ADDRESSES

DELIVERED BY

THE HONORABLE ROY A. YOUNG

Governor of the Federal Reserve Board, Washington

AND

THE HONORABLE THEODORE CHRISTIANSON

Governor of Minnesota

At a dinner given in their honor by

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Governor Young's Address

Mr. Toastmaster, distinguished guests in the business and banking life of the Fourth District:

IT is rather embarrasing to hear the flattering remarks of your Toastmaster in reference to myself, but nevertheless, I suspect that I am human the same as any other person, and sometimes we like to hear those flattering remarks even though they may embarrass us.

I am grateful for the opportunity to visit the Fourth Reserve District and I am particularly pleased to have the opportunity to again sit at a table with Governor Christianson of the State of Minnesota in which I still retain my legal residence. We are very fond of Governor Christianson in Minnesota, so much so that we have elected him to the chief executive office in that state. He is the best our state can produce. When he speaks to you this evening upon taxation he will do it thoroughly in his characteristic, forceful manner.

In accepting this invitation to come to Cleveland, it was the distinct understanding that I was not to make a speech, although it was suggested that I might say a little something with a good deal of emphasis on the adjective "little" and that shall be the object of my talk, to be as brief as possible and attempt to leave a story or a thought with you. That thought is in reference to the organization and operation of the Federal Reserve Banks and the Federal Reserve System.

You will recall that under the law each Reserve Bank has nine directors, six of those directors are elected by the stockholding member banks. In other words, a majority. The Board of Directors dictates the policies of the Federal Reserve Bank, selects the employees, appoints the officers and fixes their salaries.

A Reserve Bank is autonomous in its operation as much as any corporation operating under Federal charter possibly can be. In all, there are twelve Reserve Banks and in all 108 directors. Twelve of these directors are chairmen of the Boards of Directors.

At the present time 36 others are bankers, and of the balance of the directors 60 of them are represented by business. It is interesting to note the various businesses that are represented on the Board of Directors of Federal Reserve Banks at the present time. There are 19 manufacturers, 14 merchants, 4 farmers, 4 lumbermen, 2 insurance men, 3 investment bankers, 3 retired business men, 2 publishers, 2 lawyers, 2 railroad men, 1 cattleman, 1 contractor, 1 public utility man, 1 mining man and 1 savings bankman.

I point this out particularly to show that the real control of the Reserve Banks does not rest with the bankers or with the Federal Reserve Board but really with the business interests of the country.

Now there are certain functions of the Reserve Banks that are country-wide in scope. The collection of checks, wire transfers and so forth, in which uniformity is not necessary but it is highly desirable, and in reference to the open market operations of the Federal Reserve System uniformity is quite necessary.

Therefore, under the law, a central board was created in Washington known as the Reserve Board. This Board is a supervisory Board rather than an administrative one, although its powers are really very far-reaching. But to date I am glad to say that except on very, very rare occasions has the Federal Reserve Board seen fit to exercise its far-reaching powers.

The Reserve Board, as well as the Reserve Banks, has learned and observed that much more can be accomplished by cooperation and coordination. That is the procedure that has been followed almost continuously since 1914.

The law gives many far-reaching powers to the Federal Reserve Board. One of those powers is that the Board can remove the officers or directors of any Federal Reserve Bank, but as a safeguard so that the Board will not act in an arbitrary matter, the law also gives a strong intimation that the President of the United States can remove the members of the Federal Reserve Board. So you see that there are wheels within wheels and all of us who are associated with the System cannot, therefore, become too arbitrary without getting our knuckles rapped from some source.

In addition, the law makes provision for a Federal Advisory Council. Each Federal Reserve Bank is permitted to appoint one member of that Council. The Council is required by law to meet four times a year and while the Council has no supervisory or administrative powers still, under the law, it is permitted to require the Reserve Board to furnish it any and all information in the Board's possession. When this Board meets it discusses and considers the policies of the System, expresses an opinion upon any matters that may be referred to it by the Reserve Board and offers recommendations and suggestions for future policies.

I have pointed all these things out to remind you of what a wonderful credit structure we have in this country. It is a protection, not only to the banking interests of the country but to all of the business interests. Without going into the details of the many mechanical things that must necessarily be of a uniform character in the System, I am going to describe in detail the operation and the procedure that is followed in determining open market policies.

