

CHAPTER XVII

CONGRESSIONAL FINANCE

FINANCE is a sufficiently distinct and important department of legislation to need a chapter to itself; nor does any legislature devote a larger proportion of its time than does Congress to the consideration of financial bills. These are of two kinds: those which raise revenue by taxation, and those which direct the application of the public funds to the various expenses of the government. At present Congress raises all the revenue it requires by indirect taxation,¹ and chiefly by duties of customs and excise; so taxing bills are practically tariff bills, the excise duties being comparatively little varied from year to year.

The method of passing both kinds of bills is unlike that of most European countries. In England, with which, of course, America can be most easily compared, although both the levying and the spending of money are absolutely under the control of the House of Commons, the House of Commons originates no proposal for either. It never either grants money or orders the raising of money except at the request of the Crown. Once a year the Chancellor of the Exchequer lays before it, together with a full statement of the revenue and expenditure of the past twelve months, estimates of the expenditure for the coming twelve months, and suggestions for the means of meeting that expenditure by taxation or by borrowing. He embodies these suggestions in resolutions on which, when the House has accepted them, bills are grounded imposing certain taxes or authorizing the raising of a loan. The House may of course amend the bills in details, but no private member ever proposes a taxing bill, for it is no con-

¹ During the Civil War, direct taxes were levied (the proceeds of which have, however, been since returned to the States); and many other kinds of taxes besides those mentioned in the text have been imposed at different times.

cern of any one except the ministry to fill the public treasury.¹ The estimates prepared by the several administrative departments (Army, Navy, Office of Works, Foreign Office, etc.), and revised by the Treasury, specify the items of proposed expenditure with much particularity, and fill three or more bulky volumes, which are delivered to every member of the House. These estimates are debated in committee of the whole House, explanations being required from the ministers who represent the Treasury and the several departments, and are passed in a long succession of separate votes. Members may propose to reduce any particular grants, but not to increase them; no money is ever voted for the public service except that which the Crown has asked for through its ministers. The Crown must never ask for more than it actually needs, and hence the ministerial proposals for taxation are carefully calculated to raise just so much money as will easily cover the estimated expenses for the coming year. It is reckoned almost as great a fault in the finance minister if he has needlessly overtaxed the people, as if he has so undertaxed them as to be left with a deficit. If at the end of a year a substantial surplus appears, the taxation for next year is reduced in proportion, supposing that the expenditure remains the same. Every credit granted by Parliament expires of itself at the end of the financial year.

In the United States the Secretary of the Treasury sends annually to Congress a report containing a statement of the national income and expenditure and of the condition of the public debt, together with remarks on the system of taxation and suggestions for its improvement. He also sends what is called his Annual Letter, enclosing the estimates, framed by the various departments, of the sums needed for the public services of the United States during the coming year. So far the Secretary is like a European finance minister, except that he communicates with the chamber on paper instead of mak-

¹ Of course a private member may carry a resolution involving additional expenditure; but even this is at variance with the stricter constitutional doctrine and practice; a doctrine regarded by the statesmen of the last generation as extremely valuable, because it restrains the propensity of a legislature to yield to demands emanating from sections or classes, which may entail heavy and perhaps unprofitable charges on the country. See the observations of the First Lord of the Treasury in the House of Commons, March 22, 1836.

ing his statement and proposals orally. But here the resemblance stops. Everything that remains in the way of financial legislation is done solely by Congress and its committees, the executive having no further hand in the matter.

The business of raising money belongs to one committee only, the standing committee of Ways and Means, consisting of eleven members. Its chairman is always a leading man in the party which commands a majority in the House. This committee prepares and reports to the House the bills needed for imposing or continuing the various customs duties, excise duties, etc. The report of the Secretary has been referred by the House to this committee, but the latter does not necessarily base its bills upon or in any way regard that report. Neither does it in preparing them start from an estimate of the sums needed to support the public service. It does not, because it cannot: for it does not know what grants for the public service will be proposed by the spending committees, since the estimates submitted in the Secretary's letter furnish no trustworthy basis for a guess. It does not, for the further reason that the primary object of customs duties has for many years past been not the raising of revenue, but the protection of American industries by subjecting foreign products to a very high tariff. This tariff, which was further raised in 1890, has brought in an income far exceeding the current needs of the government. Two-thirds of the war debt having been paid off, the fixed charges have shrunk to one-third of what they were when the war ended, yet this tariff remained till 1890 with few modifications, surpluses constantly accumulating in the national treasury, until in that year a Pension Act was passed which increased expenditures so largely as almost to absorb even the growing surplus. The committee of Ways and Means has therefore had no motive for adapting taxation to expenditure. The former will be always in excess so long as the protective tariff stands, and the protective tariff stands for commercial or political reasons unconnected with national finance.¹

