

PART TWO  
**The Commonwealth**  
OFFICIAL JOURNAL OF THE COMMONWEALTH CLUB OF CALIFORNIA

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## A Constructive Program to Reduce Government Cost

- Report of Governmental Finance Section** . . . . . **Louis J. Kroeger**  
*Management Consultant; Chairman Governmental Finance Section*
- In Support of Certain Section Proposals** . . . . . **DeWitt W. Krueger**  
*Manager Fremont Tax Service*
- In Criticism of Certain Section Proposals** . . . . . **Robert E. McKay**  
*Assistant Executive Secretary, California Teachers' Association*
- Discussion from the Floor** . . . . . **Under 3-Minute Rule**

### OBJECTS OF THE CLUB

"TO investigate and discuss problems affecting the welfare of the Commonwealth and to aid in their solution."



"TO maintain itself in an impartial position as an open forum for the discussion of disputed questions."

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## Commonwealth Club of California

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STUART R. WARD, Editor

WILLIAM L. HUDSON, Managing Editor

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## The Commonwealth

Vol. XXXI

San Francisco 19, California, Monday, March 28, 1955

No. 13

### A Constructive Program to Reduce Government Cost

IN A SORT OF FATALISTIC TRANCE the citizen watches his tax bills rise and wishes he could retain more of his income for himself. Even though he might believe his voice will be little heard at City Hall,\* he is inclined to be even more pessimistic about Sacramento and Washington.

Are governmental costs like the weather, something pretty much beyond our control—or are there ways the taxpayer can be an informed, active, useful critic doing his part to see that public expenditures are for proper purposes and public moneys handled with something of the prudence and economy exercised by most citizens?

This was the problem to which the Club's Governmental Finance Section addressed itself more than two years ago. Under the chairmanship of Louis J. Kroeger, a management consultant who has headed a number of administrative surveys of various governmental units in California and elsewhere, the Section has heard many of the foremost California authorities in the field. The Section's suggestions for a "Constructive Program to Reduce Government Costs" are contained in its Report, submitted to the Club's Report Meeting of December 15, 1954,† which, together with the condensed pro and con discussion of that meeting, is herewith presented.‡

The Editor.

\*Ray Smith, secretary of the San Francisco Real Estate Board for a quarter of a century, told the Club's meeting on "Tax Problems of Cities" that year after year "When the budget went to the Board of Supervisors . . . Al Smith [Director, San Francisco Bureau of Municipal Research] and I were the only ones there. We were paid to be there. But there were no taxpayers there."

†In the California Room of the Sheraton-Palace Hotel.

‡Other Club reports dealing with related topics (available, at 25 cents per copy, at the Club Office) include: Taxation (1904); State Indebtedness (1908); Proposed Taxation Amendment to the State Constitution (1908); Home Rule in Taxation (1912); Taxation Problems (1914); The Land Tax Amendment (1916); The Corporation Tax Bill (1921); The State's Budget (1925); State Finances (1926); State Taxation (1928); California Tax Problems (1930); Farm, Gas, and Income Taxes (1932); Ballot Propositions of June 27, 1933 (1933); The State Deficit (1934); Ballot Proposals for November, 1934—Group II (1934); State Financial Problems (1935); A Chain Store Tax (1936); Ballot Proposals for November, 1938 (1938); Federal Sales Tax and Inflation (1942); Federal, State, and Local Tax Conflicts (1947); Tax Problems of Cities (1952).

## HEARINGS OF GOVERNMENTAL FINANCE SECTION

1952

Mar. 27—"What Shall We Study Next?"  
 Sept. 25—Allen Post, State Legislative Auditor.  
 "A Constructive Program for Reducing Governmental Costs."  
 Oct. 9—Stacy H. Dobrzensky, Chairman, Budget Committee, Alameda County Taxpayers' Association. "Citizen Responsibility for Reducing Governmental Costs."  
 Nov. 13—"Program Planning."  
 Dec. 11—"Program Planning."

1953

Mar. 12—F. B. Magruder, Tax Department, Southern Pacific Railroad; S. W. Selfridge, Tax Department, Standard Oil Co.; DeWitt Krueger, Fremont Tax Service. "The Role of the Large Taxpayer in Reducing Governmental Expenditures."  
 Mar. 26—E. Robert Stallings, County Manager, San Mateo County. "A County Manager Looks at Expenditures."  
 Apr. 9—David E. Lewis, General Manager, Recreation and Park Department, San Francisco. "Reducing Government Costs."  
 July 9—General C. Lyn Fox, Political Editor, San Francisco Call-Bulletin. "Practical Aspects of Reducing Costs."  
 July 23—T. H. Mugford, Chief, Division of Budgets and Accounts, State Department of Finance. "Steps in Budget Building."  
 Aug. 13—Geraldine C. Morris, Executive Secretary, Alameda County Taxpayers' Association. "How to Understand a School Budget—And What to Do About It."  
 Aug. 27—F. B. Magruder, Tax Commissioner, Southern Pacific Company. "Practical Effects of Tax and Expenditure Limitations."  
 Sept. 10—A. H. Sagehorn, Treasurer, San Mateo County. "Public Fund Investment Practices."  
 Sept. 24—Frank Irwin, Field Representative, California Taxpayers' Association. "Reserve Funds."  
 Oct. 8—Richard Carpenter, Legal Counsel, League of California Cities. "Special Levies

and Guarantees—Good or Evil?"  
 Oct. 22—Orrin Cope, Assistant to City Manager, San Diego. "Performance Budgeting."  
 Nov. 12—William A. White, Attorney. "Tax Exemption for Veterans."  
 Dec. 10—Paul Oppermann, Director of Planning, City and County of San Francisco. "Long Range Planning of Capital Improvements."

