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 Financing the Activities of Government

It is with a slight sense of uneasiness, as of a boy playing hookey from school, that I have come here tonight. I have found it, in fact, rather difficult to come and I was not certain up until the last moment that I would be able to be here at all. I have left back in Albany a situation that seemed to demand my presence and up until the very moment of leaving it seemed very likely that it would command it and that I should have to disappoint you as well as myself.

I do not know how serious a disappointment it would have been to you, but I assure you that it would have been a very keen disappointment to me. It is not merely that I have come to look forward to this happy occasion that is a well-established annual event. I have felt it even a call of duty to come here, as well as a great pleasure.

I do not need many words to explain the call of duty here. I regard it as a duty equal to that of the administration of the duties resting on a public official that he should appear on frequent occasions to discuss with intelligent citizens who are willing to hear him some of his and their problems in the conduct of the public business. That is no less a duty at a time when we are in the midst of trying to work out an acceptable solution of difficult questions.

There is an advantage to me, and I hope to the people of the State, in my getting away from the workshop—or the battlefield, as perhaps it might sometimes be called fairly appropriately—in order to get possibly a new slant or a broader view, and certainly to receive the refreshment and stimulus of contact with other minds.

It is not possible, however, to get entirely away from problems of government, and I do not suppose you would wish me to. They are, after all, problems that are yours as much as mine. It is one such problem that I wish to talk to you about tonight, briefly and in a general way—a question of principle in government.

The question is the old one that keeps coming back to us: How shall we finance the activities of government? What principle shall we adopt to guide us in determining who shall pay and when?

The question is one that becomes particularly pressing in such times as these when revenues show a tendency to drop sharply and there are calls that we cannot disregard for emergency expenditure. Such times test our theories of public financing and prove the worth of the principles on which we operate.

I have come myself to have some strong convictions on this subject which
can be summarized rather briefly. The basic premise is that we ought to keep our State solvent. I speak of the State as dealing with my own most definite responsibility, but the principle could well be given a broader application to all our units of government, from school district to nation.

What does it mean to keep a State solvent? Why, obviously, not to create debts unsecured by an ample margin of assets to offset against them. That’s what solvency means in any business. If a business can’t meet that test it is getting ready for a bankruptcy receivership. Can governments go bankrupt too? They can. When they do it is an uncomfortable business; and I think a dishonest business. I propose as a guiding principle of the people of the State of New York that they “play square” with their own future and with the future of their successors as stockholders in the business enterprise known as the State of New York.

I will be more definite. I believe firmly in the pay-as-you-go principle as applied to the public’s business, with but two general exceptions, and these two exceptions come within the principle of the establishment of assets amply sufficient to meet liabilities.

The first exception relates to land acquisitions and to public improvements which will remain useful capital assets for an assured length of time. I believe in those cases, even, in providing a strong factor or margin of safety. I believe in scaling down the estimate of the life of the asset. If we are building a plant or a structure, a public facility or institution of any kind, and are planning a capital outlay which we are firmly assured will stand good as a sound investment for three generations, I believe that sound business methods dictate that we should plan to pay for it in two generations. Otherwise we are fairly certain to lead a future generation with a dead horse to pay for. It is sometimes necessary to pay for dead horses, but I don’t believe in creating an unnecessary occasion to do it if it can be helped.

The second exception arises where the State finds it advisable and in the public interest to operate on its own account or through a quasi-public authority a business that will produce an assured income. Instances of this are revenue-producing bridges and tunnels and water power plants such as the St. Lawrence project. Projects of this sort can be financed by bonds secured by revenue which do not and will not become a taxing liability. But in these cases, too, the principle of safe margin should apply. It should be planned to liquidate the debt well in advance of the time when revenue might be expected to dwindle or conditions to change so as to menace the solvency of the enterprise.

After noting these two exceptions I believe that in general all other public expenditures ought to be met out of current revenue and that we ought not to buy things that we cannot afford to pay for.

These convictions of mine are not the result of mere theory. They are the result of contact with plain fact. I would not be presenting them if I had not met repeated indications of the prevalence of a loose theory of finance that defies every precept of ordinary business prudence. I have had repeated occasion to veto bills in which it was sought to permit minor units of government to finance ordinary current expenditures and to fund current deficits by means of bond issues. It is alpahed and potentially ruinous business that cannot be permitted because it menaces the credit and faith of the State and its subdivisions and is unfair to the citizens and taxpayers of the future.

