Industrial Federation Board, again taking the averages by which they rule, that meant that combined with Federal and State taxes in 1929 each family in the United States was giving up \$400 of its income towards the costs of government, giving it up, to be sure, through collections made for the most part, and unhappily I believe, through indirect taxation, but nevertheless through methods that just as surely get down to the ultimate pocketbook and the ultimate budget of spending of the average family.

Now, I spoke of New York, and at the very outset I want to recite another story of the growing cost that will show you that we have not been in any backward sense aiding the rest of the land.

We have held own pretty well in these advanced expenditures of millions of dollars. For instance, you all recall, though most of us were children at the time, that in the year 1898 there occurred that consolidation that brought together the great aggregation of humanity and wealth known as Greater New York. Something like 200 communities, great and small, were combined in the greater city at that time and in 1900, taking a decade year for convenience, the first following 1898, the budget of the consolidate City of New York was \$92,500,000. The per capita cost at that time was \$26. Now, what has the record been from one 10 years to another? In 1910 it had risen to \$163,000,000; in 1920 to \$273,000,000; in 1929, taking again what ordinarily has been accepted as the peak year of permissible spending, it had risen to \$565,000,000 and in the year 1932 through which we are now passing it stands at \$631,000,000, and not only that; this has never been the true statement of the cost of the City of New York, because there are certain revenues from the State applied to education and certain other revenues that go in to swell the volume and bring the actual total this year to \$700,000,000.

That is for running expenses, mind you. It does not take into account the cost of capital expenditures, except in one single instance to which I will return. It does not take into account the vast sums that have been realized and spent through the issue of securities based upon the City's credit. That is just an expense account for running the City in one year and that means, with our census of 1930 as a guide, \$100 per capita for local government to the man, woman and child who lives within the City of New York.

Now, in this aggregation of per capita costs that are cited at Washington, as I have said, the local costs are put down at \$41 per capita. In other words, that the average per capita cost to the cities of the United States is \$41. But if you take our \$100, and we are entitled properly to add to that another \$59 that is peculiar to life within the City of New York (Laughter), by adding that to our per capita we get something like \$142 as the per capita for New York City, National State and City expenses, or \$636 for each family.

Well, these are staggering figures. We too in this town have recently risen more vigorously and loudly than any other a war cry, the cry of lowered taxation and lowered government costs. But until recently it has been an almost hopeless task. Unhappily the major part of our taxation is indirect. You have cited, governor, 88% as the real estate average tax, I believe, within the State of Pennsylvania. Almost coincidentally within the City of New York real estate this year is paying 81% of the total cost of government. Now, that tax is passed, of course, on to the various phases and stages of the cost of living, through rents, through everything that goes into the cost of life in this town right down to the worker on the factory line. It is passed on in that fashion, but they don't know it. They don't know what budget making, so to speak, means to the individual or their individual pockets.

I have said that our budget this year is \$631,000,000 exclusive of the state's contribution for education. Of that total 81%, I think to be exact \$515,000,000, is levied upon real estate and the rest comes from miscellaneous revenues of the city or franchises and lease privileges, for license

fees and for all the other indirections that go into what we call the general fund. Budget making or balancing a budget does not mean to us, or to the government of any other average American city, what it means to a private corporation or even to the government of the United States. There the correct rule is to set up the income that is clearly in sight and to name its sources, to arrange taxes that are assuredly going to produce an income and then see if they can in some proper manner scale down spending to meet those resources. We balance our budget this way: we figure out that there is \$115,000,000 coming from miscellaneous revenues. Then we soak the rest on the taxpayer, no matter what the sum may be, and that is the fashion in which we balance our budget. We make up the spending budget first of all. We make it a matter of rigidity, almost, and say, "This is what we are going to spend", and then fix the tax rate. That is our method of adjusting the budget.