I am taking open market policies because that is the most important function of the Federal Reserve System at the present time and perhaps will be for many years to come.

Open market operations of the Federal Reserve System are initiated by the Federal Reserve Banks in this manner: The Reserve Banks have selected a committee known as the open market committee which is composed of five governors of five Reserve Banks. This committee meets upon the call of its chairman, has all the information in reference to business and industry and credit before it, discusses the situation and makes recommendations to the Federal Reserve Board. The Board approves these recommendations, or modifies them and approves them, then the recommendations are referred back to the directors of each Reserve Bank. Each Reserve Bank can approve or disapprove as it sees fit.

Open market operations is the one function in the Federal Reserve System where uniformity is quite necessary and obviously so. If one Reserve Bank should follow an open market policy of selling securities to the market and another should follow a policy of buying securities from the market, the objects of one bank would be defeated by the actions of the other.

Much of this procedure you are all familiar with. I am bringing it to your attention again this evening with the hope that you will reflect and realize that this Reserve System is your Reserve System. If that Reserve System is not following good policies, or following the views of the majority, certainly the machinery rests with the banking and business interests to correct those policies.

Therefore, gentlemen, I feel justified in appealing to you in rather strong terms. You are the people who are capable of familiarizing yourselves with the Federal Reserve System and its operations; you are the people who are capable of determining whether that System is functioning properly or not; you are the people who can exercise a powerful influence in this country by passing the information on to others in an intelligent and understandable way. In conclusion, let me remind you that regardless of whether we want the position or not, we have become the world's banker and as such many opportunities are going to be presented to us and we should be in a position to grasp those opportunities so that prosperity may come to our own people.

Our credit structure is centered around the Reserve System, is one of our most valuable assets and it seems to me that each and every one of us should do everything within our power to protect that asset.

Governor Christianson's Address

Mr. Toastmaster, Gentlemen of the Fourth Federal Reserve District:

I WOULD say that after the recommendation which I have just received at the hands of my friend, Mr. House, this would be a most opportune occasion for me to commence negotiations for a loan. They don't always treat me as well as that in Minnesota, Mr. Toastmaster.

I recall about two years ago when I was called to a small town in the central portion of my state, a town of about a thousand people, to deliver an address of welcome to about three thousand delegates of one of the large church denominations which had assembled there, coming from every state in the Union and from some foreign countries, I was introduced that evening by a chairman who was not as kind as Mr. House was this evening. This chairman expressed some doubt as to whether a small village like that would be adequate to the task of entertaining so many people from abroad, so he proceeded in a vein of apology, explaining what the difficulties and shortcomings were.

Finally, after five minutes of apologizing, he concluded by saying, "But, my friends, when you come to Minnesota, you must take things as we have them," and then he introduced me as Governor of the State.

Al Smith, Governor of the State of New York, made the remark at the Governors' Conference at Poland Springs, Maine, about two and one-half years ago, that every American state should have at least two governors. He said that one of them should stay at home and be on the job, and I suspect that there is where a great many of the people of Minnesota believe that I should have been today, and then he said that the state should give the other one a celluloid collar and a dinner coat and send him out to make all the speeches and lay all the corner stones.

In Minnesota it would be one of his principal functions to dedicate all of the new creameries. Why, since I became Governor about four years ago, I have had to talk at all kinds of affairs and on all kinds of occasions. When I am at home I generally have to talk for my luncheon at noon and for my dinner at night and if I could now find somebody I could induce to introduce the vogue of after breakfast speaking, I should be quite independent of my wife and family.

My friends, of course I believe in popular elections because I am the product of one, but, frankly, I don't see what there is about the approval of a mere majority that should qualify a man to talk all the time—to talk incessantly, to talk volubly, to talk interestingly, and they even expect a man to talk intelligently upon every conceivable subject from the proper feeding of infants to the settlement of the interallied war obligations.

But I assure you, my friends, it gives me great pleasure to be here to-night to bring to the people of the sovereign State of Ohio the greetings of the people of the sovereign State of Minnesota. I am particularly happy to be here under such pleasant auspices.

