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NEW JERSEY'S FINANCIAL PROBLEMS

AND FACTS ABOUT THE TAX
ON RETAIL SALES

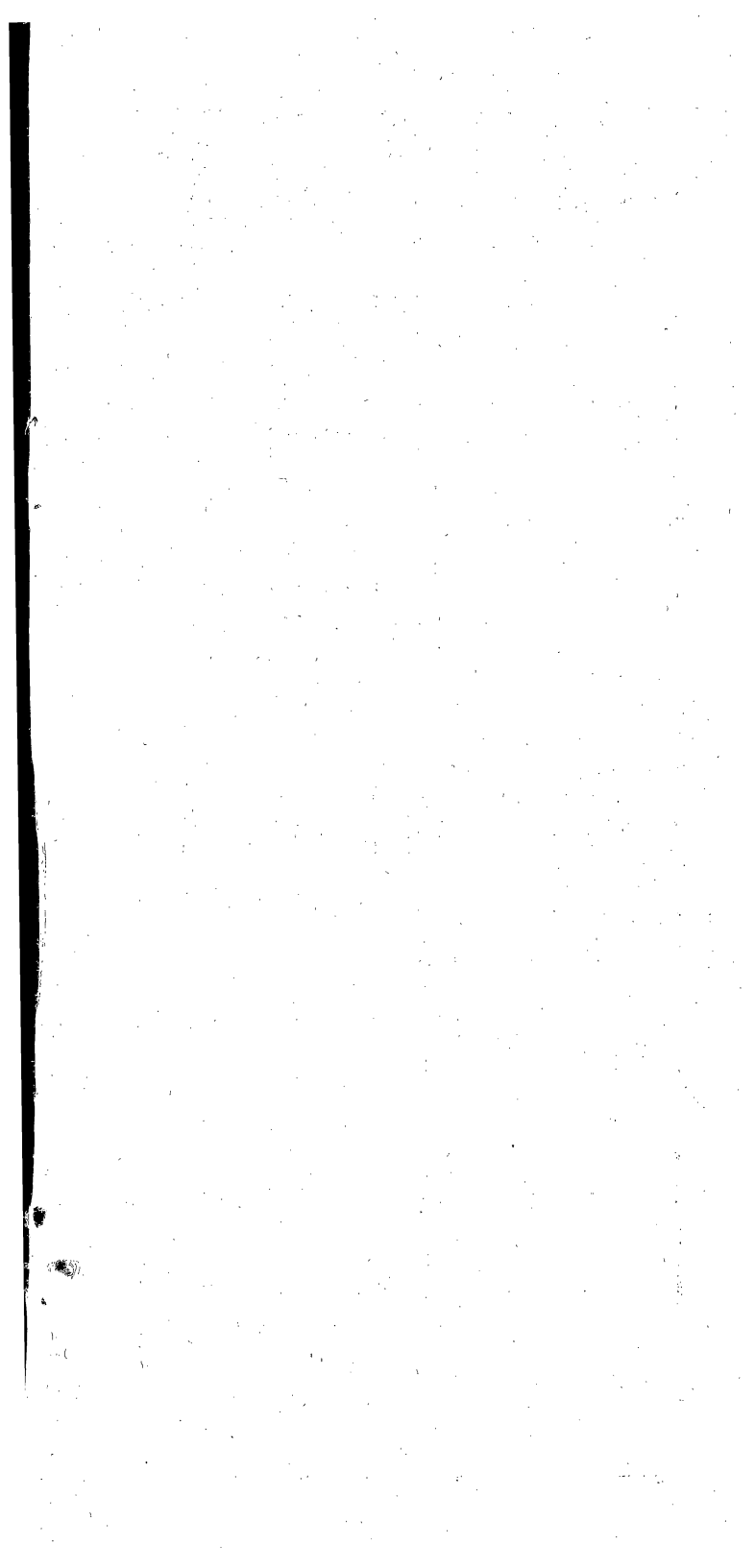
Including

*Excerpts From an Address Delivered
by Gov. Harold G. Hoffman Before
the Retail Merchants of New Jersey
in Atlantic City on July 21, 1935.*