¹ For a long time surpluses were got rid of by paying off debt; but when financiers began to hold that a certain portion of the debt ought to be kept on foot for banking and currency purposes, much discussion arose as to how the accumulating balance should be disposed of. The Pension Act, although partly

When the revenue bills come to be debated in committee of the whole House similar causes prevent them from being scrutinized from the purely financial point of view. Debate turns on those items of the tariff which involve gain or loss to influential groups. Little inquiry is made as to the amount needed and the adaptation of the bills to produce that amount and no more. It is the same with ways and means bills in the Senate. Communications need not pass between the committees of either House and the Treasury. The person most responsible, the person who most nearly corresponds to an English Chancellor of the Exchequer, or a French Minister of Finance, is the chairman of the House committee of Ways and Means. But he stands in no official relation to the Treasury, and is not required to exchange a word or a letter with its staff. Neither, of course, can he count on a majority in the House. Though he is a leading man he is not a leader, *i.e.* he has no claim on the votes of his own party, many of whom may disapprove of and cause the defeat of his proposals. This befel in 1886, when the chairman of this committee, an able man, and perhaps, after the Speaker, the most considerable person in the Democratic majority, was beaten in his attempted reform of the tariff.

The business of spending money used to belong to the committee on Appropriations, but in 1883 a new committee, that on Rivers and Harbours, received a large field of expenditure; and in 1886 sundry other supply bills were referred to sundry standing committees.¹ The committee on appropriations starts from, but does not adopt, the estimates sent in by the Secretary of the Treasury, for the appropriation bills it prepares usually make large and often reckless reductions in these estimates. The Rivers and Harbours committee proposes grants of money for what are called "internal improvements," nominally in aid of navigation, but practically in order to turn a stream of public money into the State or States where each

intended to gratify the survivors of the Northern armies in the Civil War, seems to have been also designed to so deplete the Treasury as to remove one reason for reducing the protective tariff.

¹ Mr. Woodrow Wilson informs me that the bills so referred were those making appropriations for the Consular and Diplomatic Services, for the Army and Military Academy, for Naval affairs, for the Post Office, for Indian affairs, together absorbing fully half of the whole governmental appropriations.

"improvement" is to be executed. More money is wasted in this way than what the parsimony of the appropriations committee can save. Each of the other standing committees, including the committee on pensions, a source of infinite waste,¹ proposes grants of money, not knowing nor heeding what is being proposed by other committees, and guided by the executive no further than the members choose. All the expenditures recommended must be met by appropriation bills, but into their propriety the appropriations committee cannot inquire.

Every revenue bill must, of course, come before the House; and the House, whatever else it may neglect, never neglects the discussion of taxation and money grants. These are discussed as fully as the pressure of work permits, and are often added to by the insertion of fresh items, which members interested in getting money voted for a particular purpose or locality suggest. These bills then go to the Senate, which forthwith refers them to its committees. The Senate committee on finance deals with the revenue-raising bills; the committee on appropriations with supply bills. Both sets then come before the whole Senate. Although it cannot initiate revenue-raising bills, the Senate long ago made good its claim to amend appropriation bills, and does so freely, adding items and often raising the total of the grants. When the bills go back to the House, the House usually rejects the amendments; the Senate adheres to them, and a Conference committee is appointed, consisting of three senators and three members of the House, by which a compromise is settled, hastily and in secret, and accepted, generally in the last days of the session, by a hard-pressed but reluctant House. Even as enlarged by this committee, the supply voted is often found inadequate, so a Deficiency bill is introduced in the following session, including a second series of grants to the departments.