I am glad to be here on this occasion with my friend, Roy Young, whom we lost in Minnesota a few months ago, and, by the way, during the last year Minnesota has made its contributions to the nation and the world. About ten months ago a Minnesota boy winged his course into the open spaces of the sky, crossed the waters of the Atlantic and wrote his name in blazing glory against the sky. Minnesota is proud to have given to the world and to history a boy whose name will last as long as time, Charles A. Lindbergh.

Minnesota has made other contributions to the nation. We have given you Frank B. Kellogg, Secretary of State. We have given you R. E. Olds, Assistant Secretary of State; Carl Schulemann, Assistant to the Secretary of the Treasury; Pierce Butler, Associate Justice of the Supreme Court of the United States, and now, only about five months ago, we made another contribution, no less distinguished than the rest, in the person of the man who is the honor guest of this evening.

Roy Young is excellent demonstration of the fact that after two thousand years, something good can still come out of Nazareth, because he is the product of a small town. He has spent his early banking years, as I have heard, in one of the smaller communities of Northern Michigan. He came to Minnesota about ten years ago to the Federal Reserve Bank of the Ninth District, and during the greater period of the time which has intervened he has served as Governor of that bank.

I am not going to call Mr. Young, however, a small town banker, because he is not that. Mr. Young is a great banker that came out of a small town. And, by the way, I think it is also suggestive of the democracy of the Federal Reserve System, when a man coming from the Middle West—and that part of the Middle West which I represent—should be placed in this position as Governor of the Federal Reserve Board. I daresay that ten years ago there was nobody in the State of Minnesota who dared to believe that a man from Minnesota, a Minnesota banker, could become the head of the banking system of America.

Mr. Young this evening has discussed private finance as regulated and controlled by the Federal Government. It is my function, I assume from the introduction, to discuss this evening public finance as represented in taxation and public indebtedness.

In the making and the development of the automobile, the self-starter antidated four-wheel brakes; in fact, I believe that the development of the self-starter was responsible for the invention of four-wheel brakes, because when automobiles were so equipped that they could be started easily and quickly without losing breath or temper, they became numerous. Sometimes, I believe they became too numerous, so numerous that they cluttered up our highways and obstructed traffic, and accidents became frequent.

Casualties occurred not only to fenders, but to automobile drivers and pedestrians. The automobile supplied material for two kinds of morgues: one for automobiles, and the other for men, because the automobile is no respecter of persons. It divides humanity into two classes, the quick and the dead. If you are not quick, you are dead.

So it became apparent to people that it was just as important to stop an automobile quickly and certainly as to start it easily. Necessity again became the mother of invention and the four-wheel brake was born.

Now, unfortunately, all of the joy riding of the present generation hasn't been done in automobiles. There has been financial joy riding as well and there have been no end of politicians who have been stepping on the gas.

Every organization existing for the purpose merely of boosting and booming, every community seeking an appropriation for a new post office or a new state institution, every politician or statesman, if you please, who had made the discovery that he could get his picture on the front pages of the newspapers and incidentally get more votes in the ballot box by securing state aid or Federal aid for some purpose or other, every organization of men or women laboring under the obsession that it could reform the world by creating a new government bureau, has been a self-starter, and, unfortunately, we haven't been equipped with efficient brakes.

Of course, nobody has worried much about it because every chauffeur has figured that when the catastrophe finally came and the machine, as the result of the joy riding, finally went into the ditch, there would be another driver at the wheel and perhaps other passengers in the back seat of posterity who would pay the penalty of the joy ride.

Nevertheless, there are some of us who have been worrying and that is one reason why, at the risk of mixing my figures of speech, I have chosen as my subject this evening, "Putting Four-Wheel Brakes on the Ship of State."

Increase in the expenditures of government has been one of the most outstanding and disturbing developments of the last few decades. In 1890 the total expenses of Government in this country, Federal, State, and local, aggregated $875,000,000. Thirty-six years later in 1926, they aggregated $8,765,000,000. In other words, during the period of thirty-six years, the burden of Government in this country had increased ten-fold.

In 1890 the American people paid 7 per cent of their income for Government. In 1926 they paid 12½ per cent, or one-eighth of their income for the privilege of being governed. In other words, the average American spends forty days every year working for the state or, if he works upon an eight-hour basis, he works one hour every day to pay his taxes, and these figures, startling as they may seem to you, don't tell the whole story, because Government has other means of raising revenue besides levying taxes.

