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The Economy Of Issuing Bonds To Build Surfaced Roads.

A Radio Address from Station WDAF, Kansas City, Mo.

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I have been asked to address you this evening on the economy of issuing bonds to build surfaced roads especially from the point of view of the motor owner. I am glad to testify to the advantages of the bond-issue method of financing when applied with proper safeguards, and to the special appropriateness of the method as a means of financing road improvement under the conditions existing in the States of the Mississippi Valley.

But at the outset I want to say very positively that the issuance of bonds alone is not to be considered as a complete solution of the highway problem. It is only one step in the solution of the problem, and not even the first step. At least two very important preliminary steps should be taken before thinking of issuing bonds for State road improvement.

The first step is to designate a definite system of main roads of sufficient extent to meet the needs of traffic between the important centers of the State yet so limited in mileage as to be capable of improvement as a whole system in a reasonably short period. If the system is too small to connect the really important centers, or if it is too large to be completely connected in a relatively short period, there is danger, in either case, that the result will be a disappointment to the public. The public wants a connected system of improved main highways, and it has been the experience of all Statesthat have successfully answered that demand, that the public is willing to pay the cost of such a system - in one way or another - if it sees that it is getting what it wants. There is only one opinion about road improvement when the gaps begin to close, and that is a favorable opinion; but failure to meet within a reasonable time the demand for continuous travel over improved roads produces public disappointment.

The second step which should be taken before bonds are issued for the building of State roads is to put the State highway department in complete charge of the administration, financing, construction, and maintenance of the roads, and to equip the department with adequate authority, skilled direction and ample force and organization to discharge its responsibility.

Unless these two steps are taken it would be better not to think of issuing bonds. The satisfying experiences of Illinois and Missouri and other States which have negotiated large bond issues for State road improvement have been founded on these basic provisions. If either had been lacking it is highly probable that a less satisfactory outcome would have been the result.

In considering the financing of main highway improvement there is one central thought that we must keep constantly in mind. It is that the principal purpose of highway improvement is to reduce the cost of highway transportation. The cost of highway transportation is made up of two elements which are: First, the cost of operating the vehicles - automobiles, motor trucks, and others - which use the roads; and, second the cost of the road improvement and maintenance. The sum of the two elements, both of which may be reduced to an annual basis, represents the total cost of transportation. This being true the economic basis of all road improvement is that it decreases the cost of vehicular operation by a greater amount than the cost of the improvement and so reduces the total cost of highway transportation.

It is a mistake, therefore, to consider improved roads as luxuries to be enjoyed if they can be afforded, but not essential to the economic health of the community. The fact is that we lose more by failing to improve the main highways than it costs to improve them. For whether we build and maintain adequate highways or not, such highways as we have are used daily by large numbers of vehicles. For the movement of every vehicle there is a certain cost, a cost which is less if the road be improved than if it be left in a state of nature. If, therefore, we multiply the reduction in the cost of operating one vehicle by the number of vehicles which use a road in a year the result will be the greatest annual sum it is proper to pay to improve the road and maintain it in its improved state. Because of the great multiplication of motor vehicles it has come about that the accumulated operating savings of vehicles using our main roads will more than pay the cost of the most expensive types of road improvement. It must be clear, therefore, as I have frequently said that we pay for improved roads whether we have them or not and we pay less if we have them than if we have not.

It follows from this that the main roads, at least, should be improved as rapidly as the available supply of labor and materials will permit, entirely without regard to where the money comes from or how it is paid. Only by accepting this principle can the ultimate cost of the highways and their service be reduced to a minimum.

There is this fact, however, that must be borne in mind - that the expenditure for highways is only a part of the necessary public expenditure. We can not devote all the income from public revenues to the highways. There are educational institutions to be maintained, and there are other public functions that require money, so that the annual highway budget must be adjusted to the relative needs for other public purposes. The revenues derived from various sources must be sufficient to cover all those needs, and the portion allotted to highway improvement must not be out of proportion to the relative need for highways. But in this connection it should be added that all revenue secured from motor vehicle taxation should be set aside for highway purposes.

We come now to the reason and the justification for all bond issues. If the highway program, planned and administered as I described in the beginning, entails an expenditure greater than can be met with current funds if carried out as rapidly as available supplies of labor and materials will permit, then the only recourse is to issue bonds and so defer a portion of the costs. For I must remind you again that failure to prosecute the work of highway improvement as rapidly as physical limitations will permit is merely to shoulder the inescapable expense in the form of greater operating costs for vehicles, a form in which it will be greater than if it is assumed as a road construction cost. The issue is one, therefore, which should be of particular interest to all motor owners.

Exactly what part of the cost of the program can properly be deferred is perhaps a debatable question - that is to say, there is a debatable middle ground, where it is difficult to define the policy that may be pursued with propriety. There is no question that certain parts of the construction cost may be deferred without reasonable objection - for example the costs of the grade and drainage structures, which are practically permanent improvements. Payment for these parts of the roads, which account for 40 per cent of the cost of the average highway program, might be spread over a number of generations without involving our successors in an indebtedness from which they would receive no benefits. On the other hand, there is no question that maintenance costs should not be met with borrowed money. But in between these two fixed points of policy there is doubtful ground, wherein there is conflict of opinion as to the soundness of deferring payment. The principal doubt arises over the financing of the cost of the road surface, and here it would seem that the solution rests entirely upon the character of the maintenance. It is the merest platitude to say that unless the roads are maintained year by year - it matters not how well they are built - the investment in them will gradually be dissipated and the roads themselves will never give the service they should be expected to give. Perfect maintenance, on the other hand, guarantees the integrity of the original investment, assures continuous service, and converts what would otherwise be a liability into an asset.

There are those who say that to issue bonds for road construction is merely to increase the cost of the roads by the amount of the interest. The answer to that is that by issuing bonds you get the improved roads quickly. Until you get them you are losing more than the cost of improvement and the bond interest charges combined. That is not merely an assertion. It is a fact which we have proved by scientific investigation.

There is also the fear that the roads will wear out before the debt is paid off. That fear, also, is practically groundless, especially in the States of the Mississippi Valley where almost the full benefits of road improvement are yet to be reaped. About 40 per cent of the cost of the roads, as I have already remarked, goes into the grade and permanent drainage structures. These should last indefinitely. The investment in the surface will be conserved for a considerable period by adequate maintenance, and in very large part it is salvageable as base or integral part of the new surface when the time comes to resurface. But those who are beset with this fear can find complete reassurance in the satisfactory experience of States like New York and Maryland, which, having reached and passed through the period of reconstruction of their early bond-built roads, find public sentiment stronger than ever for more and more road improvement.

Personally, I have not the least doubt of the wisdom of issuing bonds for road construction in States which are in the early stages of road development as the States of Kansas, Nebraska, and Missouri are, if the program is safeguarded in three ways: First, by the designation of a definite system of State roads to which the expenditure of the borrowed funds will be strictly limited; second by placing entire responsibility for and authority over the expenditure in the hands of an adequately equipped State highway department; and third by constant and complete maintenance of the bond-built roads.