EXPENDITURE AND TAXATION

CHAPTER FIVE

IT is obvious that the problem of taxation is one of the greatest before us. Here, again, it is possible to reach a solution if the methods of sane economic planning are brought into play. But it must be remembered that if we are going to do anything about the reduction of taxes and about the readjustment of their burden, at the same time we must work out the solution of other governmental problems with which it is meshed and have the courage to apply these solutions. Nearly half our total tax bill is local.

Taxes take us back again into a consideration of the functions of government and any consideration of them must weave a pattern of finance from beginning to end. That is why in most cases it is impossible to isolate a detail of government, whether a detail of actuality or of hope, from its cost.

Me modern state is going into business, whether it likes it or not. We are being forced into business by modern civilization. In the old days, for example, we would put up a building, and the unfortunate insane in our midst were placed in that building. They were then and thereafter forgotten by the people of the state.

We did not even cover all the insane in the state. There were thousands of them, scattered about in the various communities, hidden away in back rooms and attics. There were mentally deficient children all over the state, for whom the state did nothing in those days. There were prisons in those days that had been built sixty or seventy years before, with cells in them that were six feet six inches long, thirty inches wide, with seven feet of headroom—and even twenty years ago we thought that was right. We still have these accommodations in use. I am using this as an illustration, because it has only been in the last ten years that there has been a growing feeling on the part of modern civilization that we have not been handling the wards of the state rightly.

In 1930 in the State of New York we had somewhere around sixty or seventy thousand wards of the State. That does not include the wards of the various counties and cities and other communities. Modern civilization has made us revise our whole plan of handling them.

We are now, in the case of the insane, for example, constantly making new improvements in the study of psychiatry. We are curing people who even twenty years ago would have been pronounced incurable. In fact the ratio of improvement has constantly risen, so that in 1930 we were curing somewhere between twenty and twenty-two percent of these unfortunates. To refer again to prisons, we are looking toward the ideal day when of the ninety-four percent of the prisoners who come back again into our hands, the very great majority of them will go straight all the rest of their lives. We already have a better system worked out under which this is more than possible.

Of necessity, the State has gone into things that did not exist twenty years ago as State problems— highways, for instance. At that time we had a plan, .1 magnificent plan it seemed, to cost ten or fifteen million dollars, to build main highways from New York to Buffalo, from Albany to Montreal, and there was no such reason to go to Montreal as there is today. Today it is not just the main highways that are concrete. The farmer on every back road is asking for concrete past his door.

There is another reason why the expenditures of the states have gone up. The educational standards are higher. In 1920 the State of New York was extending State aid for education at a cost of ten million dollars; it is now extending it at the cost of more than one hundred million. Nearly one-third of all the expenditures of the State government are going as aids to education. Perhaps this is riot the right policy, but it seems to be in line with modern thought, and I do not believe there is anybody who can suggest any alternative that would not be reactionary.

There are real reasons for the increase in the cost of government besides the growing inefficiencies in its organization that I have pointed out in a previous chapter.

I do not wish to set up too detailed a picture of the difficulties. But a clear understanding of the problem requires that examples be used to illustrate the trends of state government. These trends are so important that, as Governor of the State of New York, I sought again and again to bring them to the attention of the public. Familiarity with them brings agreement upon the kind of action that will have to be taken to reduce taxation.

Take at random the expenditure conditions within several of the essential departments of the State government, as illustrated in New York.

Look at the Departments of Correction and Social Welfare. Perhaps no two state departments illustrate better than do these the fact that public services are created and enlarged from time to time in response to public opinion. At the same time, they also illustrate that alteration of the essential scheme and services of government can be made only when changing public opinion leads to changes in the laws which control the scope and cost of government.

The Department of Correction operates seven State prisons, two reformatories, two hospitals for the criminal insane, two institutions for defective delinquents and one school for juvenile delinquents. In 1931 this department spent eight and a half million dollars, seventy-eight percent more than ten years previously. The number of inmates of these institutions was about thirteen thousand, fifty percent more than in 1922. The prison population is growing. Here is a department with a cost increase of some three million seven hundred thousand dollars in ten years. The factors of the increase are easy to trace, but let us look at the increase in its broader, more significant outlines.

The central fact is that the number of prisoners has increased. If, in ten years, we made no change in the food, clothing, housing and treatment of prisoners, our penal institutions in this one state would be costing one million three hundred and twenty-five thousand dollars more a year than they did in 1922. This is nearly half of the ten-year increase. It is the result of the Baumes laws and other amendments of the criminal code by which sentences were made more severe, time allowances for good behavior were reduced, and the granting of paroles was restricted. The trend is unchangeable as long as present laws covering the commitment and detention of prisoners are in force. The other half of the increased cost since 1922 came because we have provided better prison facilities. I need not detail these; there is good and sufficient reason for them on the grounds of decency alone. Reducing prison costs is a question of administration in an only negligible degree. It is in the largest sense a question of social and public policy. It comes to the questions: How much imprisonment of men and women convicted of crime do you wish to buy? How much are you willing to pay for?

