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**MR. PRESIDENT: HERE'S HOW TO BALANCE THE BUDGET**

Address of Senator Robert A. Taft of Ohio, Before The Chicago Bar Association  
Friday, January 5, 1940, N.E.C. Blue Network, 9:30 to 10:00 P.M. Eastern Time

Ladies and Gentlemen of the Chicago Bar Association:

It is a pleasure to discuss public questions before a body with the long record of public service which your Bar Association has, particularly when my old friend and classmate, Tap Gregory, is your president. I appreciate particularly your kindness in inviting me to speak on a political subject to an association whose membership includes many Democrats, among them your president.

This is a time of year when members of the bar are advising men and women and businesses on their financial position and their tax liabilities. It is a time when every father is preparing his own budget for the coming year, and trying to find out whether he can pay rent and taxes, and still buy enough food for the family, and clothes and shoes for the baby, or whether he is on the road to bankruptcy and the relief rolls.

Last month I made the statement that the budget of the federal government must be balanced if we are to avoid national bankruptcy, and that it can be balanced in two years. The President of the United States deigned to offer me a handsome prize if I could show him how it could be done. While his statement was no doubt made in a jocular vein, it has extraordinary implications. In effect he says that the federal government cannot possibly balance its budget and get on an even keel by the first of January, 1942; or else he must be asserting that he does not want to bring about that condition by January 1, 1942. In either event, he admits that if he should continue to be President at that time, the budget would not be balanced two years from now.

He also admits that he does not know how to do it himself. Since I prepared this speech, apparently he has decided to compete for the handsome prize himself, and the budget message presented to Congress moves very gingerly in the right direction. But a good deal more will have to be done before the President can claim his own prize. I question the genuineness of the President's new-found desire to reduce spending, and I think he still needs the advice for which he has asked.

**FIRST: THE PRESIDENT MUST WISH AND BE DETERMINED TO BALANCE THE BUDGET**

The first prescription for balancing the federal budget is that the President of the United States shall wish to balance it, and must be determined to balance it now. I have been in the Senate for a year, and I have seen no evidence of a

desire on the part of anyone in the present administration to abandon the deficit borrowing policy. No government planner suggests or even asks where the money is coming from to pay his increased expenses. Project after project is presented without its sponsors feeling the slightest responsibility to raise funds to pay for it, except by more borrowing.

The administration has been guided by a deliberate philosophy of using government borrowing in an effort to produce prosperity. Mr. Eccles has said that deficits are a blessing in disguise. As late as November 1939, at St. Louis, he opposed proposals that the government, in an effort to balance the budget, reduce expenses in any line involving payments to consumers because it would reduce purchasing power. In short, he is still a strong advocate of the pump-priming theory, as are many other members of the government. Only this week was published the annual report of Harry Hopkins, Secretary of Commerce, one of the President's most intimate advisers, in which he devotes pages to a defense of the discredited theory that the government can spend itself into prosperity. A theory so convenient to the politician as one involving more spending and lower taxes is not easy to abandon.

The President himself has at times wholeheartedly embraced this theory. On January 6, 1936, he said: "Secure in the knowledge that ..... it is the deficit of today which is making possible the surplus of tomorrow, let us pursue the course that we have mapped." It is four years since that statement was made, and tomorrow has never dawned.

In November, 1937, Secretary Morgenthau declared that the budget must be balanced, but his words were hardly uttered before he had to yield to the spending group in the administration. The President in his message to Congress on January 4, 1939, only one year ago, declared that an effort by the government to balance its budget by cutting expenses would invite disaster, and that only by liberal government spending, which he lightheartedly referred to as investment, could prosperity be restored in the United States. He then presented a plan for the year ending July 1, 1940, which would add \$3,300,000,000 to the public debt. As a matter of fact, the deficit this year will be closer to four billion dollars.

Think of it, citizens and taxpayers! We are used to astronomical figures, but ten million dollars is still a lot of money. Every day, every twenty-four hours, the government is borrowing and spending, over and above all the taxes it collects, the huge sum of ten million dollars. Every three days the government is borrowing more than the value of all the farms in an average rural American county. What the government borrows the citizens owe and some day are going to have to pay.

