

ADDRESS BEFORE THE
ANNUAL CONFERENCE OF MAYORS
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BY

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Your distinguished President, Mayor LaGuardia, invited me to address this Conference on the subject of "Post-War Programs and the Cities". His invitation came to me three weeks before Pearl Harbor. Post-war programs now seem less significant and more remote than ever. The country has only faintly begun to grasp the immensity of the effort we must make to win the war. Whatever illusions we have held about our geographic aloofness from the conflict or about the possibilities of an early peace are swept away. As Mr. Walter Lippmann pointed out the other day, by cutting us off from our supply of rubber, the enemy has as effectively paralyzed our great automobile industry and all that implies in the transport and daily lives of our people as if it had been captured in an invasion. We are committed to destroy completely the barbaric forces let loose beyond the two oceans that we foolishly supposed to guarantee our defense. There is no more talk of a negotiated peace. There is too much wishful thinking about an internal collapse in Germany or Japan. We cannot base our plans on any such vague hopes. The possibility of collapse of our enemies depends upon the speed and effectiveness of our war effort. We cannot today estimate how long it will take or how much of our men and resources must be devoted to winning the victory. The cost we cannot count, for, as the President has said, the victory is worth whatever it may cost.

I had first hoped that this Conference would be called off, as others have been in the face of the emergency. For one thing, I feel reluctant to stand here dealing in words when what we so critically need is action. Yet, on reflection, I think this is one group that should continue

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to meet, both now and in the future, for it is a medium by which the coordinated action by States and municipalities with the Federal Government can be promoted. It is vitally important now, as it will be later, to have that coordination. Without it, the necessary concerted action by the nation, both during the war period and thereafter, is impossible. With it, we can move in the same general directions without abandoning our traditions of local governmental responsibility. It is of the highest importance that you who are the chief executives of your respective cities and that the governors of your States take counsel with the Federal Government in the prosecution of war as well as in the plans of peace. The day is gone -- if it ever existed -- when we can have economic health in this great nation unless the body politic functions as a united organism rather than a vast collection of separate units. The great depression should have taught our local governments as well as our business and financial leaders that they cannot provide for their own security. Only by joint action, through Government leadership and assistance can we achieve economic and political security. You who are in this room today have certain great responsibilities and powers within your own sovereignties, but you are not independent sovereigns.

We all accept without question the necessity for united action in time of war. We are not so ready to accept in times of peace the necessity for united action against economic evils that are the breeders of war and can be quite as destructive. You would agree, probably, that our economic objective is the fullest possible employment of our productive facilities at all times.

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In war time we propose to employ these productive facilities to the maximum in the shortest possible space of time. Except for such human failures of organization as are more or less inevitable, we succeed fairly well on the whole. We grasp the fact that the quicker we turn out planes, tanks, battleships, munitions, and all the other necessities of the hour, the sooner the victory will be achieved. We do not count the financial cost but we are prepared to manage the economic front in a way that will safeguard us from dangerous inflation. This latter is not altogether an easy task, but it is one we should be able to understand and accomplish.

We do not propose, however, to fall into the error of setting up the avoidance of inflation, rather than the maximization of defense output, as the supreme aim. The financing of this great effort is and should be secondary. As the President so well stated in his Budget Message, "There need be no fiscal barriers to our war effort and to victory." Yet, in peace times, we lose sight of the objective of full production and employment and see only the fiscal barriers. That has been the great mistake that the democracies have made in the past. It is the great lesson they are beginning to learn today. The truth is that there are never any fiscal barriers to full production and employment, and there could be no greater tragedy for the free peoples of the world than to fail to learn this lesson. Indeed, there could be no greater tragedy for the world than to assume that mankind can only mobilize for united action in war and in the building of instruments of destruction. The world would be freed from the devastation of war and it would be an immeasurably better place in which to

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live if we could learn to turn all our productive powers to the making of things of peace as effectively as we fabricate the things of war -- recognizing always that there are no insurmountable fiscal barriers. There are only the limitations of our economic understanding and management.