But the man in the street, the ultimate taxpayer, he does not understand this. We are far behind in this respect the cities of England, for instance, where about one half of the municipal tax is laid upon real property and the other half is laid upon the householder, whether he owns a house or not. It is laid upon practically every man or woman who votes in that municipality. Recently I sat in luncheon company with a distinguished Englishman who had been Lord May of Manchester and is still most active in the life of that great city and I said to him, "How do you manage it"? He had spoken of the better methods of control of their budgets that they had as compared with our own. "How do you manage it? How do you get in your public opinion an insistence upon this thing"? He said, "It is mainly our rate payers' associations". In other words, this class of

taxpayers who actually live in these building and are considered when taxation is levied. The rate payers there are so organized in the English cities that they know the difference of every penny that goes into the bill for governmental costs as the years roll by, and if the rates go up the housewife knows it and there is something said about it and there is a hullabaloo in the halls of government and they get more satisfactory results.

We haven't got that. The ordinary man or woman here has the notion that the only taxpayer is he or she who happens to sign a name to a check that pays that tax bill, and for that very reason while those who actually pay the taxes, that is the check writing taxpayers, constitute perhaps one-tenth of the vote of the community, the other 90% say, "What does it matter to me? These taxes are paid by the rich or paid by the landlord or by the property owner", and they are therefore relieved from any responsibility in their own minds for any scrutiny of public expenses. They are relieved of any of the anxieties and consequently in the local elections usually they vote not according to their own interest or needs but upon purely political reasons hewed along closely entrenched lines of political parties with national names and usually in response to local and recently manufactured cries that stir them up; cries that haven't anything to do with this vast system of spending the beneficiaries of which are public men that were elected to office through such process. That is the great disadvantage that we suffer and that we now face. It will be a long time before we overcome it.

Coming down to the question of remedies for these vast costs, coming down to the needs for alleviation of the results that you sell all about us, there are hopeful signs. May I emphasize the fact that no matter what the cause of this growth has been, some of them are legitimate as we have expanded our municipal functions, as we have taken over more and more each year social obligations and the need of taking care of those who are entitled in a community to community relief, there are legitimate increases made here and there; but for the most part they are not legitimate. They have followed the rumor and the theory of prosperity and while the game was on and everything went rosily and ruddily, it was so easy to keep public spending, city spending, up to that general mark, that we raised salaries and we increased the force, making it easier for most of our public workers to do their work and get more leisure and enjoy vacation, perhaps, than some of the rest of us.

When it came to capital spending, we used all our credit for our great public enterprises. We have been governed not by the thought that just so much should be spent and the rest held in reserve, as you are accomplishing in Pennsylvania; not a bit. What is the constitutional limit of our debt capacity? How much can we legally and constitutionally raise it? And we have usually accepted that as the measure of our public spending, and we have waited from year to year and month to month until there might be a new assessment roll passed out and a new borrowing margin again established, and we spent that. It has all been too easy-going, too little understanding by the people, as I said, who are the ultimate payers and the ultimate sufferers.

But whatever these causes may have been, there have been results. It is the municipal tax that comes closest to the ordinary man, after all. That tax concerns his home and his manner of living within his own town. It is that tax that pinches and hurts him most. But how have we met that emergency on his part? We turned about us and found that through the crushing burden of taxation laid upon the peoples of the City of New York there are a multitude of instances in which foreclosures and ruin and consequent destitution that goes far beyond the property holder or the employer was concerned, a multitude of instances in which foreclosures have turned finally upon the single question of excessive taxation. We have left a train of that kind of thing throughout the city. It is said by the rent payer now and then, “Well, I cannot quite follow you. I am paying lower rent that I have for three years”. Of course he is. It is his market just now. But if his employer, if the owner of his factory or his store or what-not is forced to foreclosure because his taxes are too hard to meet or to bear, and the result is empty places and empty positions of employment, does it benefit him in the long run, and when we come back to normal times isn't he going to be confronted with the same old difficulty? It seems to me so. Things have grown so bad in most American cities – There are scattered instances all about us. Chicago perhaps offers the best practical illustration of what agonies may come from poor methods of government and of taxation. Fall River, Massachusetts defaulted on the interest on her bonds and is placed in the hands of a State Commission. There are instances of that kind all through the country. But so bad, so oppressive has the thing become that there is a distinct turning, a distinct search for the remedies which is promising great results.

