

An address by Honorable Harry F. Byrd, U. S. Senator, from Virginia, before the MASSACHUSETTS FEDERATION OF TAXPAYERS ASSOCIATIONS, BOSTON, Saturday, December 10, 1938. This text is made available for your information and publication of so much of it as may be desired in papers of Sunday, December 11, 1938.

#### NATIONAL FINANCIAL PREPAREDNESS

It is a particular honor and a particular pleasure for a Virginian to be permitted to address this distinguished gathering of Massachusetts citizens. I am delighted to come here as the guest of the Massachusetts Federation of Taxpayers, whose constructive work is well known to me. Today nothing is more important than to bring to the citizens of our nation a true understanding of the complex administration of our governments and baptize ourselves afresh in the pure principles of representative democracy.

In these troubled times when democracy must fight for its very life; when dictators deride the democratic dogma; when innocent subjects of a great empire are stripped of their goods and driven into exile; it is well to recall the sacrifices made by colonial leaders of Massachusetts and Virginia in defense of the dignity and the rights of the individual and for the establishment of our democracy. Great masses may be regimented and drilled under fear of punishment in the discipline and subservience to the Supreme State, but the one "most sublime thing in the Universe, except its creator, is that of a great and free people governing itself by a law higher than its own desire."

In the galaxy of American Commonwealths, Massachusetts has long offered an eminent example of the truth of this inspired statement. We all recall the Old Testament story of the building of the Tower of Babel by the sinful and selfish men of that time. In punishment, the Lord God Jehovah struck this multitude of workers with a confusion of tongues, and when no one man could be understood by another, the evil work ceased.

Sometimes I fear we are threatened by a political confusion of tongues in our own America. So many in politics, and even in active government service, and some known as brain trusters, no longer bow their heads in reverence to our founders who taught the dignity and rights of the individual and who believed you could trust men if you would train them.

In the political jargon of the times, phrases like planned economy, socialism, fascism, communism, may all be understood in part as a condemnation of democracy and glorification of the State Supreme and the totalitarian government. The danger is that this confusion of political tongues will so divide the unity of America as to paralyze the continuance of that progress that has been made under our representative democracy, moderately and wisely controlled by a written constitution.

From some historic eminence, we can look back over the history of Massachusetts and find her people ever true to the faith which her statesmen

proclaimed and for which so many of her soldiers died. May there be no confusion of strange voices to profane the pure air of this great Commonwealth to beguile the people from their defense of their faith in this independent union of indestructible states wherein the individual is protected by our constitution in a government of laws and not of men.

The sacred responsibility of preserving representative democracy rests upon the shoulders of American citizens because here it has flowered to the fullest perfection in freedom and in our progress and our development. Preserve it not only for ourselves and Americans who come after us, but as an inspiration and encouragement to the depressed peoples in other lands who seek the blessings of the freedom we enjoy here.

Democracy must be made efficient. Democracy must be made effective to meet new conditions and new problems, but this, and all of this, can be accomplished within the framework of our constitutional government, and preserve as a continuing vital force the fundamental principles which are just as valid today as ever before.

What we need most in our country today is a program of education in the operations of government such as this splendid and non-partisan Federation of Taxpayers is performing in Massachusetts, and then an aroused public sentiment to fortify and improve good legislation and to discard impractical theories, to demand the adoption of sound economic principles that have never been set aside since the beginning of time, and to act not for the political aggrandizement of any one individual or of any one political party, but for the true and for the best interests of all the American people. We want debate, free and unafraid, and let that discussion come from members of both political parties and be conducted utterly regardless of political consequences to those who speak the convictions that exist in their hearts.

For the past several years we have had at Washington much loose talk and loose thinking of a new liberalism which will sweep away the clouds of depression; wave a magic wand of legislative panaceas for our ills and give a substitute for those time-old virtues of thrift, frugality, self-reliance and industry that have made our country great and given to us a progress, a freedom, a happiness, a contentment that has never before been enjoyed by any great nation. From my own personal observation in the Senate of the United States, a modern liberal is tested and judged in proportion as to how liberal he is willing to be with other people's money. If a Senator votes to squander the people's money for every fantastic spending scheme devised in the human mind, he is a great liberal. If a Senator acts to safeguard the public treasury, to spend the taxpayers' money judiciously, and only for necessary and useful functions, he is proclaimed a "reactionary", "an economic royalist", and more recently a "copperhead."