1954

Jan. 11—"Retrospect and Prospect."  
 Jan. 25—W. R. Currie, Chief Financial Research Technician—State Department of Finance. "The 'Real' Increase in the Cost of Government."  
 Feb. 1—W. R. Currie, Chief Financial Research Technician, State Department of Finance. "The 'Real' Increase in the Cost of Government (II)."  
 Feb. 15—Judge Marvin Sherwin, Formerly Chairman, Assembly Ways & Means Committee. "Annual vs. Biennial Budget Session of the State Legislature."  
 Mar. 1—"Outline of the Section Report."  
 Mar. 15—Hayden W. Pitman, Santa Clara County Assessor. "The Fiscal Time-Table."  
 Apr. 5—Alden Fensel, Director of Tax Department, State Chamber of Commerce. "Grants-in-Aid."  
 Apr. 19—Dr. Von T. Ellsworth, California Farm Bureau Federation. "Effect of Kind of Tax on Expenditure."  
 May 3—Ronald B. Welch, Chief Division of Research and Statistics State Board of Equalization. "Welfare and Educational Tax Exemptions."  
 May 17—Ralph Nelson, Consulting Actuary. "Costs and Benefits of Public Employee Retirement Systems."  
 Sept. 13—"Consideration of Proposed Report on 'A Constructive Program to Reduce the Cost of Government.'"  
 Oct. 4—"Final Consideration of Report on 'A Constructive Program to Reduce the Cost of Government.'"  
 Dec. 15th—"Report to Club Report Meeting."

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## A Constructive Program to Reduce Government Cost (REPORT OF GOVERNMENTAL FINANCE SECTION)

by Louis J. Kroeger

Chairman, Governmental Finance Section; Management Consultant

PRESIDENT A. H. MOFFITT, JR.: The order of business today is the Report of the Governmental Finance Section. The subject is "A Constructive Program to Reduce the Cost of Government". The Chairman of the Section, Louis J. Kroeger, will present the Report at this time.

ALMOST everyone favors cutting the cost of government; few favor cutting the cost of services they consider essential; and all have different ideas of which services are essential.

That sentence states the problem the Governmental Finance Section undertook when it elected to study "A Constructive Program to Reduce the Cost of Government."

There are different concepts of what it means to cut government costs. To some it is reducing the total cost of all government. To others it is only reducing their share by shifting it to someone else or to a later time.

## LIMITATIONS ON THE REPORT

Though this Report discusses all government costs, our study was concentrated on the state government. The Section chose this limitation for four reasons: first, the State is the "commonwealth"—the principal concern of this Club; second, the federal government is too big and too remote for the Section to study; third, cities, counties and special districts are too numerous for all of them to be studied, and too varied for few to be taken as typical; and fourth, the State is a vantage point from which federal and local expenditures can also be viewed.

The Section also limited the study primarily to means of reducing costs through better planning and control of spending and through better fiscal policies and practices. The other principal possibility, that of cutting costs as the economic or psychological consequence of the tax system, will only be mentioned; but will be discussed more fully in a later report.

Finally, we have not examined the scope and nature of every public service. We point out how expenditures are influenced by the public's decisions and attitudes toward services; but we do not suggest which services should be discontinued or modified to reduce cost.

## FORM OF REPORT

Holding the cost of government down requires constant vigilance by an informed public. We know the problem too well to offer any simple panacea. Writing a report will not in itself save a dime. Greater good can come from stating the problems and considerations, with a check list to suggest what

one should watch for and do to help cut costs. Such a check-list follows this Report. It will be of little value without understanding the reasoning behind it, just as the reasoning alone is useless unless an aggressive citizenry takes the right steps.

#### Factors Affecting Cost

The topic, "A Constructive Program to Reduce the Cost of Government," implies that there is a high or mounting cost, which needs to be reduced. Following are the main components of total cost, which need to be examined separately:

1. The apparent increases in cost which are in reality the result of decreasing purchasing power;
2. The apparent increase in cost which may result from projecting old costs to a larger population;
3. The costs which result from entirely new services and functions of government;
4. The costs which result from a higher level of support or modification of old services;
5. The costs which are related to the relative efficiency of the organization and methods of the government;
6. The costs which are the natural consequence of certain economic and psychological factors; and
7. The costs which are the result of certain fiscal policies and practices.

#### EFFECTS OF CHANGING PURCHASING POWER AND POPULATION

The effect of changing purchasing power on cost is dramatically shown by the California state budget. The last pre-war budget was \$273,500,000 per year. If some of the circumstances that increased our population had not also decreased our purchasing power, the present scope of state government could be maintained for \$703,000,000 instead of \$1,394,000,000 authorized for the fiscal year 1953-54.\*

If, regardless of the change in purchasing power, the population of the State had remained the same, the present level of service could be provided at present prices for the pre-war population for \$783,000,000.

When these two factors are combined we find that present service could be provided for the pre-war population at pre-war prices for only \$395,000,000—an increase of only 4 percent per year.

This important point must condition our thinking about the cost of government. There are increases that result from added service, and there may be costs resulting from a top-heavy bureaucracy; but there is danger

\*Based on comparative Consumer's Price Index figures for operating costs and construction cost indexes for capital outlay.

in the popular habit of simply comparing totals and ascribing the entire difference to more "costly" government. Costs can be accurately compared only in absolute terms, discounting the effects of added population and lost purchasing power.

Moreover, the same economic conditions which have increased prices have increased sales tax revenues, have increased incomes and hence the state's income tax revenue, and have enhanced property values on which local governments levy an ad valorem tax. Increasing population, by increasing the number of taxpayers and adding to taxable values, also contributes to an increase in revenue.

#### NEW OR EXPANDED SERVICES

Individual judgments as to whether the cost of government is high or reasonable depend largely on opinion as to what services are necessary.

When the California budget is reduced to absolute terms in relation to population and purchasing power, the increase in a thirteen year period has been 52 percent, or about 4 percent per year. This rate of increase gains more significance in light of what has happened to services. These are some of the salient points:

1. Relative total expenditures increased 278.1 percent for capital outlay and 62.2 percent for local assistance, while decreasing 0.7 percent for actual state operations.
2. The reduction for state operations is due largely to the elimination of unemployment relief. Remaining costs have increased in varying amounts, as shown below.
3. The per capita cost for education in constant dollars has increased 95.6 percent, due to more adequate salaries in collegiate institutions, broader curricula, greater emphasis on training and research, increases in registration in many colleges out of proportion of population increases, and extended supervision of the public schools.
4. State administrative costs for highways, streets and vehicle registration have decreased 10.2 percent on an absolute basis. Emphasis on new construction has reduced other costs.
5. For social welfare and public health, absolute state costs are down 80.3 percent, due largely to the elimination of unemployment relief. This is just about offset by new or added programs of maternal and child health, care of crippled children, hospital construction, inspection of boarding homes for children and aged, institutional care of the aged and blind, expense of adoptions and care of veterans—most of them financed through state assistance to local governments—so that the combined cost of state operations and local assistance for health and welfare is up 2.9 percent.