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NEW JERSEY'S FINANCIAL PROBLEMS

And Facts About the Tax on Retail Sales

I am glad to have this opportunity to discuss with you the relief tax on retail sales which the Legislature has just enacted. The retail merchants of the State, represented in and through this association, will have more to do with this tax than any other business group. You can help greatly in its administration or you can contribute to the difficulties which it will present. The one hundred and twenty thousand retail merchants of the State, it seems to me, through their helpful cooperation, will have a wide influence on the public attitude toward this relief tax and incidentally, but of great importance, they can reduce to a very small minimum both the numbers of citizens who feel that they are justified in making retail purchases in neighboring States and the volume of our retail dollars that may be shifted in this way.

Marshall Field is reported to have said, "It is easier to destroy the habit of buying than it is to create purchasing demand." I do not have to emphasize here, I am sure, the fact that Mr. Field knew what he was talking about. As a matter of selfish interest, in addition to the cooperation you will give as good citizens, the retail merchants of New Jersey ought to give and will give, I am confident, helpful cooperation and support to the State in the administration of this law. Every retail merchant, from the time his doors are open in the morning until they are closed at night, will remember in his own interest the vital importance to his business of maintaining that buying habit in his customers. The story of taxation on retail sales in this country and abroad does not support the honest fears of reduced buying that many people have or the shifting of purchasing volume across State lines. The retailer who aids his customers and the State in carrying out the spirit of the law is helping his own business, and the one who makes it difficult and irritating for his customer by completing sales in different parts of the store and levying the tax each time, for instance, or in other ways which may be known to you, is striking at the very life of his own business.

I realize that many of you, perhaps the majority of your membership, believe that the State could

have and should have reached some other solution of its heavy emergency financial problems without recourse to substitute revenues. This is a natural reaction and I find no fault with it. What I am anxious about is that the actual facts as they are, not as some of the propagandists against the relief tax want them to be, shall be so definitely and clearly presented through the usual news channels that every businessman and every citizen may understand the situation facing their local and State governments, and the compelling necessity for a pay-as-you-go policy in this matter of emergency relief.

Some of the opposition which has been raised can very properly be ascribed to our natural reluctance to pay direct taxes. Some of it has been fomented by those who have had and do have political or personal axes to grind. Some of it is based on an inadequate understanding of the whole situation, and some of it is purely malicious.

State Was Facing Relief Crisis

I am going to ask you to consider for a minute the situation existing in the State when I assumed office on January 15th. Immediately upon my election in November I devoted myself unsparingly to an exhaustive study of the serious and pressing problems facing the State government with which I would have to deal. As I proceeded with this study, talking with State and municipal officials, representatives of business and civic groups and many individual citizens, it became only too apparent that we were, in New Jersey, faced with a critical situation. The credit of the great majority of our local governments was gone. Tax delinquencies had piled up to enormous proportions. Balancing the municipal budget so far as cash received and cash spent was concerned was mere fiction. The municipalities had given up any serious pretense of providing funds for relief purposes and one municipality after another was publicly acknowledging its inability to meet its debt service charges and operating costs.

The State had taken over the relief load from municipalities and had financed it almost entirely on borrowed money. The credit of the State was still good, but it could not continue the same policy of spending beyond its known receipts and of borrowing month after month and year after year to pay its daily and weekly and monthly board bill for its citizens on relief and hope to maintain a satisfactory credit standing and carry on its essential services.

Notwithstanding the warnings given in the Reeves report two years before and in numerous other reports submitted in recent years and ignoring the

plain logic of the situation, we had done nothing more up to January last than talk about these unfortunate conditions, waiting hopefully, like Mr. Macawber, for "something to turn up". In spite of all of the warnings of danger ahead we had, as a people, taken seats on the toboggan and we were sliding with constantly increasing momentum toward financial chaos. I am not exaggerating the situation. The records and reports that have been made with respect to our unfortunate financial situation in New Jersey amply bear out the facts.