Here in New York we have felt that the first great remedy is that which will lie in educating the people not only to the degree and the kind of spending that has been going on, but to their own interest in it. This year, and for the first in many, we have been represented in the discussions of the budget making machinery at the City Hall by a Citizens' Budget Commission organized and supported through private interest and private funds, but put in a position where it can employ expert investigators and advisers, and that commission, led by a gentlemen whose public service it would be difficult to estimate and who is here, Mr. Grimm (Applause) - and I might say most ably seconded by counsel of the commission who is also here, Mr. Riegelman (Applause) – that commission went to the City Hall no longer unaware of what these great columns of figures might mean, no longer unable to say to questions from the bench, “What are you going to do about it? What do you propose?” They went there prepared to respond as the result of their earnest and diligent work, and we have had a budget making season at the City Hall this year the like of which has never been known before and results have come thick and fast. You are familiar with them. You are familiar with the recent discussions. You have been told through the voice of this commission and those who are allied with it that in the last six years, I am not going back now to the days before the war or immediately after, but within the last six years the payroll of this town rose 48%, in other words about 116,000 employees became 148 or 146,000 employees, and the payroll followed them. Within six years, and we did not stop at the peak, two-thirds of those advances came during the three years from 1926 to 1929 and one-third of it went merrily along after the depression had come and after there was the beginning, at least, of the cries for relief directed to the City Hall. No, it went right on and we have the result of that

time. That could be dissected and analyzed and put into an innumerable number of cases, an innumerable number of detained cases that would amuse you, some of them, shock you in other cases. But they all go into the sum total of the thing that has been talked about publicly in the last few weeks. We have had our need for retrenchment emphasized sternly by the word from those who act ordinarily for the city and who, when employed upon a commission, will seek to place the sale of its securities to the public usually, in the past, primarily in national or municipal securities. We have had work from these gentlemen that the rate of spending that has gone on in the City of New York has been of such a character, piling up such a debt, with uncertainty as to the manner of its ultimate amortization and treatment, these things have so excited the imagination of the investor and raised such doubts in his mind that he is not going to continue to buy the securities of the City of New York in the old way, and that the only way to bring him back to a buying mood and a buyer temper is to prove to him that we have turned the other way and we are going to cut down and behave as a business corporation, moved by proper business considerations would behave. In other words, the bankers have said to the city, "You must stop this. You must cut this budget radically or we cannot place your loan". People have arisen and have said, "Cruel bankers". They have the idea, a great many of them, that the bankers are men who have in their cellars tons of gold that may be shoveled up upon order and placed at the disposal of those who wish to take it, provided their onerous terms are met. Of course it isn't anything of the kind. The bankers are merely brokers of sale. There are 15,000 holders, individual holders, of the securities of the City of New York and it is that buying public that they have served. They are feeling the effect, as we all are. Under the law New York City may not sell

its securities in any market for less than par and it may not pay more than the legal percentage of six as the maximum for the cost of its money. It has not been easy to put these securities on the market at par under the circumstances through which we are passing

I cannot believe that there are any in all this doubtful mass who have any doubt about the solidity of the wealth and the finances of the City of New York. They know, or they will know if they think about it, that the credit of New York is impregnable to anything. But where doubts are raised, even in a temporary situation, and where those doubts seem to be justified by the conduct of the board of directors of that corporation and the faith of those who hold its stocks and who represent its clientele, their faith is inevitable shaken, and it has happened in the case, and so when the bankers come in with a plain business statement, a plain business announcement, people went first from one point and then to another. Remedies were declined. The budget was cut \$74,000,000, but of this cut about \$55,000,000 represented bookkeeping adjustments, in the main, the substitution, and the very proper substitution in my judgment of 50-year bonds for certain four-year bonds issued on behalf of the Board of Transportation to cover the cost of the new subway. But nevertheless it went down \$74,000,000 and the bankers said, "Not you must do this thing or that but you haven't yet reached our buying public. We cannot do this thing for you yet. You have got to cut at least \$20,000,000 out of this high salary list of wages paid and you have got to do what you can to reduce the force wherever there is a case of over-manning or of extravagance, and you have to find another \$20,000,000 to add to that. You have to add to that

\$74,000,000 another \$40,000,000 before you will make a showing, and before you will be able to make an impression upon the security investing public of the United States”.