Calling names never solved a problem or offered a solution for difficulties. For myself, how I am classified in the public life of America

is of little concern to me. I am a Democrat. I have voted my convictions and owe my allegiance to my constituents of Virginia and to my oath as a senator of the United States. I intend to take orders from no man, no matter how powerful he may be. I prefer to be a "Yes, but, Senator" to a "Yes, Yes, Senator".

When the history of this momentous period is written, I believe the true liberals of today will be recorded as those like David Walsh of Massachusetts, who fought the packing of the Supreme Court by the executive, as he and others risked their political lives in defense of the immortal principle that our government was established in three branches, each independent of the other.

Those of us who act to preserve the financial solvency of our nation are fighting for true liberalism because without solvency there can be no liberal government. And so it was when we voted to make illegal the use of relief funds in elections. Certainly there is nothing more unliberal and un-American than to coerce and control the sacred privilege of suffrage in a free country by commands from those who dispense relief to the destitute who are compelled to accept charity from their government. That this has been, and is being, done no informed person can deny, and such action by high officials received encouragement in the defeat by one vote in the Senate of the United States of a resolution denouncing this utterly indefensible use of public funds. And again in supporting the resolution condemning sit-down strikes, a liberal vote was cast because the principle of the sanctity of private property from mob possession is inherent in every liberal form of government. So the classification is largely a matter of definition. But I can say definitely that good government and liberal government would be vastly promoted if the brain-trusters from Tugwell to Corcoran would go home, and if Congress resumed its constitutional duty for the initiation and consideration and adoption of national legislation.

Today the time has come to analyze, to appraise the good as well as the bad, and to pass judgment on the vast legislation adopted by the National Congress in the past six years. Our last election indicates very clearly that the American people intend to do this very thing, and are doing it. In this analysis let us remember that the real test of a law -- the real worth of legislation -- is in practical administration and effect upon all the millions of our citizens, and that a principle enacted into a law -- a just and fair principle -- is often defeated by the maladministration of its operation.

With much important legislation enacted in this period, I can heartily agree. I have been in accord with the foreign policies of our government. I have supported Secretary Hull in his efforts to regain our foreign trade and to repair some of the damage of the Hawley-Smoot Tariff Bill signed by President Hoover. I have supported adequate national defense and will continue to do so unless national defense is

used merely as a means of pump priming and public spending. I favored control of the New York Stock Exchange and will vote for greater control to eliminate existing abuses. I am opposed to monopolies that operate to throttle competition and fix prices. I applaud the remarkably fine work done in the reorganization of the banking system. As a member of a special committee of the Finance Committee to consider a revision of the social security legislation, I will support measures to reform and strengthen and make workable a social security program within the ability of our citizenship to support. Social security, in one form or another is here to stay.

In surveying recent legislation, remember that private enterprise is the foundation stone on which our Republic is founded. Private enterprise, and not the government, must provide employment for our citizens. Private enterprise is the motor that provides the taxes for our government to operate. If taxes become confiscatory, if governmental regimentation becomes too oppressive, if governmental competition becomes too destructive, then private enterprise can neither pay the taxes nor give employment to the workers. Remember too that the character of our individual citizen is our most valuable national possession, and the character of many can and will be injured if not destroyed by unrestricted and profligate public relief, as character comes from self-help and industry and not from idleness and thriftlessness. The very immensity of our relief expenditures has made impractical the confinement of relief to those actually in need -- an obligation that all of us recognize must be met in the fullest measure -- with the result that millions of able-bodied citizens rely upon the government for support and have ceased to exert their effort for self-help and to obtain private employment.