First Government taxes, taxes to the limit, if you please, and then it issues bonds. It borrows money, and the increase in the indebtedness of the states and their municipal subdivisions is a disturbing story, for in 1913 the total of the debts of the states and their municipal subdivisions was $3,300,000,000. In 1927 it was $11,700,000,000. In other words during that period, the total indebtedness of the states and their municipal subdivisions had increased more than three times.

During the last few years the indebtedness of the Federal Government has been reduced. In 1919 Federal indebtedness reached its maximum at twenty-five and one-half billion dollars. We have cut off about seven billions since that time, because in 1927 the Federal indebtedness was eighteen billions and one-half, but don't you see, while the Federal Government taxes have been reduced, while the Governments have been reducing their indebtedness, the states and municipal subdivisions have increased their debts?

In 1926 the new bond issues of the states and municipal subdivisions in this country aggregated one billion, three hundred millions of dollars. The total debt of the American people at this time—I am speaking of public indebtedness—Federal, State, and local, has reached the staggering total of thirty billions of dollars, which is 20 per cent, one-fifth of the taxable valuation of all of the non-exempt real estate in America.

We will assume you have a home with a taxable valuation of ten thousand dollars and assume it is free of all encumbrances. You haven't put a mortgage on it. You have permitted nobody to file a lien against it and you think it is clear. Well, my friend, you are in error, because there is standing against that home its undivided share of the public indebtedness of America, a lien amounting to 20 per cent of its value, or two thousand dollars; a mortgage, if you please, in the making of which you had no part, except the part you may have played unwittingly by either not voting, or not voting right on election day.

So, if we are going to find what Government really costs in this country and what Governmental expenditures are, we shall have to add to the total tax bill the total borrowings every year, and if we do, we have reached the conclusion that in 1925, the last year for which I have the statistics, the total expenditures of Government in this country were eleven billion, three hundred and some-odd millions of dollars.

Let us consider what that sum amounts to. I heard today that the Wall Street Journal carried a dispatch from Petrograd the other day saying that Professor Koslosky, a German professor, has estimated and declared that if all of the pretzels in the world were straightened out and placed end to end, you would discover that it couldn't be done.

Well, if you want to take that eleven billion, three hundred millions of dollars which represented the total Governmental expenditures of America in 1925, and express it in terms of dollar bills, and lay those bills end to end, they would reach fifty-four times around the earth at the equator, or, if you were to express them in ten-dollar bills, there would be one ten-dollar bill for every minute that has elapsed since the beginning of the Christian era, and that represents what Government in this country costs you as tax-payers in the one year of 1925.

I suspect that what most of you, and I recognize there is a pretty heavy percentage of tax-payers in this audience, are interested in knowing is where this joy riding is going to end. I am frank to say the end hasn't come yet and the end is not in sight because we know there has been a tremendous increase during the last few years.

I told you that Federal expenditures had been reduced since 1919 to the extent of two billions of dollars, but don't be too cocky about that because, remember, in the first place that reduction is due in part to the fact that the war is over and we are not making any war expenditures. It is due in part to the fact that we have been dismantling our war machinery and selling a lot of stuff that we paid for before, and that has reduced the burden of taxation.

Don't be too proud of the record of the Federal Government, because, while Federal expenditures have been reduced to the extent of two billions of dollars a year, during the same period the states and their municipal subdivisions have increased theirs, so that last year the total burden of governmental expenditures in America, Federal, State and local, was only about twenty million dollars lower than it was in the peak year of war expenditures of 1920.

State expenditures have doubled since 1919 and they have trebled since 1913. Now what are we going to do about it? Is there any way in which this increase in public expenditures can be halted or must we face complacently a constant increase in this burden of government?

Of course, it is only fair to say that a part of the increase is due to the reduced purchasing power of the dollar. Government buys in the same market in which you and I, as individuals, buy and the higher cost of living is inevitably reflected in the higher cost of government. But, my friends, that does not afford an adequate explanation. There are forces and factors over which the Government does have control that are responsible and if we want to affect the situation as citizens, it becomes necessary for us to discover what those factors and forces are. Eliminate the leaks wherever they exist.

The old ambition of communities, the disposition to multiply and increase the functions of government, these are largely responsible for what we have experienced.

About 125 years ago, Thomas Jefferson declared that government governs best which governs less. I don't happen to belong to Thomas Jefferson's party, as the Toastmaster has informed you, but at the same time there is some of the philosophy of Thomas Jefferson that I believe in.