You, as executives of your cities, have a responsibility not merely to your own communities but to the nation at large. By clearly understanding the economic forces and problems of the country, you can contribute immensely to their management and solution. You will agree no doubt that poverty and distress are the breeders of crime and disease in your cities, that the goal of democracy is the steady improvement in the standard of living of your people and of all of our fellow citizens. Your energies and best thought must be bent upon progressive improvement, for certainly no informed man will say that our civilization has reached the peak, that our economy has come to a stagnation point, or that the future does not hold infinitely greater potentialities of human happiness than the past. It is only the blind men through history who have thought of their day as the golden age and failed to understand that we have only begun to make progress along the road of human betterment.

But while we all accept readily enough these philosophic conceptions of a better future, we fall out among ourselves when it comes to intelligent action and planning to make the dreams of a better day a reality. And we disagree mainly because we fail to understand the economy in which we live and the way it can be made to function. We can budget our economy to produce fully for war. There is no earthly reason why we cannot do the same in peace and with infinitely fewer complications and dislocations.

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I am not for a moment proposing, and I never have proposed, that public budgets should be a substitute for private activity and enterprise. I have contended for a good many years that the growing and inevitable magnitude of Federal, State and local budgets imposes new problems of coordination, of timing and management, and that these public budgets should be so timed and used as to supplement the budget of all private enterprise. Thus, in deflation, deliberate expansion of public budgets is a stimulating and reviving force. Conversely, in a period of rapidly expanding private employment and production, contraction of these budgets tends to prevent inflationary dangers. I am speaking of normal, not war, times. Unfortunately, under boom conditions brought about by war expenditures, the Federal Government cannot contract, but must continue to expand its budget -- and this makes all the more imperative the need for contracting so far as possible all other budgets, both public and private.

It is clear that this compensatory management of the Federal budget must be coordinated with budgetary management in your cities and States in order to achieve the objective of stable economic progress upon which full production and employment depend.

The basic problem, therefore, is one of intelligent management. That means balancing the Federal budget on a basis of business accounting or reducing public debt when we are at full production. In war times, as we have seen, the Federal budget cannot be balanced, which makes it all the more necessary that all other public budgets be balanced as one offset against the inflationary effects of Federal expenditures. Those of us who

have long advocated compensatory management of public budgets as a means to stable economic progress and, indeed, the very preservation of our democratic institutions, come in for a variety of reproaches. A favorite one is to the effect that we regard public debt as a blessing. Any such superficial criticism would scarcely deserve notice were it not that so many people fail to understand the functioning of the debtor-creditor system under which we live. They fail to see the potentialities of national economic welfare in wise budgetary management and fail to realize that debt is a relative thing. The British public debt, for instance, has continued to rise for the past three centuries, but at the same time the wealth, incomes, and standard of living of the British people have risen far more. While our own debt is by no means a blessing, our national income and living standards have risen much faster than the debt in the last decade. The prospect of the enormous war debt need not alarm us so long as we have the wisdom and the will to offset its inflationary effects. Moreover, so long as our debt is owed to our own people and the income from it is not tax free, our problem is mainly one of servicing the debt.

The President stated the matter very simply in his Budget Message. The Federal debt, he pointed out, will increase to at least \$110 billions within the next three years. This means that the servicing of that debt at approximately the present levels of interest rates will require \$2.5 billions a year. As the President said, "Paying 2.5 billion dollars out of an extremely low national income would impose an excessive burden on taxpayers while the same payment out of a 100-billion-dollar national income, after

"reduction of armament expenditures, may still permit substantial tax reductions in the post-war period." And he added significantly, "Our capacity to carry a large debt in a post-war period without undue hardship depends mainly on our ability to maintain a high level of employment and income."

The very large Federal debt that will be incurred as a result of the war, and even the war itself, will only have been in vain if we fail to learn the lesson that we did not understand after the first World War. For not only did we fail then to join other nations in organizing for lasting peace, but we failed to establish the very foundations of that peace by providing economic security and stability for ourselves and indirectly for other nations.