Alternative Policies

My administration was faced with two alternatives.

The first alternative was to halt in our tracks, to disclaim our responsibility and to abandon all pretense of adequate emergency relief to the unemployed. New Jersey could not go along further on the course it had been pursuing during the previous administration. It could not go on piling upon the shoulders of the next two generations the cost of food and shelter and clothing for the needy citizens of today. That alternative had to be discarded, of course, because I know and you know that New Jersey citizens would not abandon their friends and neighbors and their children in their distress and that they would share their own supplies and resources with their less fortunate neighbors.

The second alternative was to undertake to reduce our current expenditures of government in all of its layers, not only in the State, but in the local governments which spend three-fourths of the government dollar in New Jersey, by every practical means and seek substitute revenue for that on real property which had definitely failed until our current income would balance the necessary minimum outgo. This is the path we chose to take. It required some courage to take it. If we had chosen to let things slide it was possible that the day of reckoning might be postponed for a year and possibly even to a succeeding administration. From a practical political point of view, that was the course to take. That would have been the political way. It had been followed in the preceding three years. That was the course to easy popularity, but it involved a penalty in the form of almost certain future catastrophe, which no man of honor, occupying the high office of Governor, could endorse and follow.

I understand fully that if I had chosen to take the easy way there would be more popular acclaim. If I had chosen to let the toboggan slide, adding to its load and impetus, there would be less resentment among you than there is, because as a people we

have not been willing to face unpleasant facts with respect to public finance and taxation except at rare intervals. I say to you in all earnestness I could not take that course and maintain my self-respect. I chose to do the honest thing as I saw it and to ask the people to consider with me their problems and the measures which were best calculated to meet those problems.

I am free to confess that in all of my working life I have not learned how to meet any emergency except by facing it. I can understand something of the problems that you are facing in your business activities. As your chairman of the Board of Directors, as the Executive Officer of the people of the State, I have asked and I shall continue to ask during my term of office that you and they will meet these problems with me and seek a right solution to them.

Economies Not a Complete Solution

Part of the unfortunate (as it is untrue) propaganda which has been spread broadcast over the State has insisted that emergency relief costs could be met almost entirely through the practice of economies in the State government. Anybody who is casually familiar with the State's revenues and expenditures knows that this is not true. A great many proposals have been made along these lines, some of them sincere but not possible, and many of them born of the dread of facing incontrovertible facts. In their anxiety to escape realities the combined proposals amount to an invitation to the present administration to cripple essential government services to the point of futility and to acknowledge openly that the people of New Jersey cannot maintain and will no longer support adequate government. As citizens and businessmen struggling to maintain the solvency of your businesses and to restore some measure of prosperity in our economic life you recognize that government is essential to the orderly transaction of business and the protection and safety of life and property.

I miss my guess if you are willing to see your governments in the community and in the State so seriously crippled by many of the broadax economies, so called, that have been proposed. If you had been in possession of the basic facts as they have been available to me during the past eight months, if you had analyzed the details of the proposals made in the name of economy as I have and if you could have visualized the distress, the suffering and the disorder which would have certainly resulted from the adoption of these proposals, I

do not think, I know, that as red-blooded citizens of a great State you would have made the same decision that I have made.

Wherever these suggestions were practicable and wise and could be put into effect, I accepted them and undertook to apply them. I refused to sanction the issuance of highway bonds in the amount of twelve million four hundred thousand dollars, and saved six hundred and twenty-five thousand in interest payments this year. I successfully prosecuted the plan to recapture two million five hundred thousand dollars of the moneys advanced to the Port Authority some years ago. Under the terms of that loan there was little likelihood that any of this money would come back to New Jersey for at least two generations, if at all. I approved the temporary diversion of two million nine hundred and eighty-seven thousand dollars from the State's sinking fund reserve as an emergency. I need not tell you that this is not sound business and this money must be returned. Through the arrangement with the federal emergency relief administration, one million eight hundred thousand dollars of the State's share of old-age relief costs is being paid from emergency relief funds contributed by the State. Five hundred thousand dollars held in the State treasury for many years as a wholly unused fire insurance fund has been made available at my request and has been used for relief purposes.