It may be that we need more government than we assume we do, because out of the increasing complexity of modern life has arisen the necessity of more regulation. But, nevertheless, my friends, I am convinced of this: that we have about all the regulation we need now and that whenever anybody proposes to establish a new governmental bureau or new governmental activity for the purpose of regulating, controlling or directing somebody, we should at least put up a sign, "Stop, Look and Listen."

A nation that depends upon law for everything rests upon a fragile reed. You remember the maxim, "If you want a thing done do it yourself." I would say that if you want to have somebody else do it, if you cannot do it yourself, at least hire somebody to do it who is close enough to you so that you can watch him while he is doing it.

We are not doing that at the present time. We try to have our problems solved by governmental bureaus at Washington and at the state capitol, manned by newly fledged collegians who are trying to tell experienced people how they should conduct their affairs and run their business.

And what has the result of this tendency toward over-elaboration of government done? In the first place, it has led to a multiplicity of laws. We have a legislative session in Minnesota every two years.

I was down in Massachusetts a short time ago and asked the governor of that state how often their Legislature met. He said, "Ours meets every year." I said, "Thank God ours meets only half as often as that."

These Legislatures usually pass about 500 new laws whenever they meet and the government at Washington wrestles also with several thousands of bills at every session.

Have you noticed that almost every new law that is passed results in the creation of some new state or Federal agency? We have so increased and over-elaborated this governmental machinery of ours in this country that we have at the present time no less than 2,700,000 public officials, employees and functionaries in the United States of America and in addition to those 700,000 pensioners, worn out politicians out of jobs.

That brings the total up to 3,400,000 people, an army almost as large as the one we mobilized for service in the Great World War.

Take the number of men and women and children engaged in gainful production in this country and one-twelfth of them represents the number engaged as government officials, employees or pensioners, and it costs us every year to support that army $3,800,000,000, nearly one-half of the nation's tax bill, and still we are wondering in the face of a continued over-elaboration of this machinery why the taxes of the people are increasing.

So I suspect if we want to stop this increase in the cost of government the first thing that we will have to decide to do is to get along with less government or at least to put a stop to it when somebody tries to increase its functions and activities unduly.

I recognize, of course, that situations arise which will have to be met but at the same time my plea is that whenever any such situation arises in the mind of anybody, that someone at least be at hand to call a halt to determine whether or not it is necessary to have any further over-elaboration of this tremendously large governmental machine.

I said that the states and their municipal subdivisions have been the principal offenders, and that whereas the cost of Federal Government in this country has been reduced the cost of state government has continued to increase during the last few years. That may suggest the question, "Why is it that the Federal Government can reduce its expenditures or at least keep them from increasing and the states cannot?" I believe that the answer can be found in the difference in the form of organization of the Federal Government from that of the typical state government.

The Federal Government is the highly centralized one. At the head stands the president of the United States and under him are the members of his cabinet, and the various members of his cabinet are arranged practically with all the activities of the Government at Washington under them, so that if a president, like President Coolidge, stands for a policy of economy he can, by handing his orders down through the members of his cabinet, reach every agency of the government and compel economy.

Consider on the other hand the typical governmental organization which prevails in the average American state. The average American state has no chief executive. It calls its governor its chief executive by courtesy, but he is only one of several state executives, all of whom are elected by the people and are responsible to the people alone.

To be sure, he has the power of vetoing appropriations at the end of a legislative session, but this constitutes a very unsatisfactory control of appropriations because in most states, while he can strike out an item of a legislative appropriation, he has no power to reduce it, so when the legislative appropriation bill comes at the end of a session, after the Legislature has gone home he has the choice between striking out items of appropriation and suspending entirely the activity which this represents, or allowing those items as they stand. If he allows them as they stand in the form of the organization which prevails in the typical state government, he has no further control over the expenditures of the money that is authorized.

Very frequently in many of our states we find that executive departments are headed by boards. If that is the case very frequently a board of three, often with overlapping terms in my state, is appointed for terms of six years, one going out every two years, so that a governor during the first term of his service would get control of only one-third of his own administration.