On the whole, the rest of the world also failed miserably to achieve the full and efficient use of its productive resources in the two decades between the two world wars. The great industrial nations which command control of the bulk of the world's resources failed to make adequate use of these resources and hence were plagued by vast unemployment. This failure is the basic cause of the present world chaos and conflict. It is well to remember that between the two wars we saw the destruction of free enterprise and free political institutions in approximately half of the western world. We are fortunate, as are the British, that so far, even though with difficulty, we have been able to adapt through evolutionary process rather than by revolution.

I have ventured to say before, and I want to repeat again, that we are not proposing to save democratic institutions and free enterprise in order to produce another era of economic misery and general unemployment. We are

fighting to preserve our institutions because we believe them to be the best adapted for producing the greatest good for the greatest number. That means not simply spiritual values -- vitally important as they are -- but material well-being. That, in turn, means full production of all the necessary, useful and good things of life that our inventive genius and our mechanical capacity are capable of turning out, not for a privileged few but for the masses of mankind. We have made some progress toward minimum standards of consumption. We must make much more after peace is restored.

We must enable all members of the community to have the minimum food requirements necessary for an adequate nutrition standard. Our entire population should be supplied with public health services and with hospital and medical care sufficient to overcome preventable disease. Likewise, decent housing must be provided for the entire population on a basis adequate to insure modern sanitation and health conditions and to afford living quarters commensurate with modern standards. Similarly, we should provide minimum educational standards for our entire population, whether they happen to live in poor backward communities or in the richer advanced States, and in addition we should provide advanced educational opportunities for the gifted members of the community without regard to the income class in which they happen to be born.

By the same token the replanning of our cities, the reclamation of slum areas, the extension of super-highways, the development of recreational facilities are all part of the better future which we can and must provide. Not only are all these things possible within the framework of our insti-

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tutions, both political and economic, but they are essential to preserve and vindicate all that we are fighting for. You will understand, of course, that what I am saying applies to the post-defense period. In the interim, as long as we must make the supreme war effort, the standard of living of all of our people, except those already at the subsistence level, must gradually decline.

I have mentioned briefly various post-defense projects, but I should like to discuss a little more fully with you the necessity for urban re-development and housing, because it is possibly of greater economic and social importance to the country and especially to this group than any other post-defense subject.

The story is much the same in all of our large cities -- many decades of unplanned, haphazard growth, beginning with the development of a downtown business center surrounded by good residential neighborhoods; then expansion of the business area and removal of the residential districts farther out; infiltration of industries; the resort to zoning; the advent of rapid transit and the further shifting of the population to the suburbs; then the spreading of zones of blighted areas around the business centers and sub-centers, with all that has meant in tax delinquencies and stagnation of improvements.

Meanwhile, as so many of you know, the cities have faced an increasingly acute financial problem in providing municipal services, including streets, police and fire protection, water supply, etc., for the expanding suburban areas, which sometimes have become separate municipalities with the

resultant loss of tax revenues to the parent city. I mention this familiar picture only because it opens up an enormous avenue for a well-planned future improvement program that must be undertaken primarily with Federal help in the post-war era.

The two chief obstacles that must be overcome involve, first, the granting to the cities of increased powers from the State to assure permanent control over their metropolitan areas, and, secondly, the cities must obtain adequate legal powers of condemnation to take over the blighted areas. This latter task can only be financed with the aid of the Federal Government. It is something that we must plan for even while we are at war if an intelligent attack on the problem is to be made after peace comes.

Let us suppose that the various cities and towns have obtained from their States the legal powers I have referred to; that they have then proceeded, with such help from the Federal Government as was necessary, to draw up long-range plans, each for the entire metropolitan area; that these overall plans, one by one, have been examined and found satisfactory by an appropriate agency of the Federal Government. The local government would then begin by defining the worst of its slum and blight areas with a view to acquiring all the real property therein, either by purchase or through condemnation. It would apply to the Federal agency for a loan, if need be, large enough to cover part or all of the acquisition cost. Such cities as could afford it should greatly lessen the amount of Federal participation by making larger contributions themselves.

The Federal loan would be granted on three main conditions. First, the acquired properties should be used or leased (not resold) only in accordance with the approved plan as from time to time developed. Second, the ground rents for the leaseholds should be based reasonably on the future use-value in accordance with the plan, irrespective of what it has cost to acquire the land. Finally, the local government should repay the Federal advances out of their own subsequent receipts from leasing such of the land as is not used for public purposes.