Departmental appropriations for the fiscal year ending June 30th were pared by the preceding Legislature to what was regarded as an absolute minimum. One of the first moves for economy that I made was to analyze appropriation balances. There was every indication that by reason of the reduced appropriations and the rising costs of many supplies required by the State that practically every dollar of these current appropriations would be spent. I addressed communications to every department, cautioning them to spend carefully and economically and that I would expect substantial balances to be lapsed at the end of the year. The Commissioner of Finance, the Comptroller and the Treasurer were enlisted in this drive. The latest reports that I have indicate a balance from last years appropriation of four hundred thousand dollars returned to the treasury.

These are examples of some of the procedures which I have taken, not all to be classed as economies, to be sure, but as acceptable business practices in time of emergency and the kind of things that you businessmen would do under the circumstances. Add these up and you have about nine millions of dollars. Look at the report of the Fact Finding

Committee and you will find these major items listed there, together with some others which to me seemed to be unwise and still others which represent new taxes or wishful thinking.

Relief Tax Necessary if Not Popular

I knew, of course, when I made the decision that relief taxation was necessary, that I was inviting something of a fight. I saw in advance the kind of bitter struggle that would be and has been fomented by a few. When I recommended in my Inaugural Message a two per cent relief tax on retail sales and a very moderate income tax on individuals and corporations to replace the State school tax on real estate. I said "I cannot tell the members of the Legislature what will happen to them in a political way if they support this program. I cannot assure you what will happen to me if it is adopted. But I can assure the people of this State that the essential services of their governments will be maintained, that the necessary provision for the education of our children will be assured and that in the end less tax money will be spent for the cost of government than heretofore." And again I said, "I make the recommendations for new revenues to be produced through the sales tax in the full knowledge that they will not be popular. I have no personal desire for new taxes of any kind, but I hold that the economic unsoundness of past policies, of side-stepping and camouflage, with borrowings against unknown futures demand this change in our system of taxation."

Revenue Not for New Spending

It has been stated over and over again but it needs to be repeated here, I think, that every penny accruing to the State through the relief tax on retail sales is to be used for relief. First, for relief of human needs, and second, such balances as there may be, and I am working strenuously to obtain some reduction in our monthly assessment for relief, first by Federal authorities of real estate taxpayers, who have been bearing, as everyone knows, an unfair share of the total cost of government as well as an impossible burden.

It is well for us to keep in mind that one family in every seven living in the State was, six months ago, dependent on the emergency relief administration for all or a substantial part of their support. Two hundred and fifty-six thousand of the six hundred thousand relief cases were boys and girls entitled to the same advantages and protection in their health, housing, education and character as

your children and mine. In America we have guaranteed these children normal opportunities to develop into useful, competent men and women. We have lived, more than is the case in any other country, for our children that they may have better opportunities than we had and that they as competent men and women may carry the torch of liberty, of free government and of human progress beyond the point which we in our respective generations have been able to reach. I refuse to harbor the thought that Americans in New Jersey will place a little self-denial and inconvenience, a few cents a day, in the balance against opportunity and protection for childhood in the State.

Fortunately, distress is not quite so widespread now as a few months ago, but there are still more than five hundred thousand people in New Jersey that must look to you and me for relief. Pitiful appeals from mothers, fathers and children come to me by the thousands. I would not be human if I did not regard this kind of appeal as of paramount importance, to be answered before any other matter of State policy is to be considered. I have been criticized for increasing the expenditures of the Executive Department, yet the mere task of dealing with these tens of thousands of calls for help and the tales of woe and distress are four or five times as great as anything ever experienced by any preceding Governor.