6. State operations in mental hygiene and corrections increased 103.6 percent in constant dollars in this thirteen year period, because of a fundamental change in policy, from mere custody to rehabilitation and treatment.
7. State costs for the conservation of natural resources have increased 54.7 percent, due principally to increased forest protection and beach and park development.

This brief summary scarcely does justice to a big and involved subject. But it should illustrate that those who would criticize increased costs need first to know what new and different services the increase buys. This Report cannot evaluate these services for each individual.

The figures would be different but the principle precisely the same in evaluating cost and service for federal or local governments.

#### ORGANIZATION AND METHODS

The organization of government and how it is run has an important bearing on cost. Functions must be grouped logically to avoid duplication and conflict and to facilitate planning, direction and coordination. Administrative controls and service must be adequate without hampering operations or imposing excessive overhead. Operating methods must facilitate public business with a minimum of "red tape."

A comprehensive summary how a government can be organized and run efficiently would fill a volume. At best, we can only suggest the importance of this aspect of cost, and point out a few ways to seek improvement.

Every government of any size should include its own means of self-analysis and improvement. Such staff services as budget planning and control, organization and systems review, and personnel management are a proper part of every such organization. They should be encouraged where they do not exist.

For any size of government, a periodic review of organization and method is well worth the cost. This may be made by citizen committees, by research agencies, by grand juries, or by professional consultants engaged for the purpose. The citizen should insist on this check-up just as he visits the doctor and dentist periodically, takes his car in for regular lubrication, or has a C.P.A. audit his books.

Our local governments, in particular, have many out-moded forms of organization and costly or useless methods, required by law or hallowed by custom. The arguments that "we have always done it this way" or that "the law requires this" are of no real force. Old ways may once have had good reasons which no longer apply, and laws can be changed. The more important question is whether a form of organization or a way of doing things meets present needs efficiently and economically.

One opportunity for reducing costs is by consolidation of units of government, or of whole governments. A city might extend its boundaries by annexation, and in the process absorb several special districts, each with costly overhead and separate taxing power. Or school or other special districts might be combined. The limits of many governments were set when people travelled on horseback and communicated by slow mail. They are hardly justified in the day of the automobile and the telephone.

Where it is not feasible to consolidate governments, there is economy in cooperative inter-government relations. For example, adjacent cities can exchange firefighting or library service near a common boundary, thus avoiding additional fire stations and branch libraries.

Probably most important of all possible steps is the adoption of some form of organization which will assure a better type of management of public affairs. Most governments have grown too complex to be administered by part-time laymen. The trend toward the council-manager form of city government, or the employment of city and county administrative officers, should be extended to more governments.

The most notable examples of efficient and economical governments are those which give constant attention to these and other aspects of improved organization and methods.

#### PSYCHOLOGICAL AND ECONOMIC FACTORS

In the course of its study the Section found a number of factors which tend to influence the extent of expenditures, yet which cannot be said to be literally and directly "costs" of government. In order to give these factors the consideration they deserve, they will be discussed in a subsequent report. They include subventions, grants-in-aid, indirect taxation, "self-supporting" services, "reduction" by shifting, and "good" objectives.

#### Budget Planning

A budget is a statement of planned expenditures and of anticipated revenue. Properly planned and reviewed, it assures a reasonable level of expenditure. When less carefully planned and indifferently scrutinized, it is a meaningless compilation of figures. Those who would check the course and extent of public expenditures should first insist that budget planning be sound and revealing.

A quarter of a century ago legislative bodies appropriated lump sums for vaguely stated public purposes. Often no one knew the total of these appropriations. The conscience of each department head was the principal check on whether the money was spent for the purpose for which it was intended—if that was made clear.

With mounting costs and extended scope of government, the need for more systematic planning became evident. This need, combined with

2. A thorough analysis of each service and activity to validate it against law, regulation or declared policy.
3. Selection of units to measure the volume of each service and activity; e.g., tons of rubbish collected, lineal feet of sewers cleaned, number of library books circulated, or number of business licenses issued.
4. Classification of expenditures in accordance with recognized services and activities.
5. Computation of unit costs for each service and activity based on volume statistics and total expenditures.
6. Computation of a budget for each activity by multiplying the anticipated workload by the unit cost, taking into account anticipated changes in wage levels, service or commodity price levels, and changes in work methods.
7. Regular periodic reports that will compare actual accomplishment with the budget plan.

The mere change of the budget document to a performance format—although advantageous—does not, of itself, produce a sound, defensible budget. A new format may clarify the budget, but its quality will depend upon its factual foundation.

The demonstrated advantages of the performance budget are:

1. More careful planning and scheduling of work by the operating departments.
2. Ease in analyzing the program (a) to ascertain conformance to legislative policy; and (b) to reveal services, activities, or regulations no longer useful.
3. Prompt decisions as to the reasonableness of expenditure estimates.
4. Clearer information as to efficiency trends.
5. Closer working relations between the budget staff and operating officials.
6. Easier review by the legislative body.
7. Better decisions as to the allocation of funds between competing purposes and needs.
8. Improved public relations.
9. Improved budgetary control.
10. Better opportunity for the legislators to establish a program which reflects the current political philosophy of the people.

#### CAPITAL IMPROVEMENTS

There is a significant distinction between operating costs and capital outlay. Operating costs are fairly apparent current needs. Capital outlay requires longer range planning and financing. We find fault in the common practice of public agencies to neglect capital improvements until needs

are critical, before seeking bond financing. It is especially serious when bonding authority is sought before land is acquired or plans are drawn; and when it is not clear how immediate plans fit into a long range program.

Every public jurisdiction should be required to maintain a capital improvement plan for at least five years in advance, indicating the proposed nature, location and cost of improvements and showing how funds are to be provided.