It is quite clear to students of the problem of blight that the areas involved are for the most part suitable only for residential purposes. Some of the land, of course, would be used for public purposes, such as new street layouts, parks, playgrounds, and the like. Some might very well be needed for reorganized and relocated transportation terminal facilities. Probably a small portion might be required for incidental business structures. But mainly the land should be used for residential purposes -- for everything from high-priced apartments to low-cost housing. Generally speaking, the geographical locations are ideal for the purpose. This is immediately evident if we can forget the present dismal surroundings. Whether on the whole the effect might be to arrest the flight of population to the suburbs, it is a certainty that there are large numbers of people who would prefer to live within walking distance of their work if they could do so in pleasant surroundings, rather than to travel for an hour or so every day to and from their dwellings.

Subsidiary to the entire program of replanning and rebuilding, all

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the activities of the Federal Government with respect to urban housing should be reorganized and rationalized. Among other things, an extensive program of research and experiment should be inaugurated to tackle the entire problem of producing a good low-cost dwelling unit -- low-cost in terms of what the occupant has to pay to live in it. This would require a thorough overhauling and reorganization of the residential construction industry, to bring its level of efficiency up to something comparable to that reached in other countries and by our other great basic industries.

You, as mayors of the cities, are all concerned in what can be done, primarily for the cities and towns in the period after the war. Equally desirable and valuable programs should be undertaken for the rural areas as well. Although all of this looks to the future, preparation must begin now. Nor do I think it wholly inappropriate, even in these grim days, to keep before us a vision of the future as an inspiration and a symbol of what it is we are fighting for.

Let's keep this vision of the future -- but at the moment there are urgent problems of civilian defense before you that are all-important, as the President of this Conference so well knows. In addition, there are two particularly timely subjects that I should like to mention, though I suspect they will not be popular with many of you. Specifically, you can oppose tax reductions in your cities and you can exert all your influence to put an end to the issuance of tax-exempt securities. As to the latter, the Federal Government has led the way. Your States and cities should follow. Let me tell you why these two lines of action are so necessary and important.

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As you all know, the enormous military demands for materials and man power have made it necessary for the President to call upon the public to reduce its expenditures and thus to release resources urgently needed for war purposes. The same considerations should lead government at every level, Federal, State and local, to reduce or postpone all expenditures that are not essential for the war effort and maintenance of civilian morale. Public works, all plans for capital improvements, should be deferred so far as possible until after the war, when such expenditures can be timed to stimulate production and maintain employment.

There is one exception to this rule so far as your cities are concerned. In those communities experiencing rapid expansion because of defense activities and the influx of population, it is manifestly impossible to curtail -- for you must extend police and fire protection and all the other essential public services needed to take care of this sudden but probably temporary growth. Because, in all probability, this growth is not permanent, part, if not all, of the costs of extending public services should be treated as defense work and thus should be financed with Federal help.

Otherwise, it is urgently necessary that you practice every economy consistent with the maintenance of essential services. This does not mean that you should reduce local taxation, however plausible that may seem at first. For to the extent that you reduce local taxation, you negate what the Federal Government is seeking to accomplish in controlling inflation through increasing Federal taxation. The taxpayer's contribution to the war effort is made by reducing his personal expenditures for goods and services,

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thus aiding in the shift of economic resources to military purposes. To the extent that the Federal tax pressure upon the taxpayer is offset by reduction of State and local taxes, the economic purpose of the Federal tax program is defeated. Accordingly, instead of reducing local taxes, you should maintain them, thereby enabling you to pay off your public debts. If you have no such obligations, then invest the funds in Government securities, thus helping to finance the war. This is the time to pay off or reduce local public debts as well as private debts, thereby helping to offset the inflationary factors arising from expansion of the Federal debt, while at the same time building up a credit reserve for use in the post-war era. Repayment of your securities would make available to those who hold them funds which they could invest in Government securities. Indeed, you have a rare opportunity for a major achievement in financial statesmanship. I hope that opportunity will be grasped.