Believes People Will Support Relief Tax

I realize that the bitterest criticism of the relief tax has come from sources influenced by those who, in the past, have not paid their fair share of the costs of government. I believe that, once the situation is clearly understood, few will be found who resent the small daily sacrifice which the average family in New Jersey will be called upon to make. In February of this year one hundred and sixty-eight thousand families were receiving relief. One hundred and ten thousand of these included children, and twenty-two thousand families were wholly dependent upon the mother for both support and maternal care. In the case of about forty thousand families who were receiving relief, there was a record of serious chronic disease which carried an added burden for medical attention, drugs, nursing service and the other costs of illness.

610,000 Citizens in Need

As I have already stated, in February, when the need for assistance to the unemployed was at its peak, there were approximately 610,000 of your

fellow citizens and mine facing lack of sufficient food, warm clothing and shelter. These were not some specially selected group of undesirables or chronic dependents. They were a good average of ordinary citizens whose usual means of livelihood had disappeared and left them stranded. There were men who had had large incomes and men who had had small incomes. They were the victims of the depression. When such catastrophes occur it is the duty of government to step in, shoulder the burden, and distribute the shock of disaster so that individuals will not be overwhelmed. The very safety of organized society depends on the ability of government to meet such a crisis promptly, adequately and decently. About forty per cent of the 610,000 in need of help were children, who faced starvation, ragged misery, shivering cold, inability to attend school, the loss of the ordinary privileges of an American birthright. I ask you and every citizen and taxpayer to weigh these things, apply them to themselves and their own families and answer as their conscience dictates in support of or against this relief tax. I don't believe it will be referred to slightingly as a "Hoffman Tax." I think it will rather be known as a "privilege tax," your privilege and mine, to aid in relief of human misery.

Why New Jersey Taxes Food Sales

There has been a great deal of opposition to this relief sales tax on the ground that the levy applies to articles of food. It has been said that in taxing food we have taxed the very persons whom we are endeavoring to assist. There is some justice in this. Careful consideration was given to this question before the legislation was adopted. An analysis of the effect of eliminating from the taxable sales disclosed that food products comprise almost 40 per cent of the retail trade. We could not afford to eliminate 40 per cent of the taxable articles and obtain enough revenue to meet minimum relief requirements. Those who are receiving relief are not burdened with the relief sales tax, for we arranged that they should receive an increase of 2 per cent in all emergency relief checks.

I dislike this tax on food but it was necessary to include foodstuffs in order to raise the essential revenue. I hope we can exempt foodstuffs next year. I favor it if the revenues are sufficiently in excess of the amount originally anticipated and adequate for our essential needs. I would not willingly add to the burden of any citizen but I am willing to face the facts. If this is courage or stubbornness, I thank God I have enough of it to do my duty as I see it.

Taxes on Sales Not an Experiment

A great deal of the adverse comment which has been offered for the purpose of influencing the people of the State day after day implies that the relief tax on retail sales which New Jersey has adopted is something strange and unusual—a particularly heinous thing visited upon our people. This, of course, is not true. Sales taxes are a part of the established tax structure throughout the civilized world. New Jersey was the twenty-ninth State to adopt some form of sales tax. Delaware adopted a tax of this kind in 1917, West Virginia in 1921, Pennsylvania a mercantile tax in 1925, Connecticut, Virginia and Kentucky in 1930, Rhode Island in 1931, Louisiana in 1932, Arizona, California, Illinois, Indiana, Iowa, Michigan, Minnesota, New York, North Carolina, Oklahoma, South Dakota, Utah, Vermont, Washington, Wisconsin, New Mexico and Missouri in 1933, Mississippi in 1934, Arkansas and Maryland, Ohio and New Jersey in 1935. Eight of these States have devoted the proceeds of sales taxes to relief. Nineteen apply the proceeds to general State purposes, and two devote these revenues to the support of the public school system.

Far from standing alone, New Jersey is one of the majority of States that has found it necessary to resort for emergency purposes to this kind of revenue.