If a man promises to reform and fails to do it, we may still feel that he has sincerely tried, but when he goes on promising and never takes a step toward carrying

out his promises, we may well doubt his real desire to reform. So with the promises of the President. In the campaign of 1932, the President repeatedly promised a federal budget annually balanced, as pledged by the Democratic platform. In 1933 he told Congress that there was a reasonable prospect that within a year the income of the government would be sufficient to cover the expenditures of the government. In 1934 he promised a balance for the fiscal year 1936, and he made the same promise in 1935. The year 1936 added \$4,000,000,000 to the public debt. In 1936 the budget was to be balanced in 1938. In 1937 he said: "We expect, moreover, if improvement in economic conditions continues at the present rate, to be able to obtain in 1939 a completely balanced budget with full provision for meeting the statutory requirements for debt reduction." The deficit for 1939 was \$3,600,000,000. The 1939 budget message did not even express any hope that the budget would ever be balanced; and about the same time the New Dealers acclaimed a book published by seven young professorial economists, which advanced the theory that the budget should never be balanced.

Furthermore, only six months ago the President presented and tried to force through Congress the notorious spend-lend bill, authorizing expenditures close to \$5,000,000,000 by government departments without securing any appropriation by Congress, a new spending trick developed by the New Deal spenders. The bill was so framed that expenditures would not have appeared among the regular expenditures of the government, but the departments would have been authorized to borrow money on the government's guarantee and thus increase the government debt. On Wednesday Mr. Ernest K. Lindley, columnist closer to the New Deal than any other columnist and the President's biographer, said of the budget just presented: "As drawn by the President, the budget is a heavy concession to political expediency". Not to sound government, or political morality, or common sense, my friends, but to political expediency. If that doesn't mean that the expenses are being reduced in an election year to be increased again when there is no longer any political expediency, I don't know the English language.

There is no evidence that the President wants to stop spending. He has complained from time to time that Congress has exceeded his recommendations. It did so last year with relation to farm benefits and flood control, but over the whole period Congress has appropriated within two per cent of the official budget estimates. Furthermore, if the President had been sincere in his desire for economy, he could have vetoed the farm and flood control appropriations. But he said not a word and signed the bills. He has not vetoed a single spending bill since the bonus bill in 1935. Is it any wonder that most Congressmen don't believe that the administration objects to more spending, particularly when it provides liberally for all its own pet projects?

There is a good deal of ghoulish glee on the part of the New Dealers today because the President is now cutting projects supposed to be dear to the hearts of Congressmen. This is said to put them on the horns of a dilemma, and the President evidently expects them to restore the cuts so that he will not have to stop spending. If he will stop playing a game with Congress, and show that he sincerely means business, he will get plenty of support for his vetoes.

A President who really wants to balance the budget is going to have to use his veto power fully to support his position, as every other President, Republican or Democratic, has done in the past. As a matter of fact, under present conditions the President's influence in Congress is so great that if he exercised the same pressure for economy which he exercised last summer for more spending in the spend-  
lend bill, he would have no difficulty in holding Congress without a veto to the appropriations he recommends. I do not maintain that balancing the budget is an easy feat, but it can be done if there is a conviction and determination that it must be done on the part of the President of the United States.

SECOND: ELIMINATE BUREAUS; REDUCE NUMBER OF EMPLOYEES; REORGANIZE

When that requirement is met, he can turn to the budget itself. I have here last year's budget, a book two inches thick, with about 1,000 pages and 50,000 items. It takes the departments and the Director of the Budget a full year to prepare it. I don't suppose the President expects me to present a detailed budget, but I intend to state definitely the principles which must guide its preparation with specific examples of each principle.