Some of these improvements should be financed by bonds, either because the immediate need exceeds immediate resources, or because the benefits will be substantially in the future. Others can be financed from current revenue, either because current reserves are adequate, or because the benefit is substantially in the present, or even because the need is created by so long deferring an improvement that it is properly chargeable to the present.

Financing by bonding is expensive. If ways can be found to pay more from current revenue, each generation will be in effect building for the future; but it will enable each succeeding generation to build more for its money.

The advantages of a proper long term capital improvement plan are:

1. It gives the public more time to judge relative needs.
2. It enables a sounder financing plan.
3. It protects against undue influence of pressure groups by recognizing all legitimate needs, but in a proper priority.
4. It lengthens the time for proper technical design and thus better establishes true costs.
5. It permits the orderly acquisition of sites or the retention of useful tax deeded properties.
6. It may reduce operating costs by reducing maintenance and repair on buildings scheduled for replacement.

#### FIXED CHARGES

A large part of every budget is devoted to fixed charges. Some are for such obvious requirements as bond interest and redemption. Many are requirements set by constitutional amendment or initiative enactment. Thus we have a guaranteed minimum salary for teachers, a guaranteed state subvention for education based on average daily attendance, and many other examples. Still other fixed charges may be a consequence of accepting grants-in-aid or subventions.

Elected officials can deny responsibility for expenditures by pointing out that most of the cost is fixed. There is no denying that they are right; but there is no excuse for a complacent attitude which permits those charges to be fixed in the first place, or which permits them to remain fixed.

The history of these charges is that they are seldom if ever repealed, and that they are usually modified only by increase.



Extensive fixed charges come dangerously near to being taxation without representation. Of what purpose a representative legislative body to appropriate funds if the nature and amount of appropriation has already been fixed, and their only function is to decide which kind of tax shall be levied to raise the required amount? To be sure, the people have approved these charges, but under a system which virtually guarantees that under different circumstances they cannot readily change their mind.

When a given charge is first fixed, it may be perfectly justifiable. The objection is that it remains fixed despite a change in conditions or a change in the public will.

One proposal for correcting this evil is a periodic review of fixed charges. This could be done by a constitutional amendment requiring that every fixed charge or guarantee (except for bond redemption and interest) should be reviewed each ten years by the Legislature. If the Legislature should find that the charge should be dropped or changed, it could propose either that the matter be left to the discretion of the Legislature, or that a new charge be set. The Legislature's findings could then be referred to the people for vote.

This proposal would retain the protection of a fixed charge for a reasonable period while avoiding an indefinite commitment of funds. Opposition to the plan could be expected mainly from those supporting fixed charges which might not stand periodic scrutiny.

The argument for a fixed charge is that the legislative body cannot be trusted to continue supporting a purpose deemed eternally worthy by its supporters. The argument for periodic review is that the Legislature represents the current views of its constituents, and should have both responsibility and authority to review and reshape public policy. By the same token, we urge a change in federal fiscal practices, by which vast sums are committed in what amounts to continuing appropriations.

#### EMPLOYEE RETIREMENT

Among the mounting fixed costs of government is that for employee retirement. Those who would cut costs should look at this item from two standpoints:

1. To make sure that retirement systems are actuarially sound, to avoid undue current costs.
2. To make sure that benefits are held within reasonable limits.

Public employee retirement systems are of proven value. They contribute to efficient government by providing an added incentive to attract good employees, and by removing those no longer able to perform a full measure of work.

There are still many local governments which treat retirement as a current obligation. The employees in these cases may contribute little or

nothing; and the full cost of all current retirement payments is met by direct appropriation. The State Employee Retirement System, on the other hand, is on a sound actuarial basis, with employee and State sharing the cost of building the necessary reserve for retirement costs. An increasing number of local governments have become part of this same system by contract. But making a retirement system actuarially sound is not enough. If the plan provides unreasonably high benefits, even though employees are willing to bear part of the cost, the government's share may cost too much.

The law usually requires that salaries of public employees should be comparable to those paid in private employment. It would be wise to insist that the same principle extend to such benefits as retirement. The public should not be asked to finance extraordinary benefits. The cost of these benefits beyond a reasonable level should be borne by the employees alone, if they want them.

#### THE FALLACY OF COMPARISON

The popular way to justify a budget item, wherever possible, is by comparison with another government or with another period of time. The same method is often employed to attack a proposed expenditure. Comparison—or contrast—is interesting, but it is not conclusive. It might be valid if conditions were always comparable; but they seldom are.

We have already discussed the effects of economic and population changes on the apparent change in the cost of government. These alone make comparison between periods of time deceptive, unless correction is made for changed conditions.

Comparison between different governments, even when such factors as population are the same, are hazardous. Social, economic, geographic, climatic, political, and many other factors tend to make each a unique problem. The level of service the people want varies from place to place, and so does the efficiency of organization and method. One location may be fully settled and well developed. Another may be in the pangs of growing. One may be endowed with natural resources or with a rich industrial tax base, while another may be a residential community. All these affect service and costs. Unfortunately there are no formulas for reducing these diverse factors to common terms.

Instead of attempting inconclusive comparisons, those concerned with the cost of a given government should first examine the nature and extent of service and then examine the elements of cost required to support the program. When this has been done realistically, the answer to whether proposed costs are too high or too low will be apparent.

**Budget Control**

Careful budget planning is not enough. A budget is but a forecast. Appropriations are based on that forecast. The realities appear as the fiscal year proceeds; and they do not always coincide with the forecast.

Effective financial management requires that there be continuous administrative control over expenditures—and some degree of legislative control.

Administrative control may be exercised in two ways: by monthly or quarterly allotment of funds, within budget limits; and by specific approval of each expenditure above a given amount. The allotment system is to provide a frequent revision of budget forecasts for a shorter, more immediate period. Unexpended balances from these allotments should revert to a reserve fund, to be available only on further appropriation. The purpose of specific approval of individual expenditures is to verify actual need.

Periodic legislative reviews, after adoption of the budget, are not feasible in state government, except by interim committee. In local governments, however, any major fund transfer from one function or purpose to another should be subject to legislative approval. Moreover, we advocate the more general use of the grand jury in the review and realistic appraisal of local government expenditures.