You can make another real contribution to financial statesmanship by opposing any further issuance of tax-exempt securities by your States and cities. In these critical times it is more important than ever that our tax structure be as fair and equitable as we can make it. There is no more glaring loophole in the tax picture than that afforded to the wealthy by reason of tax-exempt securities. They are a hide-out and a haven where the man of means can put his money and insulate himself from paying the increased taxes that must be exacted today all down the line, extending to small groups that have not been subjected heretofore to income taxes. While I do not see how taxation can be levied in good faith on the tax-exempts

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already issued, there should be a discontinuance of this inequitable practice so far as all future refunding or new issues are concerned.

How can anybody justify raising tax rates all down the line, even to the low income groups as is necessary both to war-financing and to the control of inflation, while allowing those of large means to escape by investing in tax-exempts? It is indefensible. And bear in mind that the more taxes have to be increased, the more valuable the tax-exempt privilege becomes. For example, by putting his money into tax-exempts, even under the present income tax, the man with a million-dollar income saves \$79 for every \$100 of income derived from tax-exempts. The man with an income of \$100,000 thus saves \$69 on every \$100 of income from tax-exempts -- and so on. The tax-exempt privilege is worth the most to the wealthy and the least to those of small means -- quite the opposite of democratic conceptions of justice. To the man with the million-dollar income, the tax-exemption privilege afforded by a municipal bond yielding 2 per cent is worth as much as a taxable security that yields 9-1/2 per cent.

All other types of incomes -- salaries, wages, dividends -- are subject to the rising rates of taxation, to say nothing of business and other risks. It is only the recipient of the tax-exempt income who is free of all risks. Taxes that compel all other groups to curtail their living standards as a necessary contribution to the winning of the war do not touch him. As for the comparatively small saving in the amount of interest paid by the public bodies which issue tax-exempts, far more is lost to the economy by allowing the wealthy to escape through this loophole than is saved in interest.

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Remember also that your local citizens pay Federal taxes -- and the bulk of them pay heavily for the exemptions thus afforded to the wealthy.

You, as mayors of the cities, have a real responsibility in these matters, just as you are vitally concerned in post-war possibilities of local reconstruction not merely because of the betterments in your own communities but, indirectly, because of the effects upon the national economy. For surely you recognize today that you are no more isolated from the general welfare than the nation is from events across the seas. You cannot prosper when the rest of the nation, or any major part of it, is in severe economic distress. Your tax receipts rise and fall as national income goes up or down. You could not, even if you would, separate yourselves from a direct concern in means and measures designed to assure national economic stability and progress. The cities were bankrupt in the early 30's because the nation was in the depths of deflation and no community, however foresighted and prudent, was able to immunize itself from the devastation. You are relatively prosperous today because we have had a war boom -- incidentally one that does little credit to us as a nation. For we see now that while we sought to make our defense efforts a mere supplement to a business boom, we should have discarded long ago all business-as-usual day-dreaming and made much sooner the sacrifices we talked about and did not make, but must perforce make now or perish.

No, there may have been a day when you were so self-centered and self-contained that you could get along by yourselves, but that day has long since gone -- your welfare and your public lives are bound up with the

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national well-being. You must know and understand what will help or hurt the national economy. You must be prepared to shape your policies and actions in accordance with national objectives, programs and policies. You must more than ever before take care that the taxpayer's dollar is efficiently used. You must have a responsible civil service -- you must have, in short, the confidence of your citizens that the affairs of the city are run as efficiently and intelligently as is required for the survival of competitive private business. That is certainly not only possible but essential -- and it happens to be the best politics as well.

In the brief time here this afternoon, I have tried to touch on a few of the fundamental principles that I feel should be of interest to you and hence of importance for you to consider. Since Pearl Harbor, the subject assigned to me to discuss post-war programs fades out before the grim necessity for concentrating all our energies upon the winning of this war. Yet we can and we need to keep before us always that vision of the kind of world we mean to have when we have won through again to peace -- a world in which the four freedoms are not empty phrases, but in which mankind will have the security from hunger and want, the assurance of economic well-being, that is the best guarantee of lasting peace and the justification for all the blood, sweat and tears we must devote to the success of our cause.