The European reader will ask how all this is or can be done by Congress without frequent communication from or to the executive government. There are such communications, for the ministers, anxious to secure appropriations adequate for their respective departments, talk to the chairmen and appear

¹ The annual expenditure on pensions was in 1887 \$75,000,000 (£15,000,000). Under the statute of 1890, it had risen in 1892 to \$155,464,621, and is expected to reach \$200,000,000.

before the committees to give evidence as to departmental needs. But Congress does not look to them for guidance as in the early days it looked to Hamilton and Gallatin. If the House cuts down their estimates they turn to the Senate and beg it to restore the omitted items; if the Senate fail them, the only resource left is a Deficiency bill in the next session. If one department is so starved as to be unable to do its work, while another obtains lavish grants which invite jobbery or waste, it is the committees, not the executive, whom the people ought to blame. If, by a system of log-rolling, vast sums are wasted upon useless public works, no minister has any opportunity to interfere, any right to protest. A minister cannot, as in England, bring Congress to reason by a threat of resignation, for it would make no difference to Congress if the whole cabinet were to resign, unless of course the congressmen most conspicuously concerned should be so palpably in fault that the people could be roused to vigorous disapproval.

What I have stated may be summarized as follows:

There is practically no connection between the policy of revenue raising and the policy of revenue spending, for these are left to different committees whose views may be opposed, and the majority in the House has no recognized leaders to remark the discrepancies or make one or other view prevail. In the forty-ninth Congress a strong free-trader was chairman of the tax-proposing committee on Ways and Means, while a strong protectionist was chairman of the spending committee on Appropriations.

There is no relation between the amount proposed to be spent in any one year, and the amount proposed to be raised. But for the fact that the high tariff has, until quite recently, produced a large annual surplus, financial breakdowns must have ensued.

The knowledge and experience of the permanent officials either as regards the productivity of taxes, and the incidental benefits or losses attending their collection, or as regards the nature of various kinds of expenditure and their comparative utility, can be turned to account only by interrogating these officials before the committees. Their views are not stated in the House by a parliamentary chief, nor tested in debate by arguments addressed to him which he must there and then answer.

Little check exists on the tendency of members to deplete the public treasury by securing grants for their friends or constituents, or by putting through financial jobs for which they are to receive some private consideration. If either the majority of the committee on Appropriations or the House itself suspects a job, the grant proposed may be rejected. But it is the duty of no one in particular to scent out a job, and to defeat it by public exposure.

The nation becomes so puzzled by a financial policy varying from year to year, and controlled by no responsible leaders, as to feel diminished interest in congressional discussions and diminished confidence in Congress.¹

The result on the national finance is unfortunate. A thoughtful American publicist remarks, "So long as the debit side of the national account is managed by one set of men, and the credit side by another set, both sets working separately and in secret without public responsibility, and without intervention on the part of the executive official who is nominally responsible; so long as these sets, being composed largely of new men every two years, give no attention to business except when Congress is in session, and thus spend in preparing plans the whole time which ought to be spent in public discussion of plans already matured, so that an immense budget is rushed

¹ "The noteworthy fact that even the most thorough debates in Congress fail to awaken any genuine or active interest in the minds of the people has had its most striking illustrations in the course of our financial legislation, for though the discussions which have taken place in Congress upon financial questions have been so frequent, so protracted, and so thorough, engrossing a large part of the time of the House on their every recurrence, they seem in almost every instance to have made scarcely any impression upon the public mind. The Coinage Act of 1873, by which silver was demonetized, had been before the country many years ere it reached adoption, having been time and again considered by committees of Congress, time and again printed and discussed in one shape or another, and having finally gained acceptance apparently by sheer persistence and importunity. The Resumption Act of 1875, too, had had a like career of repeated considerations by committees, repeated printings and a full discussion by Congress, and yet when the Bland Silver Bill of 1878 was on its way through the mills of legislation, some of the most prominent newspapers of the country declared with confidence that the Resumption Act had been passed inconsiderately and in haste; and several members of Congress had previously complained that the demonetization scheme of 1873 had been pushed surreptitiously through the courses of its passage, Congress having been tricked into accepting it, doing it scarcely knew what." — Woodrow Wilson, *Congressional Government*, p. 148. This remark, however, would not apply to the tariff debates of 1890.

through without discussion in a week or ten days — just so long the finances will go from bad to worse, no matter by what name you call the party in power. No other nation on earth attempts such a thing, or could attempt it without soon coming to grief, our salvation thus far consisting in an enormous income, with practically no drain for military expenditure."