This battle has been carried right down until yesterday and you know the result. After a great deal of resistance, a great deal of dilly-dallying and delay, a special session of the Legislature is called and bills are passed that place it within the power of the Government of the City of New York to cut these salaries, not unkindly or severely, but merely bring them back measurable to the scale of spending that prevails in private business or private life. The City has been put in a position where it can meet the demand for further cuts, and it's hot to meet them and everybody realizes that that is true, that that is a very healthy sign. The people have been aroused to the need of this retrenchment. They have been taught that it is essential to the business health and prosperity of the city and of its peoples, through the years immediately to come, and they have been told by those who know that they cannot raise any more money unless they do it in this fashion and now they are going to do it and that is the first big result of the kind of agitation and of the insistent agitation that has been proposed by the Citizens' Budget Committee and its allies, who are many.

Now, may I point to one other very impressive fact as we have approached this business of cutting things down? Go back to the budget and all its millions again for a moment. The difference in the budget for 1926, and again I go back just these six years, the budget at that time was \$437,000,000; this year \$631,000,000; representing in those figures a gross of

\$194,000,000. Well, now, out of that \$194,000,000, \$97,000,000 represented that part of salary advances that were charged to the budget with another \$20,000,000 charged to that part that comes from the State. But for budgetary comparison let me say \$97,000,000, and in the budget this year there was an item aggregating \$74,900,000 on account of the capital cost of building the independent subway. Of course that is a long story and if I went into it I would tire you. But nevertheless there are many of us who have believed, and I think most people who have scanned this thing carefully must believe, that this whole method of financing great public improvements, great public service projects ought to be put upon a self-supporting basis as other things of that kind almost universally are instead of the financing of the major part of that cost out of the taxable budget from year to year.

New subways will cost, even if the Sixth Avenue spur which was debated before, were left out indefinitely, they would cost something like \$825,000,000 or something like \$16,000,00 a mile for this work. It was proposed at the time of their inception, at the time of the start of the work, that all but \$150,000,000 of that should be paid by one indirection or another from the budget. At the present time something like 325,000,000 has already been paid from the budget, that is by the redemption of those short term securities having a length of four years, and they are charging the cost of interest during the construction, and of engineering and administrative expenses, all items that in previous subway undertakings have been charged to capital cost to be amortized out of the earning of the system. Already \$325,000,000 has been met and carried along. But it is proposed that the other \$520,000,000 be raised through further exactions passed on through the budget,

and that practice, as I say, was changed this year as a measure of giving quietude and some encouragement to those who are protesting against these vast totals.

But in those six years out of the \$194,000,000 increase, \$97,000,000 was payroll, \$75,000,000 was this excessive subway cost, and only \$22,000,000 represented the net advance in all the other functions of government. So you will easily see where the need for remedy lay, where the emphasis has been placed and where the pressure was brought chiefly to bear, and in those two lines we are reporting great progress.

I have told you the particulars. These are beginnings, but in my judgment not only in the City of New York but in practically every city in the United States. There has been aroused this better understanding and this demand for business-like methods in city government, for the rejection of old worn out methods that have resulted in extravagance and waste and too frequently in the indirect corruption of the electorate. It is proposed that we go a great deal further. We have got the fever in New York; we want a lot of reforms all at once, and in one sense the more we can get the better. It is recognized for instance, that our charter, still representing in the main that aggregation of 200 charters that were put together chiefly with scissor work in 1898, that as our charter is archaic it needs revision. It does need revision. It ought to be simplified and it ought to respond more readily to the needs of the kind of business administration that we are approaching. But we cannot look to that along for great savings in the cost of administration. These functions, however grouped or renamed or reshaped will still have to be performed. We cannot cut them

out. We started three years ago the Department of Sanitation in this town, the result of a consolidation of three then existing departments. One of the prime arguments was that it was going to save overhead, whatever that is in the city government, and it is going to save miscellaneous expense. That budget for these three departments three years ago aggregated \$33,000,000 and this year the Department of Sanitation spent \$39,400,000. So you will see that consolidation along, regrouping, renaming and all of that is not in and of itself an efficient thing.