Budget control cannot be effective by watchfulness and formal approval alone. It requires an effective and revealing system of cost accounting and analysis, and financial reporting which will enable administrative and legislative officials to interpret financial needs and transactions as they transpire. There is danger that systems will become elaborate, costly and confusing. But those who will try can devise records and reports which are simple to keep and which will disclose the significant facts.

Far more important than form and method is the will to save. The crying need in public service—particularly in public finance—is for a plan which will provide incentives to sane and sound management. We acknowledge the devotion of many civil servants to the public interest; but we see a need for motives more tangible than the idealism of serving others.

In a few places an employee suggestion system, with cash awards, induces more efficient and economical service. Generally, however, the award is for an unusual idea, beyond the call of duty. Generally, too, the award is limited to the rank and file. The elected official gets his approval or disapproval at the polls. What we need most is a plan for rewarding conscientious and able service in the administrative and supervisory ranks.

Despite apparent practical and legal obstacles, we would like to see some jurisdiction experiment with a plan of cash awards to higher level administrators for significant management improvements. Meanwhile, the same citizens and organizations this Report calls on for alert attention to better fiscal management can be more vocal in encouraging a will to economy and in openly recognizing and praising a good job when they see it done.

Some fiscal practices not involving direct expenditure seem to influence spending practices. They have been studied, but cannot be discussed within the limit of space already stretched by the length of this Report. These factors will therefore be discussed in a later report. They include special purpose tax lines and funds, frequency of budgetry, assessment practices, the fiscal time-table, investment practices, and tax exemptions.

**THE CONTROL OF EXPENDITURES**

In the final analysis, expenditures are controlled by legislative bodies. This Report suggests many factors for consideration, but most of them will have to be made effective by legislation or become legislative body practice. Hence the first step to be taken by anyone concerned with cost of government is to become concerned about the attitude toward spending of all candidates for office. If we can elect to office those who have a proper concern for cost, and who have some background which equips them to appreciate the nature of cost, we will have gone far toward holding those costs down.

Even with the best of legislative bodies there will still be occasions for referring expenditure programs to the people. Two possible devices are suggested for making public action more effective.

The first is to require that a responsible—and preferably independent—financial officer submit with each proposal a detailed statement of its probable total cost. This should include both direct costs and indirect administrative costs. The San Francisco charter requires such an estimate, and all other public agencies could adopt it with good effect.

The other possible check on increased funds voted by the electorate would be to put more safeguards on the conditions under which these measures are voted on. Many propositions are submitted at special local elections, where a very small turnout results in added debt being incurred for all the people by a very small part of them. True, they all have the opportunity to vote, but practically the result is still imposition of added taxes on the many by a few.

A proposal to correct this condition is a constitutional amendment requiring that any vote on higher taxes or increased expenditures be at a general election, or that a favorable vote of the majority of the *registered* voters be required in a special election.

**TAXPAYERS' RESPONSIBILITIES**

Eternal vigilance has its place in the councils of public finance. Both the large—or corporate—taxpayer and the individual have a responsibility.

The large taxpayers can do these things:

1. Support a continuing analysis of costs and seek ways to reduce them.
2. Present their views to the legislature through accredited representatives.
3. Set an example of efficiency and prudence in their own affairs.



4. Encourage their employees to participate in public affairs.
5. Be reasonable in their demands for service.

The individual taxpayer can do all of that and more:

1. Elect competent and conscientious representatives.
2. Consider immediate and long range costs when voting on new projects.
3. Participate in government.
4. Ask questions.
5. Support organizations that reflect his thinking.

As an aid to all who may be interested, the Section submits the following check-list as a ready guide to those who wish to be alert to ways of reducing costs. It is by no means exhaustive, but it should stimulate enough interest and suggest enough further questions to help check rising costs.

Asking questions alone will not be enough. Demand good answers; and insist on proper action.

#### CHECK LIST TO WAYS OF REDUCING COSTS

This check list will not automatically reduce the cost of government. But any individual or group can contribute to reduced cost—or at least to full value for existing cost—by checking these points and insisting on good answers.

*What part of the cost is attributed to increased population?*

*What part to changing economic conditions?*

*What part to fixed charges set by law?*

*Are the fixed charges set strictly in accordance with the law?*

*What part to added services?*

*Just what services are these?*

*Who requires them?*

*What part due to expansion or change of old services?*

*Just what changes have been made?*

*Why are they necessary?*

*Is the budget carefully planned each year?*

*Or merely based on the last one?*

*Have work standards and measurements been used?*

*Are costs related to specific functions and programs?*

*Are all costs for a given function and program consolidated? (Look particularly for pension, equipment, insurance, capital outlay and general administrative overhead costs).*

*Are all expenditures provided in the budget?*

*Are figures available to show the comparison between budgeted amounts and actual expenditures in past years?*

*Is there a close relation between the two?*

*What budget transfers have been made during the year?*

*Are dedicated reserves properly safeguarded against future "raids" for other purposes?*

*Are general reserves adequate but not excessive?*

*Are estimated tax delinquencies consistent with the past record?*

*Are budgeted amounts based on supporting detail, or merely rounded off?*

*Have all the steps for proper "performance budgeting" been taken? (See the body of this Report).*

*Is there a continuing program of management analysis and review?*

*Is there a long-term plan of capital improvements?*

*Have sites been acquired for buildings?*

*Have adequate plans and cost estimates been prepared?*

*What provision has been made for effective budgetary control?*

*Is there an allotment system?*

*Is there an encumbrance system?*

*Are unexpended balances recaptured?*

*Are budget transfers properly controlled?*

*Are sizeable expenditures reviewed?*

*What incentives have been provided to encourage careful financial management?*

*If any cost is being justified by comparison with costs somewhere else, are all the conditions truly comparable?*

#### Recommendations of Governmental Finance Section

(Results of Mail Ballot of Governmental Finance Section Following Pro and Con Study of Subject: "A Constructive Program to Reduce the Cost of Government.")