A small committee of men with practical experience in business and in government should be appointed to plan the government's housekeeping in detail for several years to come in the light of what the people are willing to pay their housekeeper. That committee will have a broader task than the Budget Director, for they will have to determine which activities of government are essential, and which are less important and can be dispensed with, however desirable, if there is no income to support them. They will have to state what limits of expense have to be imposed on a farm policy, a relief policy, a preparedness policy, if the budget is to be balanced on the present tax system; and state what additional taxes are necessary if those limits are exceeded. They will have to recommend the cutting of appropriations in every department, and affirmative legislation to change or abolish bureaus which are now required by law.

There are certain obvious principles to guide such a committee. President Roosevelt himself said on October 19, 1932: "You cannot go very far with any real federal economy without a complete change of concept of what are the proper functions and limits of the federal government itself.....You can never expect any

important economy from an administration committed to the idea that we ought to center control of everything in Washington as rapidly as possible." President Roosevelt pointed out that the growth of innumerable boards and commissions, which have grown up as excrescences on the regular system, were the cause of the increase in expense. In short, my second definite recommendation is that bureaus which are performing less important functions, however desirable, be eliminated, and that the number of employees be reduced in all others.

I cannot say finally, without such a detailed study as I have proposed, which bureaus are the less important, and should be abolished or their functions transferred to others. Of what substantial value today to the people of the United States are the Electric Home and Farm Authority, Central Statistical Board, National Resources Planning Board, National Power Policy Committee, Disaster Loan Corporation, the Codification Board, the Office of Government Reports formerly the National Emergency Council, Maritime Labor Board, United States Employees' Compensation Commission, National Advisory Committee for Aeronautics, Division of Cultural Relations and various International Boundary Commissions in the State Department, Puerto Rico Reconstruction Administration and Bituminous Coal Division in the Interior Department, various Consumers' Counsels, various Information Services of the different departments which are really propaganda agencies, and many others? I suppose few of my listeners ever heard of any of these organizations, but they are all in Washington with secretaries of their own, and members and employees, and sometimes legal counsel, and drawing money from the federal government. If any of them have essential functions to perform, is there any reason why they should not be transferred to a regular department without increasing its personnel?

The divisions which formerly made up the National Emergency Council spend a million dollars a year with a Division of Press Intelligence and Information Service under the Executive Office of the President, and a Film Service and Radio Division under the Federal Security Agency. What emergency they are dealing with no one knows. What they do or are supposed to do, except conduct New Deal propaganda and provide jobs for deserving New Dealers, no one has ever been able to discover. The New Deal, in spite of the criticism which Mr. Roosevelt made, has increased the number of federal employees from 563,000 in 1933 to 932,000 today. The additional payroll alone totals one billion two hundred million dollars.

As an example of what can be done with a regular department, let's look at the Department of Agriculture. In June, 1933, that department had 26,540 employees. On June 30, 1939, it had 107,712 employees, or four times the number employed by Hoover. They are scattered all over the United States, wasting the substance of the farmer like a plague of grasshoppers. The farm program must be changed so that there is

no detailed regulation of the individual farm, which not only limits the farmer's freedom, but quadruples the federal payroll in six years. Why should there be a dozen bureaus regulating and loaning money to the farmer, with three or four different setups occupying offices in every rural county seat?

The same general condition exists with regard to business regulatory agencies like the National Labor Relations Board, the Wage-Hour Division, the Walsh-Healey Division, the Social Security Board, the Internal Revenue Bureau, and the Department of Justice. The business man is subjected to constant and repeated visits and orders from all kinds of overlapping government agents. The regulation of business and agriculture must be cut to a minimum, and operated with not more than two field forces instead of ten. That course is necessary anyway if private enterprise is to be restored and men put back to work. Why should there be five different independent agencies dealing with housing? But reorganization won't save money unless it is undertaken sincerely for that purpose.

Reorganization and consolidation of bureaus can reduce expenses if undertaken by someone who wants to effect economy. Last year the President was given power to reorganize, and he did so frankly without any interest in securing economy, but with the statement that the combination would save the government payroll fifteen to twenty million dollars a year. Yet the total government payroll increased between April, 1939, when this order was issued, and August, 1939, at the rate of \$100,000,000 a year.