Twenty-three States Tax Incomes

New Jersey has not been a leader in the development of a taxing system designed to meet present-day needs and conditions. On the contrary, we have lagged far behind the facts of our changing industrial and economic life in this respect. I recommended as a necessary and desirable complement to the relief tax on retail sales a moderate net income tax, on personal and corporate incomes, to be enacted for the direct relief of real property from the burden of the so-called State school tax. I still believe that my recommendations were sound.

I have said consistently that the sales tax standing alone is unbalanced and in some measure unfair. I have stood for, and still continue to urge, a moderate individual and corporate net income tax to balance the weight of the cost of government in a better proportion to benefits received and ability to pay, and in order that the State may be continued on a sound and economical cash basis. The latest figures at my disposal show twenty-three States having a State income tax. They are Arizona, Arkansas, Delaware, Georgia, Idaho, Kansas, Massachusetts, Mississippi, Missouri, Montana, New Mexico, New York,

North Carolina, North Dakota, Oregon, Utah, Vermont, Virginia, Wisconsin, Pennsylvania, California, and Iowa.

Pennsylvania's and New York's Emergency Taxes

Perhaps it would be particularly interesting to this Association, and it ought to be of great interest to every taxpayer in the State, if we consider the means that have been taken to meet some financial problems by our neighbor States.

Both New York and Pennsylvania have been struggling to meet their relief needs as we have, and to deal with the growing inability of real estate taxpayers to meet the levies imposed upon their property, to protect it and prevent complete destruction of its value. Pennsylvania's Legislature adjourned last month after enacting an eleven-point program to raise \$125,000,000 annually. It included:

First, an income tax ranging from two per cent on incomes up to \$5,000 to eight per cent on incomes in excess of \$100,000;

Second, an increase in the personal property tax amounting to twenty-five per cent;

Third, an increase in the public utilities taxes on gross receipts amounting to eighty per cent;

Fourth, an increase in the motor fuel tax from three cents to four cents;

Fifth, a tax of one cent on every package of 10 cigarettes or two cents on the usual retail sales of this commodity;

Sixth, a tax of five cents for each \$100 of value on legal papers;

Seventh, an extension of the five mills tax on the capital stock of corporations to cover manufacturing corporations which have been exempt from such taxation in Pennsylvania for almost fifty years;

Eighth, an increase in the foreign corporation stock tax;

Ninth, a new tax of six per cent on the net incomes of corporations;

Tenth, a reduction in the time required to elapse before the State can escheat unclaimed bank deposits;

Eleventh, an amusement tax of four per cent.

I invite our business men and all of our citizens to look over the list of new taxes which the Pennsylvania citizen must pay. I want them to ask themselves which plan they prefer and whether the New Jersey relief tax of two per cent on retail sales will bear down as heavily on our people as would the Pennsylvania plan.

Five New Taxes in New York

Our neighbor to the north, the great Empire State, finished its fiscal year more than \$90,000,000 in the red. In order to meet this deficit the New York State Legislature continued all emergency tax measures which had been adopted for the current fiscal year and set up five new taxes. These included:

First, an increase in the income tax schedule designed to yield \$22,000,000;

Second, a corporation franchise tax of one and one-half per cent on the net income of corporations designed to yield \$6,000,000;

Third, an unincorporated business tax of four per cent of net income on businesses making a profit of more than \$5,000, estimated to yield \$6,500,000; (This is the first time such a tax has been employed in New York or any other State.)

Fourth, the motor vehicle fuel tax was increased one cent, making a total of four cents for the New York State tax and designed to increase the State's revenues by \$16,500,000;

Fifth, increased taxation on insurance premiums at the rate of 1.75 per cent on life insurance and two per cent on all other insurance except marine. This tax affects every life insurance policyholder in New York in that it will necessarily reduce funds available for policy dividends. The five-cent and ten-cent a week policyholder suffers equally with the holder of the million-dollar policy. Indeed, the pittance of the poor are disproportionately burdened by this system of taxation.