1. Should a public agency be required by law to balance a budget by providing revenue equal to proposed expenditures? . . . . . **YES 42, No 14**
2. Should a system of "dedicated reserves" (such as reserves for replacement of equipment, repair of buildings, self insurance, or minor capital improvements) adequately protected by law, be established? . . . . . **YES 51, No 6**
3. Should a budget be required to show all items of cost for a given function, including a proportionate share of administrative overhead? . . . . . **YES 53, No 3**
4. Should a "performance type budget" (i.e. a budget presenting the complete cost of each function or program\*) be required? . . **YES 49, No 7**
5. Should long-term planning of capital improvements be required? . . . . . **YES 55, No 0**
6. Should fiscal authorities be required to reveal the ultimate and complete cost (including administrative costs) of all new developments? . . . . . **YES 55, No 1**
7. Should cash awards be provided to reward conscientious and able service in the administrative and supervisory ranks in public service? . . . . . **YES 28, No 25**
8. Do you favor fixed charges and guarantees set by law to support certain functions? . . . . . **Yes 16, NO 33**
9. Do you believe that fixed charges ought to be subject to periodic review by the voters? . . . . . **YES 51, No 4**
10. Do you favor requiring:
  - (a) that a vote on higher taxes or increased expenditures be taken only at a general election? . . . . . **Yes 27, No 27**
  - (b) that approval by a majority of registered voters be required in the case of a special election? . . . . . **YES 41, No 17**
11. Irrespective of your opinion on the above questions, do you approve the Section's proposed Report as a whole as to form and content? . . . . . **YES 55, No 0**

\*See pages 136-138 of Section Report.

### In Support of Certain Section Proposals

by DeWitt W. Krueger  
Manager Fremont Tax Service

PRESIDENT MOFFITT: In support of certain of the Section's proposals, Mr. DeWitt W. Krueger, Manager of the Fremont Tax Service, will speak.

THE SECTION REPORT raises a number of pertinent questions concerning the expenditure side of state government. Generally speaking, the Report is a constructive piece of research work. The Report, in my opinion, is most constructive in its presentation of the factors which have resulted in a higher cost of state government in California today as compared with the pre-war years. Under the heading, "Organization and Methods," the Report emphasizes the need for such essentials as budget planning and control, organization and systems review, and personnel management. Our state government has developed a program of self-analysis through the Department of Finance and through the Legislative Auditor. No one can argue with the Report's recommendation that these same principles should be encouraged at the local level.

#### Fix Follow-Through Responsibility

The Report also recommends a periodic review of organization and method. In this connection I should like to go back to page 131 of the Section Report and quote the following sentence: "Writing a report will not in itself save a dime." We are all familiar with costly reports largely ignored. A procedure that would fix the follow-through responsibility on recommendations and provide for periodic progress reports would help remedy this apparent weakness.

The Report draws attention to the opportunities for reducing costs through consolidation in units of government and in cooperative governmental relations. Both suggestions have been studied in California and, from recent observations, progress is in evidence. Consolidation movements often present knotty problems. Each case should be studied and determined in accordance with local conditions. It is difficult to apply a blanket procedure for consolidations in view of psychological and economic factors involved. On the other hand, opportunities for consolidation should be explored, and where found feasible, action taken without delay.

#### "Performance Budget" a Main Tool in Expenditure Control

In pointing out the opportunity for reducing governmental costs through cooperative governmental relations, the Section Report emphasizes a method of potentially high return. California is a leader in the number of administrative officers and managers currently heading city and county governments. As a result, exercise of sound principles in public administration is an established fact in many of our governmental jurisdictions. It is to be hoped that this professional type of management continues to grow in the State.

In the budget planning section, the Report succeeds in the limited space available in calling attention to a number of the principles of good budget planning. Foremost of these is the so-called "performance budget." This is one of the main tools in expenditure control and it follows that state as well as local fiscal officials would want to explore its use to the fullest.

#### Long Range Planning for Capital Outlays

Capital outlay expenditures have been heavy in recent state budgets and it would appear that little relief is in sight. Capital outlay requires long range planning and financing, and the advantages of a proper, long term capital improvement plan, as outlined in the Section Report, are pertinent.

As the Report points out, effective financial management requires continuous administrative control over expenditures—and some degree of legislative control. The Report recognizes that budgets are no better than the people who prepare and enforce them. Accordingly, that part of the Report which emphasizes the great need in the public service for a plan which will provide incentives to sound management, should be given serious consideration by governmental officials. The Report suggests that some governmental jurisdiction might experiment with a plan of cash award to higher level administrators for significant management improvements. An alternative which might prove more practical would be to pay the top level administrators salaries more nearly commensurate with private industry. The Report also calls upon citizens and organizations to encourage and praise a good job when it is done. There is no reason many of these suggestions could not be made as effective in public service as they have proven in private industry.

The final subheading, "The Control of Expenditures," sums up some of the things that can be done by the average taxpayer to assure a proper concern for governmental costs and positive action towards practical controls. When expenditure programs are submitted to the people, it would not only appear desirable that they be accompanied by a detailed statement of the probable total cost but also that some consideration be given to the problem of financing the project.

#### Require Votes on Spending at General Elections

The suggestion that the Constitution require that any vote on higher taxes or increased expenditures be at a general election, might be worth future study. The alternative proposition that a favorable vote of the majority of the registered voters be required in a special election could seriously handicap essential governmental functions because of voter apathy.

The Report emphasizes the fact that the final responsibility for efficient government lies with the individual. There certainly is no substitute for an active, interested and well informed citizenry, acting in the capacity of individuals, corporations or taxpayer groups. Both the large or corporate taxpayer and the individual have responsibilities and the five suggestions for each group in meeting this responsibility should receive widespread attention.

In conclusion, I should like to make two suggestions:

1. That the Commonwealth Club consider establishing an annual citizens' award for outstanding public service. This award could be made to a citizen, a corporation or a group of citizens who, during the year, made an outstanding contribution in government in California.
2. That copies of the Section Report in its final form, including the comprehensive "check list," be made available to state and local officials. Few reports of this nature are acceptable to all in their entirety. However, I am sure that a great majority of those interested in government in California, both inside and outside of government, will recognize in this Report many constructive suggestions for control of current governmental costs and effective planning for those of the future.