He would have to serve two terms at least before he would have the power to displace two members of any board and thus secure a majority on it to control its activities. And even after he has secured a majority he cannot be sure of controlling their activities because very often they carry out his policies only by carrying them out through the door or throwing them out through the window.

The function of the typical governor in the typical American state is confined to acting as umpire between rival candidates for political jobs and receiving for his reward the umpire's traditional due.

You might say that the Legislature in the state has the power to control expenditures by all means, but I challenge that statement. I want to say it depends on the members of the Legislature. You cannot hold them up to that degree of accountability because they have no power commensurate with that responsibility. You ask any of them if they have the power to reduce appropriations? They have the power to grant or withhold money,—that is an inherent power of a legislative body, but wait.

The Legislature meets only once in two years and when it meets it usually is in session only for a limited number of weeks and during that time it must consider all the intricate details of numerous state activities, it must pass appropriations and requests aggregating in the average American state from $50,000,000 to $60,000,000. It is impossible for a body of that kind to acquaint itself so thoroughly in so brief a period with all the functions of a great state as to make even an intelligent guess as to the amount of money that is needed.

The best that the Legislature can do is guess liberally because if it doesn't guess liberally, if it guesses too low, it may cripple an activity and trust to luck that the men who get the money will be careful in its expenditure.

You say that the heads of the state departments appropriate it for their use and that they can be held responsible, but I am wondering if it isn't asking too much of frail humanity to expect the heads of any state activity to refrain from spending money that has been appropriated for their use. Every such man believes that his own activity is more important than any other activity in the state and he sees so many thousands of uses for which he could use the money.

In order to meet this situation in 1925 we adopted a new scheme of organization of the government of Minnesota. We consolidated a few departments but don't believe that the mere consolidation of state departments is going to produce very much economy in itself because all that such consolidation does is to make a regrouping of the activity and the activity is still there.

We adopted, in connection with our reorganization, a new budget system and this budget system is sufficiently unique so that I might discuss it for a few minutes.

Our budget system is not a mere compilation of departmental requests, it isn't merely an attempt to scale down the departmental requests for legislature. It goes farther than that.

After the Budget Bureau under our system has presented its budget to the Legislature and the Legislature has voted the money, we have a string on that money so that before the head of the Bureau or Department that enjoys that appropriation can spend a dollar of it he must get specific approval for the expenditure from the Budget Board.

In other words, every three months the head of a state department must file with the Budget Board a requisition for the part of its appropriation that it desires to spend during the next three months. And until that Budget Board has filed its written approval of the expenditures not one cent of the appropriation in the treasury is available for that use.

The Budget Board can do one of two things with a requisition coming from a department head. It can refuse it or it can allow it. Yes, it can do a third thing; it has a third alternative. It can reduce it.

Now let us see, by means of a hypothetical case—purely hypothetical, I assure you—how this is designed to function. We will suppose the head of a department of Minnesota wants to buy ten automobiles. That is nothing because I can remember one time the head of our state department, under the old system, bought fourteen automobiles in one afternoon, and didn't have to ask anybody for permission.

Under the new system the quarterly budget would have to contain this item—we will say he wants Cadillac automobiles—:

"10 Cadillac Automobiles . . . $35,000."

That would come before the Chairman of the Budget Board. He would send for the department head and say, "I notice you have made a requisition for the purchase of ten new Cadillac automobiles for $35,000. I don't know whether we are going to allow you that requisition. We have studied the functionings and activities of your department. That is our business. The only business we have is to watch you fellows and we have decided that you will get along with six new automobiles for the present. If it should develop later that you need the seventh, we would buy the seventh, but for the present you will get only six. Furthermore, we have made a survey of the relative efficiency and economy of operation for various motor cars for your inspectors to go around the state with, and have concluded they don't need Cadillacs. We have been standardizing on a cheaper car. Instead of getting ten Cadillacs, we are going to buy six Fords."

And you will get six Fords. And you will like it, after while.

Now some of you might ask some questions at this juncture. I suppose the first would be, "Doesn't this budget system of yours cause a good deal of friction?" I am answering frankly—it does. I am going to go one better and say that any budget system that is worth the paper the law which created it is written on will cause friction, because if there is no friction between the people who want to spend the tax-payers' money and those who are charged with the responsibility of saving it, it is a pretty sure thing that it is the tax-spenders' and not the tax-payers' interests which are being taken care of.