It may be replied to this criticism that the enormous income, added to the fact that the tariff is imposed for protection rather than for revenue, is not only the salvation of the United States Government under the present system, but also the cause of that system. Were the tariff framed with a view to revenue only, no higher taxes would be imposed than the public service required, and a better method of balancing the public accounts would follow. This is true. The present state of things is evidently exceptional. America is the only country in the world whose difficulty is not to raise money but to spend it.¹ But it is equally true that Congress is contracting lax habits, and ought to change them.

How comes it, if all this be true, that the finances of America are so flourishing, and in particular that the public debt has been paid off with such regularity and speed that from \$3,000,000,000 (£600,000,000) in 1865, it had sunk to \$1,000,000,000 (£200,000,000) in 1890? Does not so brilliant a result speak of a continuously wise and skilful management of the national revenue?

The paying off of the debt seems to be due to the following causes: —

To the prosperity of the country which, with one interval of trade depression, has for twenty-five years been developing its amazing natural resources so fast as to produce an amount of wealth which is not only greater, but probably more widely diffused through the population, than in any other part of the world.

To the spending habits of the people, who allow themselves luxuries such as the masses enjoy in no other country, and therefore pay more than any other people in the way of indirect

¹ For twenty-eight years there have been surpluses, the smallest of \$2,344,000 in 1874, the largest of \$145,543,000 in 1882. The surplus for the year ending 30th June 1890 was about \$44,000,000. The receipts from customs alone were greater by about \$48,000,000 in 1890 than in 1885. The total revenue of the year ending June 30, 1892, was \$425,000,000, and the total expenditure \$415,000,000, the receipts from customs duties having declined, and the expenditure, especially on pensions, having increased.

taxation. The fact that Federal revenue is raised by duties of customs and excise makes the people far less sensible of the pressure of taxation than they would be did they pay directly.

To the absence of the military and naval charges which press so heavily on European states.

To the maintenance of an exceedingly high tariff at the instance of interested persons who have obtained the public ear and can influence Congress. It is the acceptance of the policy of Protection, rather than any deliberate conviction that the debt ought to be paid off, that has caused the continuance of a tariff whose huge and constant surpluses have enabled the debt to be reduced.

Europeans, admiring and envying the rapidity with which the war debt has been reduced, have been disposed to credit the Americans with brilliant financial skill. That, however, which was really admirable in the conduct of the American people was not their judgment in selecting particular methods for raising money, but their readiness to submit during and immediately after the war to unprecedentedly heavy taxation. The interests (real or supposed) of the manufacturing classes have caused the maintenance of the tariff then imposed; nature, by giving the people a spending power which has rendered the tariff marvellously productive, has done the rest.

Under the system of congressional finance here described America wastes millions annually. But her wealth is so great, her revenue so elastic, that she is not sensible of the loss. She has the glorious privilege of youth, the privilege of committing errors without suffering from their consequences.

CHAPTER XVIII

THE RELATIONS OF THE TWO HOUSES

THE creation by the Constitution of 1789 of two chambers in the United States, in place of the one chamber which existed under the Confederation, has been usually ascribed by Europeans to mere imitation of England; and one learned writer goes so far as to suggest that if England had possessed three chambers, like the States General of France, or four, like the Diet of Sweden, a crop of three-chambered or four-chambered legislatures would, in obedience to the example of happy and successful England, have sprung up over the world. There were, however, better reasons than deference to English precedents to justify the division of Congress into two houses and no more; and so many indubitable instances of such a deference may be quoted that there is no need to hunt for others. Not to dwell upon the fact that there were two chambers in all but two¹ of the thirteen original States, the Convention of 1787 had two solid motives for fixing on this number, a motive of principle and theory, a motive of immediate expediency.

The chief advantage of dividing a legislature into two branches is that the one may check the haste and correct the mistakes of the other. This advantage is purchased at the price of some delay, and of the weakness which results from a splitting up of authority. If a legislature be constituted of three or more branches, the advantage is scarcely increased, the delay and weakness are immensely aggravated. Two chambers can be made to work together in a way almost impossible to more than two. As the proverb says, "Two's company, three's none." If there be three chambers, two are sure to intrigue and likely to combine against the third. The difficulties of

¹ Pennsylvania and Georgia; the former of which added a Senate in 1789, the latter in 1790. See *post*, Chapter XXXIX. on State Legislatures.