Public opinion has had an even more unmistakable effect on the costs of the Department of .Social Welfare. The appropriation for this department was two hundred and ninety thousand dollars in 1922. It remained at about that level for years. But in 1932 it shot up to nine million one hundred thousand, almost solely on account of old-age security legislation which placed new responsibilities on the State.

Does the State wish to save more than eight millions of dollars annually by repealing the provisions for its contribution to old-age pensions, turning the full responsibility for the care of the aged poor back to cities and counties, and returning to the standards of 1922 in this field?

Take the State Department of Labor. The workmen know that it is the agency through which they may be able to get jobs. Even in 1931 it placed more than one hundred thousand in jobs. The merchant or the manufacturer in the State of New York knows that it is the agency which adjusts differences between him and his employees, and tells him specific improvements which he should or must make in order to protect the health and safety of his workers. Agents of this Department in 1931 made more than eight hundred and fifty thousand inspections of the establishments of manufacturers and merchants.

This is the State agency which is striving day in and day out to prevent the exploitation of labor, to enforce child labor laws, to safeguard women in industry, to keep the disabled worker from becoming a charge upon the community, to reduce the risks of further catastrophes such as the Triangle Fire of 1911 in which one hundred and forty-seven lives were lost. This is the intensely human realm which we have to look at from a strictly cost standpoint.

The Department cost three million three hundred thousand dollars to operate in 1931. That was one million seven hundred thousand dollars more than it cost ten years before, or more than twice as much. What caused the increase? Was it wise? Should the policies which caused it be reversed in order that taxes might be lower?

In a large sense, the answer depends upon the point of view. The nineteenth century philosophers placed little or no store in the idea of government recognizing or discharging broad social obligations. If you share this narrow view, you might regard this Department of Labor as an improper activity of the state, however socially useful its services might be.

On the other hand, perhaps you share the concept of government so ably stated by Sean T. O'Kelly, the Irish Free State's delegate at the Imperial Economic Congress at Ottawa recently. He described the aim of the modern state as being "to provide such economic conditions as will allow the greatest possible number of people to live in peace and comfort." If that is your view, you might easily believe that this Department of Labor, instead of spending too much, may perhaps not be spending enough.

One particular item of eighty thousand dollars is in the overhead, administrative and statistical work of this Department. Whether all of this expenditure is justifiable may be debatable, but it is significant that New York has been almost the only state in the country with sufficient statistical knowledge of unemployment to permit it to build its remedies along practical lines consistent with actual conditions. If major services of the Department were to be cut to earlier levels, overhead costs automatically would tend to return to their former amounts. Should we return to 1922 standards of administrative direction and statistical control of this work in order to save eighty thousand dollars?

"Look at the Department of Agriculture and Markets. Ten years ago, we bought from the Department twenty specific services for the people at a cost, in round figures, of one million nine hundred thousand dollars. In 1932 we bought thirty-four separate services at a cost of five million seven hundred thousand. How intimately associated is this department with the lives of the people? Is it necessary or just an expensive luxury? It supervises milk plants; enforces the pure-food laws. It safeguards the food supply of the State, beginning in the process before the seeds of the future food crop are deposited in the ground and continuing until the food is delivered to the door of the consumer. To help the farmer in his work it administers State funds for fairs, disseminates information concerning farm conditions, inspects feed for livestock, examines fertilizers, publishes food production statistics, endeavors to obtain fair rates for the transportation of good products. The Department does not work to suppress bovine tuberculosis because it wants to; it does so because laws have been passed saying that it must.

The cost of the work to eradicate tuberculosis in cattle was by far the largest item. In 1931 it was four million three hundred and ninety-five thousand as compared with seven hundred and ninety-six thousand ten years ago. Do we want to continue to buy this same tuberculosis eradication? Ten years ago the number of accredited herds (those which are freed of infection and certified for the production of milk) was six hundred and eighty-five. At the end of 1931 the number of herds had increased to seventy-five thousand. The work of supervision under the tuberculin test, the slaughtering of infected animals and the payment of indemnities to owners, all seem essential. The work of eradicating tuberculosis is about two-thirds done.

Since we are upon the subject of health, I will detail a little of the work of the Department of Health and rest the case there. Its cost is not a large part of the total cost of the State government, but it has been increasing rapidly as its services have been extended and as its contacts with the daily life of the people have been enlarged.