The budget system has caused friction in Washington, I am told. A great many people down there don't like General Lord. Some of them don't like Coolidge. There is friction in the operation of any budget system that is effective, because the budget is a brake. And what is it which gives a brake its effectiveness?

Suppose you had a brake and the adjustment between the brake band and the brake drum was such that the two didn't get together when you put your foot on the brake pedal and there was no friction? What is going to happen? You are going down the road about 50 miles an hour and you see another fellow coming from another road in a little Ford. You put your foot on the brake pedal and the brake band doesn't come in contact with the brake drum, and no friction is set up. The result is you go into the ditch and probably into the hospital and perhaps into the morgue. So the operation or development of friction in the operation of a budget brake is absolutely essential to its functioning.

You might ask, "Doesn't this thing make the governor a czar?" Well, I would say in reply to that that the governor, who of course is the court of resort when there is a difference of opinion between the man who wants to spend the money and the Budget Board, trying to save it, does have certain power but it is only the amount of power he needs to have in order to meet his responsibility to the people.

And it doesn't confer nearly as much power as the operation of the government at Washington, which centers all executive power in the chief executive, because after all the only power the governor has under this system that he didn't have before is the power to save the tax-payers' money, and unless somebody has that power and exercises it, it is a sure thing that the interests of the tax-payer are not going to be served.

Now so far in my argument I have shown there has been a tremendous increase in the cost of government in this country. I have indicated some of the reasons for this increase and told you that in my opinion the principal reason is that the average state government does not afford the means for anybody to compel economy, and I have also outlined briefly the method we have used in Minnesota and the machinery set up to give the chief executive that power.

The final point of my argument is this: That there cannot be any effective tax reduction in this country until we eliminate public indebtedness or at least reduce its volume.

Do you know that at the present time 12½ per cent of the taxes which the American people pay is required to meet interest charges on public debts credited in the past? And that doesn't take into consideration the amount of taxes that is levied to meet payment upon the principal. That does not take into consideration sinking fund requirements. Obviously, therefore, if all public indebtedness could be eliminated in this country you would immediately reduce the average rate of taxation 12½ per cent or one-eighth.

Do you know that of the $1,300,000,000 of new bonds issued by the states and municipal subdivisions last year practically all of it was consumed or at least the totals equaled by various sums which those same governmental bodies paid out in interests and for sinking fund of debts that had theretofore been credited?

So we have already reached the situation as to public indebtedness in this country that practically all of our annual borrowings are consumed to take care of indebtedness credited in the past, and after we have borrowed the money we are no better off than we were before.

Ogden Mills, Under-Secretary of Treasury, made an address at the University of Virginia last summer which to me was illuminating and in which he compared the cost of making recurring improvements first, out of current tax receipts and secondly, out of borrowings.

He cited this hypothetical case and said that suppose a state contemplates an improvement amounting to $10,000,000 a year running over 25 years, a total of $250,000,000. If it finds that out of current receipts it can be financed by taxing the people $10,000,000 a year, of course the total cost of the improvement is $250,000,000 to the state.

If, on the other hand it proceeds to raise the money by issuing $10,-000,000 in bonds every year, four per cent bonds, expiring in twenty-five years, the first year the state will get $10,000,000 proceeds from the sale of those bonds and from the cash outlay basis is considerably ahead of the game and still not to the extent of $10,000,000 because you must first make a deduction of $400,000 for interest and another deduction of $400,000 for sinking fund, leaving only $9,200,000 net advantage from the cash outlay basis.

He points out that by the end of the tenth year when you sell your bonds for $10,000,000 it will require $7,300,000 of that money to meet interest charges and sinking fund requirements for bonds issued up to that time, leaving only $700,000 of the proceeds to go into actual construction improvements.

He points out that by the end of the fourteenth year the $10,000,000, the entire proceeds of the sale of the bonds, will be required to meet the interest charges and sinking fund requirements of the bonds issued up to that time and by the twenty-five years he finds that whereas the bonds will produce $10,000,000 the state will have to pay $15,000,000 for interest and sinking funds, thus leaving the tax payer $5,000,000 worse off than if he had decided to pay as he made his improvements.

He points out that whereas under the pay-as-you-go plan those improvements would be $250,000,000, under the other method the improvements will cost $380,000,000.

