

Business is Good in Nebraska

The Foundation of Prosperity

PRIOR to 1917 the Government's finances played a comparatively small role in the nation's economic system and Federal taxes were not burdensome. As a result of the war, however, the public debt of the country increased from about \$15 per capita to about \$250 per capita and the annual expenditures increased many fold. In other words, the public debt rose from less than one two-hundredths to about one-twelfth of the total wealth of the country and the interest on this debt alone is a quarter of a billion dollars more each year than the total annual expenditures of the Government prior to the war. The important bearing of Government finances on private business may be seen from the fact that out of every \$100 of the national income about \$12 is paid to Federal, State and local governments in taxes. Approximately \$5 of the \$12 goes to the Federal government and the remainder to the State and local governments. In view of the magnitude of these figures it is evident that the manner in which the Government's finances are administered is of vital concern to business and the general public.

The dominating problem facing the administration of the Treasury has been and is to balance the budget, expenditures against receipts, and pay off the public debt with the least possible disturbance to business. The importance of balancing the budget is shown in the experience during recent years of many European countries; or rather the experience of those countries is practical proof of the dire results of an unbalanced budget. Many of the currency evils of those countries have arisen from the fact that government expenditures were met not entirely out of taxation but in part through new loans or currency issues, thus continuing the process of inflation and making it more and more difficult to balance the budget because of a depreciating currency. It soon became impossible to escape from the vicious circle of rising prices and expenditures, each factor influencing the other. This Government, realizing the evils of an unbalanced budget on the one hand or excessive taxation on the other, has rigidly pursued a policy of government economy and retrenchment in government expenditures. During the present fiscal year ending June 30, 1924, the total expenditures will be approximately two billion dollars less than during the fiscal year 1921, and nearly three billion dollars less than during the fiscal year 1920. With this severe retrenchment in expenditures the Government has been able not only to balance the budget each year but to show a substantial surplus amounting to over 300 million dollars during each of the fiscal years 1922 and 1923, and is now estimated at a substantial figure during the current fiscal year in spite of the 25 per cent reduction in personal income taxes during the present calendar year.

The accumulated surplus has been used each year to retire the public debt and such retirements are in addition to sinking fund and other fixed debt charges which are included, as provided by law, in the ordinary budget and which must be met before the budget can balance. The result is that commendable progress has been made in retiring the public debt; total retirements during this administration amounted to \$2,437,222,000 on May 1st of this year. Debt reductions by fiscal years during the administration are as follows:

Fiscal year	Debt Reduction
1921 (Feb. 28 to June 30)	\$ 74,234,000
1922	1,014,069,000
1923	613,674,000
1924 (10 months)	735,245,000

Not only has the Treasury been able to balance the budget and make substantial debt retirements each year, but it has been able to make material tax reductions, thus relieving somewhat the tax burden placed upon industry during the war years. It is estimated that the revenue act of 1921

reduced the revenue approximately 800 million dollars each year as compared with what would have been collected under the old law. The same act provided for the repeal or reduction of several of the most vexatious and burdensome taxes for the simplification of the taxes that remained in force. On the basis of the continued annual accumulation of a surplus the Treasury last November made recommendations to Congress for further tax revision. The law which has just been passed by Congress provides for further tax reduction which will aggregate, it is estimated, over 450 million dollars per year. This commendable showing in the Government's finances, including tax reductions, has undoubtedly been a factor of much importance in the business prosperity of the past two years. It has helped to restore business confidence and to stabilize the money and security markets.

These accomplishments have been effected only through determined persistent adherence to the policy of economy laid down at the beginning of the administration. The Chief Executive's unflinching pressure on the spending departments of the Government, coupled with the establishment of the budget system which gave him a strong arm with which to work, has yielded most gratifying results. It has not always been easy to follow the charted course and to resist the numerous demands made on the public treasury for private aid. It has been necessary to say "No" often and emphatically to requests which undoubtedly seem like worthy causes to those sponsoring them. These requests are frequently for small amounts and the argument is advanced in each case that the small additional expense would have little effect on the total budget. They are numerous, however, and amount in the aggregate to a large sum; sufficient to upset completely the whole fiscal program of the administration and to produce an annual deficit instead of substantial debt retirements and a surplus. There exists a real public danger in these increasing demands on the public treasury and the pressure which is brought to bear in their support. Whether the Government shall continue to be able to resist special demands by special interests for appropriations which have little legitimate relation to governmental activities is a matter which lies largely in the hands of the public.

There has grown up in some quarters recently what seems to me an exaggerated impression of the Government's powers and functions—something of the impression that the Government can and should set aside economic laws and guarantee to business enterprise a profitable rate of return under all conditions. One cause for the development of this impression is doubtless the feeling that the Government in some inexplicable way is responsible for the maladjustments in business as a result of the price decline following the war, and that these maladjustments can be deftly and quickly remedied by some magic legislation, rather than by the slower process of adjustment of production to demand. The fact seems to be ignored that the public must pay the cost of such undertakings through taxation and that what one class gains another loses. There are two very real dangers to the country's economic system from this tendency to lean too heavily upon the Government. The one is that constant heavy taxation by checking the accumulation of capital and destroying the spirit of business adventure may seriously retard economic progress. The second danger is that of displacing foresight and initiative by government assistance to such an extent that business will become a hothouse plant and not the sturdy product of competitive conditions that it now is. Whenever the time comes that business men, whether farmers or manufacturers, rely upon a paternalistic government to lift them out of temporary reverses instead of upon their own acumen and industry the nation must inevitably enter a period of decay.

The Treasury has sincerely attempted to represent the interests of the whole public in these matters realizing that whatever the undertaking may be the taxpayer and consumer pays the price. The Government is not a superpower with unlimited resources at its command but must collect from the people every dollar paid out. It cannot undertake lightly to collect from taxpayers in general in order to distribute to special classes, unless it can be conclusively shown that such a redistribution of income promotes primarily the general welfare. Few will question that under present conditions the general welfare demands economy and caution in public expenditures rather than extravagance, doles and questionable paternalistic experiments.

A. W. Mellon
Secretary of the Treasury.