A grant to the states by the federal government is not a gift. Nothing would curb the wanton extravagance in our federal government more than a recognition of this very simple and elementary principle. Actually every grant from the Federal Government in the past five years has in fact been a mortgage, and a first mortgage, on the property of every citizen in each of the 48 states. In this confederation of states -- United States of America -- the parent government has no money except such as is derived from the states by taxation. It has no security on which to borrow except the property of the citizens of the 48 states, so instead of a grant being a gift, the states are given a mortgage to pay with accrued interest, and the bureaucrats at Washington take a toll for top-heavy administrative cost, which, in some instances, as I have shown on the floor of the Senate, has equaled a full 33% of the sum expended.

As one who for three years has been investigating our federal expenditures as Chairman of the Select Committee on Investigation of Executive Agencies of the Government, I assert that we have at Washington today the most costly, the most wasteful and most bureaucratic form of government this Republic has ever known or any other nation has been afflicted with.

For nine years we have spent more than our income for recovery and relief.

Our deficit for the current fiscal year will be the largest in peace-time history. For recovery and relief we have spent \$27,000,000,000 since the depression began. In addition, we have borrowed and loaned \$8,000,000,000 more to citizens and corporations, much of which, I predict, will never be repaid to our government. Our debt in 1932 was \$16,000,000,000, with no contingent liabilities. On July 1, next, we will owe at least \$41,000,000,000 in direct debt and will have a contingent liability, which is not listed on the financial statements of the government and of which no government official has made announcement. This liability is just as much an obligation as the reported debt. Thirty government corporations have been organized with authority to issue bonds, debentures and notes to the amount of \$16,229,325,000. These obligations when issued are guaranteed in full for principal and interest by the government of the United States, but I repeat are not included in the debt you find reported in the Treasury Statements. With much difficulty, I have ascertained that on June 1, last, bonds, debentures and notes had been issued by these corporations, over three-fourths having been sold to the public to the amount of \$7,940,462,000, so that our actual debt on July 1, next, will approach \$50,000,000,000, and may be much more if the maximum authorization to issue \$8,000,000,000 of bonds is exercised by these government corporations. In these corporations the federal government has purchased and paid for stock to the extent of \$1,983,893,000. A case in point of one of the thirty borrowing corporations is the Commodity Credit Corporation with a capital stock of \$100,000,000 and over \$200,000,000 of notes, sold to the public and guaranteed by the Federal Government. This corporation lost in its operations 94% of its capital stock and received a federal appropriation of \$94,000,000 to pay this loss. And then to avoid the trouble of reporting future losses to the Congress, obtained on March 8, last, the passage of a law directing the Secretary of the Treasury to pay all losses without the formality of first obtaining an appropriation from Congress, and to automatically include such losses in deficiency appropriation bills.

Some of these vast corporations make detailed reports to Congress and some do not. Many are not accountable to the Comptroller General for control audit, such as the Tennessee Valley Authority, a corporation with over a quarter of a billion of stock and further authority to issue guaranteed bonds.

The recoverable assets, if and when realized, will be vastly disappointing and cannot be relied upon to discharge any substantial part of the indebtedness our government has incurred. Our situation today, in brief, is this:

We have trebled the public debt in five years. This debt is now an average of over \$1,000,000,000 for each state, and the interest before this debt is paid will be more than the debt itself. The federal appropriations in this current year are the largest in peace-time history. Our tax collections for the year ending last July were the largest. Yet in the present fiscal year our deficit will be the largest peace-time deficit. In the ninth consecutive year of great deficits, we are farther away — and I say this advisedly — farther away from a balanced budget than at any time since the depression began.

The Federal government alone is spending \$23,000 every minute of every day and every night including Sunday, and of this \$11,500 is being added each minute to the public debt.

Coincident with the rise in the federal debt and increase in federal taxation have come similar increases in the burdens of the states and localities. The federal government has demanded the same prodigality of spending by the other governmental units of our Republic, and the sovereign state of Georgia has only recently been publicly reprimanded because that state was reluctant to amend its constitution to issue state bonds and abandon its wise and frugal policy of pay-as-you-go.