I believe that we ought to have careful and thorough revision of the charter with all of the aid and all of the acceleration for better things that can come out of it. But I tell you gentlemen nevertheless that we would rather have one hour of the sort of behavior in office for which Mr. McKee has been standing than 24 hours of charter revising. (Applause) these things nevertheless all belong to a composite program of vast importance to all of us. The great thing is that the people are beginning to understand. I think they are beginning to understand pretty much as I put it to you a moment ago, that the most perfect of charters administered by those who have no interest or sympathy with their purpose will not produce invariably the best results. In other words, that unless charter revision and the improvement of this structural form of government and its operating and fiscal agencies goes hand in hand with the reduction also of the degree of interference of politics we cannot get very far.

When you gather to consider this subject from its economic outlook and its economic significance, very good. We are bound to do that. We are bound to get measurement for the

understanding of this thing. But it is just as impertinent to say in a gathering of economist that the means for securing the ends they seek lies in the improvement of our political affairs as it is to say that this kind of oil or this kind of machinery is essential to the successful operation of the great factory. I was invited to say a few words the other day before Judge Seabury's tribunal of inquiry upon the general subject, to be sure, of charter making, and I ventured, although I felt that I perhaps was upon precarious ground at the moment, I ventured nevertheless to say something like this, that I believed that we would get much nearer to the practical fulfillment of our hopes if the Legislature might be induced to do just three things. In the first place to give us a governing council elected upon the principle of proportional representation, as the first move. (Applause) In the second place, to forbid the use in city elections by any party or group of the names or the emblems of the national parties. (Applause) In the third place, to repeal the present provision of the primary laws of the State so far as they relate to the City of New York and its local elections.

In 1894, away back there when the Constitution was radically amended, the principle of separation of national and local politics was frankly admitted and then came the separation of the election years so that we would not vote for a Mayor or other members of the central city government in the year in which we voted for the president or for the governor, and the pronouncement that that convention itself address to the public stressed that point and pointed to the advantages, and I am only suggesting that we go a step further logically and not only separate the dates so that men and woman may be left in freedom to think about their local affairs and

their local issues upon which they are asked to vote, but to separate the designation of the parties. There is no more reason for the election of a Mayor whose chief function it is to select for the government men trained and best fitted for the operation of the business, professional or technical department of the government, because that man has certain views about the tariff or world debts or the currency of any other public question that is reviewed in a national election; no need whatever for such a performance, and still we are not only encouraged to do that but by the hundreds of thousands our voters practically are left no alternative when they are to vote under the eagle or the star according to their views on national affairs.

These things have got to be met side by side. These things have got to be met. This great need has got to be met coincidentally with any consideration of the revision of the charter or of our budget making machinery or of the process through which taxes are levied and the dollars of cash collected and to be passed on through our till into the spending columns.

These things belong together, gentlemen. But if I may repeat in a word after all, the great thing lies in that sentence of mine that roused you to just praise of May McKee. It lies in the matter of administration. There was a poet high in the literature of England named Alexander Pope and Pope once said, and it is still perfectly good doctrine, "For forms of government let fools contest, what's best administered is best". That is what we are seeking in the City of New York. That is what we are seeking in every city in the land, some cities securing these things by the adoption of the very devices that I have been proclaiming to you tonight. That is what we are seeking and

these are the prime means of securing reduction in the illegitimate or excessive and extravagant costs of government that I have to offer. (Applause)

President Thomas J. Watson: Ladies and gentlemen, I am very sorry to announce that Mayor McKee returned from Washington today with a slight cold and was ordered to bed by his physician to prevent illness. He regrets very much it has been so tonight and has sent a message that if we invite him he will surely come to our next dinner. On behalf of the Economic club I wish to thank our speakers who have honored us with their presence and enlightened up through the wonderful addresses which they gave us tonight. I assure you gentlemen it is very much appreciated.

This meeting will now stand adjourned.