### THIRD: CHANGE METHOD OF HANDLING RELIEF, HOUSING, AGRICULTURE, GOVERNMENT LOANS

Thirdly, to secure real economy you cannot stop merely with the cutting of appropriations. Positive changes in policy must be made, as I have suggested in the field of helping the farmer. There is not time to detail all the duplication and overlapping and confusion in the vast bureaucratic setup in Washington as I did specifically in my speech to the Union League Club of Chicago at noon today. There is not time to detail all the changes in New Deal policy necessary to reduce expense, and also necessary if any of the more desirable objectives which we all approve are ever going to be attained. In housing, in agriculture, in business regulation, in loaning money, legislation can save money while improving administration.

I am going to discuss relief, not because any greater proportion to savings can be made, or should be made, there than anywhere else, but because it is a large item and supposed to be a "hot potato". When economy is suggested, we are still met by the question intended to be so devastating - whether we would economize at the cost of starving the unemployed. The answer is "No". But the name of relief has been misused to justify expenditures for every kind of bureaucratic activity. The federal expenditures for relief this current year will amount to one billion and a half dollars

out of total expenditures approximating \$10,000,000,000, or less than one-sixth. The way to save money in relief is not to throw men off W.P.A. back to states and localities which have no money to increase their own overburdened relief rolls. Relief can only be effectively handled, without gaps between federal and state relief, if direct relief and work relief are administered by a single local agency, handling both employables and so-called unemployables, with federal assistance equal to about two-thirds of the entire cost.

W.P.A. today is a federal work program, with little relation to relief needs of the different counties or to the amount advanced by localities. Some years ago the President announced that the federal government would care for the employables, but would not assist the states in taking care of unemployables. No such distinction is reasonable. The federal government has never taken care even of those it admits to be employable because the expense of a federal work program is too great even for a spendthrift administration. The people whose relief was cut in Cleveland were mostly employables for whom the federal government had undertaken to provide.

The reduction in W.P.A. rolls has thrown back on the states and local communities a burden which they are often unable to bear because their taxing power is necessarily limited. This has been the basic cause of the crisis existing in Cleveland, where unemployment is especially severe. The W.P.A. in Cleveland has been reduced in a year from 75,000 to 30,000, and yet the W.P.A. spent about \$36,000,000 in Cleveland in 1939, whereas the whole relief crisis was caused by the fact that Cleveland and its surrounding communities were able to raise about \$17,000,000, but were unable to find \$2,000,000 additional to care fully for 32,000 cases the W.P.A. would not touch. There are few cities in the country which could not handle their entire relief problem if they had paid to them one-half of the money spent by W.P.A. in their territory in the calendar year 1939, combined with the money they are themselves spending on relief today. In Cincinnati the W.P.A. today is spending at the rate of \$7,000,000 a year, and the City at the rate of \$2,700,000, plus \$2,000,000 of sponsors' contribution. The City Manager tells me that if the City had four million dollars a year from the federal government, it could do a bang-up job and provide both direct and work relief; four million instead of the seven the federal government is spending now.

Federal assistance, of course, should be conditioned on the adoption of a plan in each state adequate to meet the relief situation, with civil service personnel, and a contribution of at least one-third from the states and local communities to insure economy in local administration. In cases of extreme local poverty or unemployment, provision should be made for the federal government to carry a larger share of the expense. On the other hand, the cut which the President is proposing in W.P.A. will produce tremendous hardship in the United States unless the whole W.P.A. policy is

changed, because it is so expensive that it will reach only a fraction of those needing relief. That change has been urged on the President by the associated Community Chest organizations for several years. If the change is made, the cost of relief to the federal government can be reduced to about \$750,000,000 in 1941, and relief itself administered in a more equal and effective manner.

FOURTH: END GRANTS FOR LOCAL PUBLIC WORKS: REDUCE  
FEDERAL PUBLIC WORKS: REDUCE SUBSIDIES

In the fourth place, all grants to localities for local public works must end, the public works program for projects which are federal in character should be reduced to a normal amount each year, and payments in the nature of subsidies, whether to agriculture or housing or industry, will have to be reduced substantially below the 1940 figure.