### In Criticism of Certain Section Proposals

by Robert E. McKay

Assistant Executive Secretary,  
California Teachers' Association

PRESIDENT MOFFITT: Our next speaker is Robert E. McKay, Assistant Executive Secretary of the California Teachers' Association. He'll discuss for ten minutes the subject "In Criticism of Certain Section Proposals".

I FIND, as did Mr. Krueger, many sound and sensible recommendations in this Report. But I would raise some questions about at least two of the proposals contained therein and cite one area that might warrant further study.

There are three general observations I would make. One is that it's imperative that close and continuing checks be made on governmental spending, so that the limited resources of government will be preserved and devoted to the basic needs of government and not dissipated on highly desirable but less essential functions. Second, in determining the relative importance of governmental functions, no one has devised a more adequate measure than the expressed will of the people who demand certain expenditures and who pay the bills. Third, there is no excuse for extravagance or inefficiency in government.

The California Teachers Association has not had an opportunity to analyze and come to any conclusion regarding this Report. I would like to express my personal opinion, in the light of the philosophy and background I have in the organization which has had a major part in shaping some of the state's financial program.

#### Relate Certain Proposals to Needs of Schools

There is a great area for agreement in this Report. I would concur without reservation on the major proposals and conclusions—the recognition of the effect of changing populations and economic conditions, the need for computing and publicizing in advance the ultimate cost of a new spending program, the desirability of unifying the units of government, and the need for improving budgeting and accounting systems. Perhaps I could relate some of these suggestions to the needs of the public schools.

The Report refers to the relatively high part of over-all expenditures which goes to public education, to some of the fixed charges established by constitutional mandate, and to the fact that the Constitution prescribes a minimum salary for public school teachers.

#### School Expenditures Closely Watched

I should like to comment on two of the proposals: first, that a constitutional amendment require that every fixed charge be reviewed each ten years by the Legislature, with resulting legislative proposals submitted to vote of the people; second, a constitutional requirement that all proposals for increased expenditures be placed on the general election ballot, and requiring a majority of the registered votes.

I think it's a fundamental concept of government that the Legislature and the people must have an opportunity to review fixed charges. My guess would be if our organization, after study and analysis, were to vote on this basic proposition the vote would be favorable. But, so far as school expenditures are concerned, what would the proposal accomplish? From rather close observation

I believe both state and local school expenditures probably come in for more searching inquiry and review than do expenditures for any other branch of government—not only by the Legislature, but by the voters themselves.

#### In Fact an Annual Review of School Needs

The Constitution prescribes that there may not be allocated less than a given amount for the support of the schools. We have, in fact, not a ten-year review of school needs, but a review at every session of the Legislature.

In 1946 the people wrote into the Constitution a requirement that not less than \$120 be allocated for each unit of average daily attendance. At every legislative session thereafter, until the Constitution was again amended in 1952, the Legislature not only reviewed that expenditure but increased the amount. By 1951 the Legislature had increased the amount to \$147—\$27 above the minimum set in the Constitution.

As to teachers' salaries, there is in the Constitution a minimum of \$2400, but the Legislature in two subsequent sessions has gone beyond that. It was raised first to \$3000 and subsequently to \$3400.

#### People Frequently Review School Expenditures

The electors, too, have had frequent occasion to review the expenditures for public education, and I assume under existing laws they have the right and opportunity to do it for any other fixed charge.

Starting back in 1916, there have been no less than seven instances in which the people did review expenditures for this fixed charge. In 1920, 1933, 1944, 1946, 1949, 1952, and 1954 measures increasing school expenditures were submitted at state-wide elections; and in each case the needs of education were reaffirmed with increasing percentages of public approval. On the last state-wide bond issue the vote was about eighty percent in favor of that program.

It's extremely difficult to delete or reduce fixed charges because special interests are involved. However, it is possible, as was illustrated when the people took the McLain pension out of the Constitution after writing it in.

#### Should Legislature Also Review Statutory Fixed Charges?

One area the committee may have considered (although it was not reflected in the Report) was that of reviewing statutory fixed charges, as well as those fixed in the Constitution.

The Legislature already has the right at each session to review statutory fixed charges. But if it is made mandatory that the legislators review charges fixed by the Constitution, perhaps there should be a companion requirement that the Legislature also review the statutory fixed charges, such as dedication of racing receipts to fair and exposition purposes, dedication of tidelands oil money in part to parks, and many others.

I think we would be the first to agree that the taxpayers should not be saddled with unwarranted costs fixed by outdated actions of the people or the Legislature. But the frequently-expressed and emphatic judgment of the voters themselves should not be over-ruled by some new procedure which would have that effect.

The Report has considered a requirement that spending programs be submitted to the people only at a general election. In California elections school

matters have been separated from purely municipal, county, state, or even national affairs—wisely, I think, in view of the danger of extending political control to education. Most of the school bond issues and excess tax elections have been submitted at separate elections. That is as it should be.

However, I am disturbed by the small response at bond elections. In my own San Mateo county, a bond issue passed with only a twelve percent turnout. I don't know how you can force people to vote, but let me give you one possible application of the proposal to require a majority of the registered voters when the election does not coincide with the general election.

The all-time record for public support of a spending program was probably that of the Long Beach school district at the recent election. Ninety percent of the people who voted favored the local school bond issue of \$30,000,000.

Let's assume that school bond election had not coincided with a general election. A fifty percent turn-out is phenomenal for a bond election, and let's assume that there were a hundred thousand voters registered and fifty percent—fifty thousand—turned out. Under this proposal the bonds would have required more than fifty percent of the hundred thousand registered voters—or just over fifty thousand. Even with a ninety percent majority of those who voted, an affirmative vote of 45,000, the issue would have been defeated. This suggestion could stand further exploration.

### Discussion From the Floor

#### Under 3-Minute Rule

PRESIDENT MOFFITT: We'll conclude today's discussion with our usual three-minute rule statements from the floor.

#### Remarks by J. Rupert Mason

*President International Union for Land Value Taxation and Free Trade*

MR. MASON: As the Chairman explained, this Report covers only one of two sides of the coin. This report deals with expenditures by government, and does not touch on revenues for government.