Other New York Taxes Continued

These were new taxes designed to increase the State's revenue for the fiscal year 1936. In addition, the four emergency taxes levied during the past fiscal year were continued:

First, one per cent personal emergency income tax in addition to all other income taxes;

Second, a one-cent gasoline tax;

Third, a one per cent stock transfer tax;

And fourth, increased inheritance taxes.

By means of all of the above taxes the State of New York expects to raise during 1935-36 the sum of \$117,000,000 in excess of ordinary State revenues.

Sound and Unsound Economy

I think that I can hear you say in reply that we do not want any new tax—we want economy. I differ with you and those who hold strictly to that

position only in the realization that we must have some new revenue to partially replace that which has failed, and to meet this tremendous new burden of relief thrown upon the State. I am for sound economy as strongly as you are. I will go all the way, but I cannot serve you and the people of the State effectively and constructively by doing foolish, unsound and imprudent things, merely to show savings today which will cost more tomorrow.

I know full well that you and everybody wants to know the numbers of dollars and cents that have been saved through economic measures or the curtailment of government service. I understand the widespread notion that all government, and especially the State government, is wasteful and careless in the expenditure of public money in these critical times when the earnings of the workers and business men have been greatly reduced, and when there is need of the most careful spending of public money. There is, we must all recognize, I think, a feeling that the only economy that will amount to anything is to remove people from office. I could save you a hundred thousand dollars perhaps in this way, and possibly lose for the State two or three times that amount, and yet this action would be hailed as courageous and constructive. I am anxious not to be unfair, and I do not want to punish anybody. I want to be reasonable and constructive in the procedure that I follow.

I urge your patience and your consideration in working out sound economies that can be put on the right side of the ledger. I shall be willing to stand by that. Any proposal, of course, that is made for curtailing public spending in any line is hailed with enthusiasm, and the man or group presenting such proposals suddenly becomes endowed with wisdom unsuspected heretofore. But I am sure that you know that proposed savings do not of necessity represent actual savings, and mere change does not represent progress. The fellow without the responsibility of carrying on public administration and of providing the services which the people demand and require does not hesitate to find fault with his responsible public officials who have to carry the load. This is all right, of course, because this is an essential safeguard of government.

But I hope, not for myself, but in the true interest of good government, we can always keep an eye on the facts. There has been a great deal of careless talk about the saving of millions. Mr. Chester I. Barnard has been widely quoted as saying that government savings of thirty per cent are possible, and, as references to his remarks have multiplied, it is now confidently asserted in editorials and news items

that the State government is extravagant by thirty per cent.

As a matter of fact, Mr. Barnard was talking about municipal governments. Savings can be made, of course, in the State government. They have been made, year after year. Further savings will be made, but I cannot bring myself to promise you so many dollars and so many cents savings in a stated period when I am not sure that I can make good to the last red cent. The difficulty in our reasoning here is that we have thrown the question of municipal spending and municipal savings entirely out of the picture. State government, as I have said, spends not quite twenty-five cents out of the government dollar in New Jersey. Municipalities spend the remainder.

For years we have been discussing wastefulness in local government spending and now we forget that completely and demand that the State take on twenty millions of dollars of relief costs for the local governments and save all of the money out of the twenty-five per cent of government costs represented in State expenditure.

I have already referred to savings and economies and necessary diversions for the time being, in an effort to meet the month-to-month requirements for relief money and the persistent and continuing demand for reduced cost of government. I have referred to the \$400,000 to be lapsed out of an appropriation measure for the last fiscal year representing real economies, almost every dollar of which would have been spent perhaps for valuable things and services the State needed had I not intervened.

A great many other economies are being brought about in many of the departments. One of the first acts of State Highway Commissioner Sterner was to break up a racket in the purchase of oils and materials for highway maintenance and repair which had cost the people of the State hundreds of thousands of dollars year after year. By one decision, he saved \$300,000 to the State and opened the way for the savings of several hundred thousands more to the counties and municipalities. This action was outstanding, but there was mighty little commendation for the courage, the integrity, and the good business sense which prompted it.