And under either system those who use the facility for which the expenditure was made would have the same amount of use out of the improvement. We will assume the money was expended for paving roads at $25,000 per mile. Each year under either plan there would be exactly 400 miles of paving laid. So there would be no difference at all in the return to the people of the state in the way of the use of the utility for which the money was expended.

My friends, in closing, I want to say that I believe the time has come when we must call a halt to increasing public expenditures and increasing taxation because we have pyramided this burden to the point where it has become so heavy as to seriously threaten the industrial and economic structure of this country.

After all, human instrumentalities, the functioning of government, the civilization itself, rests upon a foundation consisting of the strained backs and the tight muscles of the men and women who must work.

If you contemplate the construction of a new building out here, you first lay foundations adequate to support the kind of structure you intend to build. If you build a one-story structure, you plan your foundation accordingly and it would be folly, after you had laid the foundation, to change your plans and put up a twenty-story building on the same foundation. If you did, some day you would come downtown and you would find the foundations had become sagging. Some day cracks would appear in the walls and the building would come down ultimately.

The serious question is, if we continue to build in superstructure upon the foundation of men and women, whether it will not ultimately become so heavy as to break down those human foundations. That is the thought that I desire to leave with you this evening.

In closing, my friends, I want to say that it has afforded me great pleasure to come to Cleveland and a great pleasure to present these thoughts of mine to you this evening. I have had a wonderful time here. This is my first visit in this great city, this Colossus which stands at the entrance of the great Northwest. I have had the opportunity to see some of your industries. I have seen the wonderful residential development out here at the outskirts of the city, and I am going home marvelling at the enterprise and the progress you are making.

I talked in a jocular vein at the beginning about governors going around making speeches and I believe it is distinctly worth while; in fact, I'd almost recommend to the people of Ohio that these people ask Vic Donahey to come to Minnesota.

It is worthwhile for us to come in contact with the people who are living in other parts of the nation and I believe that for that reason we are able to maintain the solidarity that makes it possible to keep these forty-eight different states, with different conditions prevailing in all of them and with diverse interests binding them together, firmly under one flag.

It has a tendency to do away with the misunderstandings and the differences which separate us from time to time. There has been too much of that during the last few years in the way of jealousies between different sections of the country and between the different states. There are jealousies between the towns and the countries and the rich and the poor and between the young and the old, between the learned and the unlettered, jealousies even between married folks and those who ought to be.

A community may have all the visitations of Job, the community may suffer from fires and floods and even fevers and famines and fallacies and foolishness, it may have a short crop of everything in the world except possibly old maids, and still it may grow.

But if you have a suspicious people breathing the thought that some man or some community is getting too much money, that some individual is getting too many friends or that some part of the country is getting too much wealth, then all the peace and the happiness of the country is gone.

It is a strange world that we live in. If a man doesn't make money now he is a fool and if he does he is a thief. If a man goes to church he is a hypocrite and if he doesn't he is a sinner. A man, if he is socially inclined and goes out among people, ought to be at home attending to his business and if he doesn't go he wasn't wanted. If a man does something for the community in which he lives he is buying favors and getting ready to run for office. If he doesn't do anything he is selfish and crusty. If he puts on good clothes then he is putting on airs and if he doesn't put good clothes on he is a disgrace to the community and ought to be invited to move out of the town.

This disposition to find fault, to tear down without supplying constructive reform, is one of the most distressing tendencies of any community, and it is a strange thing we all of us have been guilty of. We have found that taking a slap at somebody has been the easiest way to attract attention. Of course, those whom we have slapped have, I suppose, sometimes deserved it.

But whether they have or not, I believe there is so much of a constructive nature to be done in this world that we could spend profitably at least as much time in supporting and constructing and upbuilding as we do in criticizing and destroying.

He is the best citizen who uses his ability and his opportunity for the community good; not he who owns property and lets it lie foul, but he who improves it, beautifies it; not he who doubts and scoffs and jeers, but he who dreams, if while he is dreaming he has the energy, the willingness, the persistence, and the courage to work, to make his dreams come true.

He is the best citizen of any community and I must believe that that is the kind of citizenship you have here in this Fourth Federal District. I am sure that that is the kind of citizenship you have here in the City of Cleveland, because if you didn't I would be unable to explain the marvels and the beauties that I have seen today.

I thank you, gentlemen.