There is little possibility of argument over the idea that a healthy people is the most valuable asset a state can have. It transcends in importance all material wealth. But the enlargement of service is a potent influence upon the cost figures. Aside from a three hundred thousand dollar purchase of radium, the State spent for health activities about three million two hundred thousand, more than twice as much as in 1922. Excluding institutional cost, the Department proper cost nine hundred and sixty-five thousand more in 1931 than it did ten years earlier.

Generally, that increase represents developments which have taken place since the time not many years ago when we decided that public health was purchasable. By spending certain sums of money we know that we can purchase for the whole population a larger degree of freedom from particular diseases, such as malaria, yellow fever, typhoid fever and even tuberculosis.

In the work to reduce infant mortality and to promote child hygiene, ten years ago the cost was twenty-three thousand dollars. In 1931 it was seven times greater. During that period there has been a spectacular decline in infant mortality, at least partly attributable to this work. In 1915, of every thousand babies born, one hundred died before they were a year old. On the same basis only seventy died in 1922 and but fifty-nine in 1930. If the 1915 infant death rate had prevailed nine thousand more babies under the age of one year would have died in 1930. Should the State save one hundred and forty-four thousand dollars by restricting the maternity, infancy and child hygiene work to the scope of 1922?

No man in public office today can fail to realize the demand and the need for lower taxes. He knows that business, industry and agriculture are straining under a tax load heavier than they can safely bear. He knows that high taxes are one of the contributive causes of unemployment.

While recognizing these things, the man in public office also knows the facts of government. Taxes grow out of expenditures; expenditures spring from services; services result from the commands of the people, in the form of laws passed by the legislature directing and instructing the administrative branch of the government what to do. If taxes are to be reduced, services must be curtailed or eliminated. That is plain. It is also clear that services can be eliminated or curtailed—not by passionate oratory or by resolutions—but only by new instructions from the people through the legislatures in the form of new laws or the repeal of old laws. Under our plan of government those new instructions are the direct product of public opinion.

That is one side of taxation. The other side is even more amazing. There is practically no basic American principle applying to taxes, which of necessity affects every citizen and every corporation. We find, for instance, that there is no line of demarcation between Federal taxes and state taxes. In many cases there is a definite duplication of taxes by the Federal Government and by the state, as, for example, in the case of the income tax. Also we find that there is duplication and overlapping between state taxes and local taxes with the result that far too often we have subjected ourselves to a double tax on exactly the same property or the same right. Furthermore, we find that the actual burden of taxation is in a very large number of instances unequal.

It seems to me that the time has come for every state to cooperate with every other state in laying down certain lines or programs of taxation which will be sound and at the same time can be understood by the average citizen. The first step is, of course, for the Federal Government to recognize a definite and clear-cut classification of taxes which it wishes reserved to it and for the states to concur. The Federal Government should be limited to this classification, except in time of war or great national emergency. All other methods of taxation would thereby automatically be reserved to the states themselves. This, it seems to me, would carry out the whole spirit and purpose of the Federal Constitution.

With the reserving of all other taxes to the states, the states will then have an opportunity to work out for themselves a second classification of taxes, dividing those taxes into those which the state itself will levy on the one hand, and those which will be reserved for local tax purposes— counties, cities, school districts and so forth—on the other hand.

When legislators, administrators and voters are able to bring about an orderly dividing of the methods of taxation between the national government, the state governments and the local governmental units—the organization of which as I have pointed out must be sharply simplified—then and only then can we as a nation take up the equally important task of putting some kind of a limit on the total of our taxes and on the total of the government debts which we are so eagerly increasing at the present time.

Not only must government income meet prospective expenditures but this income must be secured on the principle of ability to pay. This is a declaration in favor of graduated income, inheritance and profits taxes, and against taxes on food and clothing, whose burden is actually shifted to the consumers of these necessities of life on a per capita basis rather than on the basis of the relative size of personal incomes.

Something more is needed than a domestic balanced budget and a just revenue system. Muddled government finance creates a general uncertainty concerning the value of national currencies; this uncertainty has a way of spreading from country to country. The United States could well afford to take the lead in asking for a general conference to establish less changeable fiscal relationships and to determine what can be done to restore the purchasing power of that half of the world's inhabitants who are on a silver basis, and to exchange views regarding governmental finance. It is obvious that sound money is an international necessity, not a domestic consideration for one nation alone. Nothing is more needed than such exchanges of opinion; nothing could do more to create a stable condition in which trade could once more be resumed.

If it be considered radical to suggest that government can be made more practical, more efficient and more businesslike, then this is radical doctrine. I am thinking, and all good Americans are thinking, I hope, not just in terms of ourselves and our lifetime. We are thinking, I trust, in terms of the children and the grandchildren who will come after us. It is our sacred obligation to hand over to them cities, villages, counties, states and a nation which will not be a series of millstones about their necks.