President Dwight D. Eisenhower last year said, "We must develop a system of taxation which will not discourage work, savings, or investment, but will permit and encourage initiative and the sound growth of our free economy."

It seems to me that President Eisenhower deserves some support in that plea to Congress. When he said, "We must develop a system of taxation . . ." there was implicit a belief there is such a system. The President did not say, "We must seek." He did not say, "We must discover." He said, "We must develop."

What support has our President received from the press, or radio, or any so-called national organization, including the U. S. Chamber of Commerce, the local Chambers of Commerce, the National Association of Manufacturers, or any other of the prominent organizations?

I was brought up to believe that local responsibility for traditionally state and local affairs was the warp and woof of our constitutional republic. When San Francisco put in its civic center, it was not dreamed that the people in Oakland should pay taxes to help pay the cost of San Francisco's civic center, or San Francisco's Hetch Hetchy. But today, when Santa Barbara wants a water supply, Uncle Sam puts it in. The sharecroppers in every state are contributing to the cost of the city water supply of Santa Barbara today.

#### Remarks by Dr. Vaughn D. Bornet

*Director, Welfare Research Project, Commonwealth Club of California*

DR. BORNET: This Report on governmental budgets, their preparation, and citizen participation in guaranteeing their over-all accuracy and reliability, is one of the best of its type prepared to date.

I do find in the section on "New or Expanded Services," certain difficulties which, it seems to me, can be remedied simply. The Report states that increases in a thirteen-year period have been—and then follows a long list of points. I think that thirteen-year period should be mentioned specifically, especially with regard to the content of Subparagraph 5 (page 133), where it makes a great deal of difference what the beginning year may be.

The Section should, I think, spell out what is meant by the remark on several occasions, "due largely to the elimination of unemployment relief." There should be some indication whether the "health" and "welfare" referred to in Subparagraph 5 contain an entry for the current program of the State Department of Employment.

The Report speaks at one point of the values and dangers in comparing expenditures between governmental jurisdictions. That is an extremely important point. For those who may wish to make some over-all comparisons as between states, there is available at this time from the Government Printing Office, Washington, D. C. for forty cents, a new document, entitled "Compendium of State Governmental Finances in 1953." It contains forty tables as to revenues and expenditures in every state. I would especially recommend to the attention of the group the section of footnotes, which spells out the nature of many standard expense categories.

#### Remarks by Louis J. Kroeger

*Chairman, Section on Governmental Finance*

MR. KROEGER: Mr. McKay very properly pointed out that the Report may not be entirely clear on review of statutory fixed charges. It was our intention to propose a review of all fixed charges, whether the fixed charge was originally fixed by the Constitution or by statute. The Constitution would require the Legislature to review all fixed charges periodically in comparison with each other. The Report may be deficient in not making that particularly clear and also in not including the dates, largely because we started out with so many words and had to chop out every word we could possibly spare, and a few we shouldn't have.

It is a heart-warming experience, after spending all the time we did on this report, to have it come through pretty well the fire of comment. On Monday of next week the Governmental Finance Section will start preparation of a companion report dealing with many related aspects of fiscal policy and practice.

#### Remarks by Robert Tideman

*Executive Secretary, Henry George School of Social Science*

MR. TIDEMAN: Anyone interested in reducing government cost should give first attention to the area of greatest expenditure and waste. This area is the federal government, which spends 20 times as much as it did 20 years ago—three times as much as all 48 states and all local governments combined—and which is now embarking on a new giveaway program that will pour millions of our earnings into the pockets of irresponsible Asian landlords.

Yes, the federal government is by far the biggest spender and waster; yet what do we say in our Report? We say: "... the federal government is too big and too remote for the Section to study."



That is precisely the reason it spends so much! And if it is too big and too remote for this great Club to study, how much harder is it for the average citizen to take critical scrutiny of that Colossus on the Potomac! We are swallowing camels to pass over the biggest part of the problem as "too big".

We all know local governments are kept in check by the aggressive action of organized property taxpayers. The property tax, to the extent it falls upon land, is direct, and cannot be shifted in higher rents or prices than could otherwise be obtained. This fact—conceded by all students of taxation—makes big property taxpayers eager to help support organizations which ride herd on local spenders. If that same influence can be brought to bear upon Washington, the drive for economy will get under way.

And this can be done. All that is needed is for the federal government to levy a direct tax on land values—apportioned among the states by population, as required by the Constitution. This done, our local tax bills will carry an item for Uncle Sam's adventures, and the immediate consequence will be a descent upon Washington of representatives from every local taxpayers association in the country. Grants-in-aid will no longer look so lovely. Foreign aid will acquire a new perspective. The "easy money" days will be over.

I believe the Section can muster courage to point out these hard facts in the second half of this Report.

If we fail to act, inflation will mount, centralization will tighten, and the days of the Republic will be numbered.

**Remarks by Gerald J. O'Gara**  
*Attorney; Former State Senator*

SENATOR O'GARA: This is a splendid Report. I was particularly struck by the mention of consolidation of school districts. I don't think judicial districts were mentioned, but as attorneys we know how little excuse there is for having one judge and one district attorney in some counties.

Is it sufficient for the Section, splendid as this Report is, merely to make a report?

Mr. Krueger suggested that the Report be distributed to officials in the State, but does that go far enough? The people must be educated, if this Report is to accomplish anything. To be effective, what is in this report must be carried not only to organizations but to individuals.

A few years ago, this Club had an excellent Report on rapid transit, which set off a chain reaction. However, despite the fact that our President is a member of the Rapid Transit Commission in the Bay Area, so far as I know the Club has not a continuing and vigorous program for following up that Section Report which initiated the whole thing.

Wouldn't it be a good idea perhaps to put in these reports a proposal as to what the Club should do? Then it will be up to the Club and its budget to decide how much follow-up action can actually be carried out.

RUSSELL C. HORSTMANN: Is it possible to distribute the Report to public officials, and if so, does that include members of the Grand Jury?

PRESIDENT MOFFITT: I wish to state on behalf of the Board of Governors that we're appreciative of the work of this Section in rendering this most educational and stimulating report. We want to thank all those who have participated in its preparation, and particularly commend Chairman Louis S. Kroeger.

If there's no further business to come before the meeting, we stand adjourned.

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