It is said that pressure groups have been taught to lean on the government, and have attained such power that public opinion will not support a reduction in private benefits and local public works. In my belief, public opinion will support such a reduction if it is made at the same time in all characters of activity and in all localities in the United States. How often have you heard your neighbors or your public officials say that they disapprove of the payments they are receiving, but that since everybody else is getting them, they are going to do their best to get their share? How often have you heard them say that they are paying their share of the taxes, and that if they don't accept the government projects or payments, someone else will get their money? It is my own belief that there is not a community or a group in the United States so shortsighted or so selfish that they will not join in a general movement to avoid national bankruptcy if they can be assured that every other group is required to go along. But it requires leadership towards individual self-reliance and common sense in government, instead of leadership towards bigger and more liberal spending and subsidies.

FIFTH: PLAY NO FAVORITIES; SUBJECT ARMY AND NAVY ESTIMATES  
TO CRITICAL ANALYSIS

There is no department which can be excepted from a critical analysis of its expenditures. Certainly the army and navy should not be. We are spending \$1,775,000,000 a year today on the army and navy, more than we have ever spent before in peacetime. They have been rapidly increased; yet the President today is proposing to increase the navy by twenty-five per cent, and the army by about the same percentage. Certainly we are all in favor of completely adequate defense, and there are no doubt deficiencies in some branches which should be strengthened. On the other hand perhaps some branches of the services are obsolete and could be cut down. But we were told in 1938 and 1939 that the increased army and navy then provided were adequate for defense, and I see nothing which has changed the situation since then. Foreign navies

are likely to be smaller rather than larger at the end of the present war. Developments of naval and aviation technique in the present war may make obsolete many of our present plans. What the President proposes is no temporary measure; it is a permanent increase of army and navy expense to two and a quarter billion dollars for many years to come.

We are in favor of adequate defense, but we would like to be certain what we are defending. Do we wish a navy large enough to defend all of South America? Is the increase being proposed in order to carry out the ridiculous and dangerous policy recently adopted by the government of trying to exclude the warships of all belligerent nations from a zone three hundred miles off our coasts?

Certainly every tradition of this country is against the idea of a standing army of 600,000 men.

The record of the administration is such that I can not help suspecting that a good deal of the new spending is proposed, not for the sake of defense, but for the sake of spending.

#### A BALANCE AT ABOUT SEVEN BILLION

If these five points are complied with, I have stated that I believe the budget can be balanced at a figure of approximately \$7,000,000,000, without abandoning a reasonable allowance for relief, old age pensions, housing and soil conservation. If prosperity returns, our present tax system should provide that amount of money. Of course, the best way to restore prosperity is to restore some confidence to business by reducing the regulation which constantly discourages today the growth of private enterprise. We can only put to work the nine million unemployed in private industry. We can increase the revenue from profitable commerce and manufacture, at the same time we reduce the amount which has to be spent on relief and agricultural assistance.

\$7,000,000,000 is certainly not an unreasonably low figure. It is approximately twice the cost of the government under President Hoover. Candidate Roosevelt severely criticised Hoover because government expenses rose to \$4,000,000,000 during his administration, although a considerable part of that expenditure was for emergency relief projects. It was only two years ago, January 3, 1938, that President Roosevelt in his message to Congress said: "In my judgment the expenditures of the national government cannot be cut much below \$7,000,000,000 a year without destroying essential functions or letting people starve. That sum can be raised, and will be cheerfully provided by the American people if we can increase the nation's income to a point well beyond the present level."

If the present tax system does not raise seven billion dollars, we will have to increase taxes, undesirable as that is, for the alternative is worse. As long as we do not admit the necessity of raising the cash which we pay out, the whole nation

believes it can get something for nothing. While that belief exists, expenses are bound to increase because most of the projects proposed are nice things if you can afford them. The policy of borrowing is an immoral policy, because the longer it goes on, like a habit-forming drug, the more impossible it is to return to self-reliance and self-respect.