There is current toward public expenditures and public affairs an attitude that sometimes passes for optimism and faith in the future of the State and the country, but which really amounts to nothing more than the rationalization of a spendthrift. Now I believe firmly in planning for the future. I believe in anticipating the needs of the coming generation and in building with a view to expansion, but I don’t believe in saddling on a future generation the financial obligations that belong to the present.

The future will have its own problems and its own demands. We have seen changes in types of construction, changes in the conception of the functions of government, changes in the nature of the institutions we have found it necessary to build, complete changes in the physical plant and equipment required for the proper conduct of our public affairs. These changes in the
last generation have been amazing and many of them unexpected. So rapid
have they been that we have not yet caught up with our needs. Should not
the rapidity of these changes warn us that there will be other changes and
other financial responsibilities that will have to be assumed and financed in
coming years, so that it would be nothing short of criminal for us to load
onto the future the burden of paying for what we have built for our own use
or to remedy the results of our own neglect?
I cannot regard the fiscal problems of government as essentially different
from those of a private individual. We find a few individuals, also, with
large and optimistic ideas about their own affairs. Here is a man who has
always moved among people with money. He has a patrimony of $100,000
and he is getting a $10,000 income from his investments and his effort com-
bined. He says to himself: “This is a rich country. You can’t sell America
short. I am not doing so well now but I am sure to do better next year or
the year after. In this new world it is necessary to put up a front and to
impress people with the fact that you have class.” So he spends $20,000
a year for living expenses and he meets his current deficits by borrowing
against his capital.
Now it doesn’t take any financial wizard, any eminent banker or inter-
national exchange expert, to foresee that this man is going to arrive at the
end of his rope within ten years—and more likely in five or six, unless it
should happen that the luck of fools takes care of him.
I don’t believe in banking on fools’ luck as applied to the public finances,
in spite of the fact that it has come to the rescue of some communities and
some divisions of government in this nation at times in the past.
It is necessary, of course, for governments to borrow money by bond issues
and sometimes by long-time bond issues, but it is entirely practicable and
feasible, except, of course in the case of a nation at war, to hold them within
the rule of sound investments backed by unquestioned assets in excess of the
amount of the bonds.
But there must be another important limitation. When we venture to
load up the budget of the future with payments for facilities which are to
be used in the future we must use the same or even greater care than we
would use in the case of a private individual. We must consider very care-
fully what we can afford to pay for in the future and what a future genera-
tion may be expected to be able to care for. We must not undertake too
many of these bond issue projects at the same time. We must not force
our successors to live in and to support an establishment too expensive for
them to maintain.
Times of depression such as the present ought to teach us something
about public financing and private thrift. They ought to teach us that we
can’t expect to be immune from periods of stress and difficulty and that we
will be in poor shape to meet such emergencies if we have a mounting
burden of debt crushing us when they come upon us.
Right now we have to consider how to meet such an emergency. Shall
we meet it according to the example of our Federal government, which
feels itself obliged to put out eight hundred million dollars of long-time
bonds to cure the defects of a budget whose revenues have not come up to
expectations? I think we should be very foolish and recreant to our trust
if we should follow any such precedent. We don’t know what the future
holds for us. This depression is today’s problem. The State must act in
the emergency to prevent the most dire distress among its own citizens,
distress which private agencies admit they are unable to alleviate except
in part.
Men of all parties are agreed that this need exists and must be met. I
think most of us are agreed too that we cannot and must not borrow
against the future to meet it. We must share now out of what we have,
ot out of what we expect to have some day in the future. We must
distribute fairly among those who are able to pay the burden of aiding those
who cannot exist without help. The funds that we must have for unemploy-
ment relief should be raised by the speediest possible method of current
taxation that will result in such an equitable assessment.
In my recommendations to the Legislature I have set up a second specification as to this relief which I think essential and sound, and I find that there seems to be general agreement with it. This is that there shall be no cash dole, a thing I think we should by all means avoid. We need to provide work where it can be provided and where it cannot be provided we must give relief of food and clothing and shelter for our citizens who lack these things. We do not need to pauperize them—and most of them would resent being pauperized—by a cash recompense for idleness.

The present industrial crisis with its accompanying effect on public revenues coupled with the demands for relief due to unemployment has brought sharply into view a situation that is affecting every unit of government, whether of locality, of State or of Nation. This is the continued financing of public improvements of a semi-permanent nature by means of long-term bonds which are bound to outlast the benefits of the improvement. That policy is wrong. I believe you will agree, and I ask you to use your influence against its continuation.

This is a matter of State planning that is fundamental to our future welfare and prosperity.