This current year, the fiscal year of 1939, the expenditures of all governments in America will be more than \$20,000,000,000, or about one-third of the total gross income of this nation, and this \$20,000,000,000 is more than twice the value of all products that come from the soil and under the ground, all the products of the farm; including live stock, the products of the forest and the products of the mines. How long can a Republic exist spending one-third of its gross income and twice the value of the new wealth that comes from the soil? As ominous as are our vast expenditures for recovery and relief, the fact too is that by actual budget figures the regular or ordinary expenses of government have increased from \$2,700,000,000 in 1934 to \$5,700,000,000 in 1939, an increase of more than 100%. We are told that the millionaires will pay this debt and this spending. The total income of those receiving more than \$100,000 last year was \$974,000,000. If this income were all confiscated by taxation, it would pay the cost of the federal government for less than 30 days and the cost of all governments for less than 15 days. For the balance of the year the expenses would be paid "in the sweat of every man who labors," and you know who described in 1932 our tax problem with the wisdom and accuracy of those words.

We are facing a perilous situation and what can be done about it? Can we expect any leadership from the present administration for economy and retrenchment? As one who has fought for five years for prudent spending at Washington, I say no. As a Democrat I say it with sorrow, as my party is in power, but the Republican party cannot escape responsibility for their share in the present orgy of spending. Mr. Hoover added the first five billions to the public debt, and a majority of the Republican members in the Senate have voted for the huge appropriation bills.

So long as the economic philosophy of such men as Chairman Eccles of the Federal Reserve Board dominates the fiscal policies of the present administration, no leadership from those in high places in Washington to restore the country to a sane budget policy can be hoped for. Mr. Eccles, one of the sponsors of the discredited undivided profits tax, repealed by public demand, believes that government spending should be regulated not by the needs in the functions of government, but for the purpose of promoting prosperity by spending borrowed money. The more you borrow and spend, the more prosperous you are; the more taxes you pay, the more

prosperous you are, says Mr. Eccles. This incredible statement was made by the head of our National Banking system in New York last week and indicates to what depths of false reasoning we have sunk in the crack-pot legislative ideas of those holding important public positions. "It is perilous," says Mr. Eccles, "to reduce public spending," and to adopt sound principles of financing after nine years of fiscal insanity. I say it is not only perilous if we do not start soon to approach a balanced budget, but it will be disastrous. What about the hardships and distress we will suffer when the pay day comes and our sweat and toil must pay for this reckless waste, not only to repay the principal of the debt, but for the interest.

If federal spending is a prop for prosperity, what will happen when the prop is withdrawn, as some day must be done because not even the richest nation in the world can continue indefinitely to violate the basic principles of sound finance. We have primed the pump with borrowed money for five years. The result has been a tragic failure. Our unemployment today, as just announced by the government, is over 10,500,000, or 3,000,000 more than a year ago, and not so many less than when the depression began.

Mr. Eccles further said in New York that the recession that began in the fall of 1937 was caused by reduced public spending. The actual records contradict this statement. For the year beginning July 1, 1937, all governments -- local, state and national -- spent \$18,415,000,000, and for the previous year \$17,516,000,000. So we spent more and not less. Mr. Eccles said again that taxes in America were 17 $\frac{1}{2}$ % of the national income and 20% in England, and cited this as one of the reasons why the business index in England is now 118% of the 1929 level and in the United States 75%. He omitted to say that England is on a pay-as-you-go basis and that while our tax collections this year are 17 $\frac{1}{2}$ % of our income, our actual expenditures for all governments totalled 30%, or 10% more than in England. Following this line of reasoning, then our prosperity should be greater than England's prosperity, but Mr. Eccles says it is not.

To my way of thinking, Mr. Eccles paid a tribute in this comparison to pay-as-you-go financing. If Great Britain can reduce her public debt per capita, as she has done, for the past five years, and have a relatively higher prosperity than we have, then a pay-as-you-go plan in this country may bring to us the advantages that Great Britain now apparently enjoys.