The budget can be balanced. The authority for my whole position that it must be balanced, and the figure at which it can be balanced, is, no, was Franklin D. Roosevelt himself.

#### THE ALTERNATIVE IS NATIONAL RUIN

There is no conceivable alternative to balancing the budget. If it can't be balanced by January, 1942, when can it ever be balanced? Does an emergency still exist after seven years of New Deal rule? What other excuse is there for not paying our way as we go? Is an emergency still going to exist on January 1, 1942? The President must think so. If he does, he admits that the New Deal, after seven years of more power than any government in the United States has ever enjoyed, has utterly failed to restore this country even to normal prosperity, and cannot do so in two years more. His very challenge to me to show him how to balance the budget admits that he is unable to get the government or the country back to normal. If the present administration asserts, as apparently it does, that the budget cannot be balanced, then it cannot appeal for a vote of confidence to the people of the United States, for the only alternative to balancing the budget promptly is national bankruptcy.

Of course a government does not go into the bankruptcy court, and does not frankly repudiate its debt, but it can accomplish the same thing by inflation of the currency. No one can say what the largest safe debt limit is. It is not a question of figures, but a question of public opinion. Every country which has continuously maintained an unbalanced budget has come sooner or later to inflation. The debt becomes heavier and heavier, the interest charge greater and greater, the whole deficit larger and larger. Sooner or later the people refuse to tax themselves for the sins of the past, and start to pay the debt and the deficit in paper money. When that time comes, prices begin to rise until a pair of shoes costs \$1,000, or as in Germany at one time, \$100,000. A man with money in the savings bank still has the money, but he can't buy anything with it. Millions of men have spent their lives building up life insurance for their widows and families. Those widows will find that they get a check for dollars, but dollars that won't even pay the water bill.

Inflation is national bankruptcy, and it means the destruction of the whole basis on which private enterprise has been built up in the United States. It means utter poverty for the man on a salary and for the average workman, even more than for

those who own property; and it means a depression which would make the depression of 1932 look like Coolidge prosperity. In order to prevent starvation itself, the government would have to take over practically all business, which is just what some of our parlor socialists in Washington would like.

No one has pointed out more graphically than Franklin D. Roosevelt the dangers of the alternative which he seems to regard as inevitable. In his Pittsburgh speech in 1932, he said: "If the nation is living within its income, its credit is good. If in some crisis it lives beyond its income for a year or two, it can usually borrow temporarily on reasonable terms. But if, like a spendthrift, it throws discretion to the winds, is willing to make no sacrifice at all in spending, extends its taxing to the limit of the people's power to pay, and continues to pile up deficits, it is on the road to bankruptcy." He said again: "our federal extravagance and improvidence bears a double evil: first, our people and our business cannot carry its excessive burdens of taxation; second, our credit structure is impaired by the unorthodox federal financing made necessary by the unprecedented magnitude of these deficits." He was talking of deficits considerably less than one-half the deficits of today, which had come about only in the extraordinary emergency and downhill slide of the 1931 depression, largely through a falling off in tax receipts. As a matter of fact, the increase in public debt in four years of the Hoover administration, after allowing for the repayment of loans made at that time to preserve industry, was less than \$1,600,000,000, whereas in seven years the Roosevelt administration has added over \$20,000,000,000 to the public debt, of which not more than two billion is recoverable.

#### CONCLUSION

No American President, Republican or Democratic, has ever asserted before, when the country was at peace, that the government under this charge could not balance its budget in two years. Only our actual experience with the present administration for seven years can make me believe that the President really thinks he cannot do so. He has chosen to debate and defend that New Deal policy which is the most utterly indefensible of all New Deal policies; a policy which will destroy all the good that may come of some of the reforms he has initiated. Let no one say that a sound fiscal policy is too hardboiled toward the more unfortunate among our people. It is the poor who will be cared for by a solvent government. It is the poor who will suffer most when the government goes into bankruptcy. "Too often in recent history liberal governments have been wrecked on rocks of loose fiscal policy. We must avoid this danger."

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