Under the pay-as-you-go plan England has reduced her per capita taxation 5% as compared to the levies of 1928. Our Federal government has increased the per capita taxation in the same period by 22 per cent and is paying by taxation only one dollar out of each two dollars expended.

At the last session, the administration's reorganization bill was defeated because of the vast and un-American powers it conferred upon the executive. The American people want no government governed by executive decrees, but want progress to be achieved and our government operated by the democratic method of action by Congress and free debate and decisions.

Although hundreds of millions of dollars can be saved by a reorganization for economy and efficiency, the reorganization plan submitted in the last session by the Administration, carried with it the frank admission that no economy or retrenchment was contemplated. In fact, three new permanent departments were to be established, two with new Cabinet heads, would have resulted in increasing the cost of government. The abolition of the Comptroller-General, the watch dog of the Treasury, having the power to prohibit illegal expenditures, was provided. It also provided for the abolition of the non-partisan Civil Service Commission of three and the appointment of one commissioner, removable at the pleasure of the President, and gave to the President control of the ten quasi-legislative agencies of the Government, such as the Interstate Commerce Commission, Radio Commission, and the Federal Trade Commission.

The President was given the power to conduct the government of the United States by executive decree. It even extended the power to alter, amend or abolish functions of government, all without the approval of Congress. It deprived the Senate of most of its present powers of confirmation of appointments.

It was defeated, and wisely so. But the need for reorganization for economy and simplicity becomes greater every day. In the last five years 60 new agencies of government have been added. The number of employees at Washington has been doubled. In each state a miniature federal government has been set up, occupying an office space equivalent to the floor space of an Empire State Building.

It is evident to me, as I think it must be to you, that no voice of influence will be raised in the Washington administration to eliminate waste and inefficiency, duplicated effort and over-lapping activities and to restore our country to sound fiscal principles. The hope lies in an aroused public interest by you, the citizens who must sooner or later pay for these extravagances.

The vast federal spending is entrenched in every nook and corner of America. Actually one out of every 80 men, women and children in the United States is now on the regular payroll, as more than one million and a half are regularly employed by the federal government in its various activities. In addition, there are more than one million federal pensioners, and to this must be added the millions receiving federal relief and subsidies of one kind or another. To dismantle and reduce this gigantic bureaucracy is a task of overwhelming proportions, but the reward is the preservation of sound government and to prevent inflation and to keep our country secure for our children and those to follow.

Let me suggest a program:

First thoroughly reorganize the Federal government for



simplification, retrenchment and economy, and I propose to introduce such legislation.

With equal emphasis I submit there should be a cancellation of the existing authority of 30 Federal borrowing Corporations which now have power to add \$8,000,000,000 to the public debt; and that such corporations, about which so little is known, should function through the budget, allowing Congress to approve or reject future expenditures. This action would preclude at least a portion of the enormous public debt now impending.

Inescapable in this program is the fact that, exclusive of relief 30 per cent of the total expended by the government today is for activities new to the government in the last five years (the Greenbelts, and tree belts, and other such dispensable activities). Let these be reduced to the minimum and great sums can be saved without impairing the necessary functions of government.

This program would embrace a thorough, honest, purge of relief rolls eliminating all undeserving, and reducing relief costs by stopping all expenditures in excess of providing for those in need; and this can only be done by requiring localities to bear a portion of the burden, thereby directing local interest to reform in the relief program. Elimination of unnecessary relief costs is vital to the preservation of the character of the American people.

It is a fact that 33 states take from the federal government for relief only (exclusive of grants and subsidies) more than they

pay into the Treasury from which they draw. Virginia and Massachusetts are among the 15 states in all the nation with relief drafts on the federal government of less than they contribute in revenue.

Reasonable taxation is one of the best assurances of business prosperity. The essence of our Democracy is the conducting of our government within the ability of our people to pay.

Government efficiently and economically operated is our best protection against the undermining of democracy.

National financial preparedness would be the objective of this program. Financial preparedness is the greatest bulwark of national defense, and it is the greatest guarantee for national security.