In adjusting rentals, in improving fuel purchases, in better handling of the automobile service, and in many other ways, small items and larger items, which will, I am confident, amount to some hundreds of dollars, will be added to the sound economies already brought about. I am willing to take credit for these when they are on the books. In the meantime, I invite you to watch, as your interest prompts

you, and to exercise whatever patience you can, in awaiting the results which I confidently expect to announce from time to time.

I urge you, however, to keep this in mind, that we cannot save out of about \$30,000,000 of current operating costs of the State government \$20,000,000 for relief, but we can—and will—save a million or two, possibly more, and still render the necessary service.

Public Debt—New Jersey's Problem

The crux of our difficulty in New Jersey is the great amount of unrestrained borrowing which has gone on for years in such reckless fashion. Local government has recently been "in the red" to the extent of \$1,200,000,000. It requires nearly half of the almost \$400,000,000 spent annually for government in New Jersey for debt service. Economies cannot be made in this tremendous expenditure except as municipal governments may refund at advantageous figures. Notwithstanding the popular notion that public debt may be avoided, which is finding support in some quarters, we in New Jersey have given our bond—we must and will as self-respecting and responsible people, meet our obligations.

It is obvious that of the economies which can be brought about in public spending most of them must come from that portion of our revenues not obligated to debt service. Throughout this whole period of emergency, this proportion of our government income has been growing steadily smaller.

Another element in this difficult situation has been the growing volume of delinquent taxes on real estate. Property owners have not been able to meet the tax demands made upon them. In 1933, \$163,672,362 of municipal taxes were delinquent, and today an amount equal to a full year's levy, definitely delinquent or now due, is unpaid.

Municipalities cannot pay county taxes, State school taxes, or raise the millions for relief needs. The State is compelled to carry the burden.

The Federal Levy

While we have been quarreling here in New Jersey over relief taxation, we seem to have forgotten the significance and implications of the financial program of the Federal government. We have talked loud and long about the unreasonableness of recommendations that we should adopt a tax program to raise \$37,000,000 substitute revenues for real estate taxes no longer possible of collection. In the meantime, on the basis of the 1933 and 1934 figures, New Jersey's contribution to the Federal government from

the tobacco tax alone was approximately \$18,000,000,000. The A. A. A. processing tax takes from the consumers of the State \$21,000,000 a year, while our farmers, for whose relief this levy is supposed to be made, receive \$182,000 a year in benefits. The remainder of this sum, equal to the whole relief tax, goes to set up new extensions and additions to the Washington bureaucracy and to the farmers of the south and west as an inducement to plow up their cotton and grain, kill off their pigs and cattle, and as rewards for not growing the staples of food and clothing that New Jersey citizens may receive these necessities at reasonable cost.

In this land where we have been told these destructive measures were necessary to get rid of our surpluses, we are importing today corn and meat, and other agricultural products, and the rest of the cotton growing world has captured our long-established market in this most important staple.

Have you considered New Jersey's share in the cost of the \$4,880,000,000 Works Fund recently appropriated by the Congress? Our part of that debt is \$245,000,000. Add interest and amortization charges and it will be more than \$400,000,000 before it is paid.

Have you considered New Jersey's obligations with respect to the twenty-nine billions of our present National debt? We owe of that amount a billion and a half. It is high time that New Jersey's citizens began to take account of these things. We are an important part of this Federal government. We are called upon to meet one-twentieth of its obligations. Does not our interest in taxation and public spending reach beyond the limits of the State itself? Can we hope to solve these problems by talking about State expenditure all of the time, and forgetting municipal expenditure on the one hand and Federal expenditure on the other? Won't you agree with me that our interest in the costs of government go beyond a twenty million dollar tax to feed the hungry? I submit that the State government has gone further in the direction of careful spending than have either the city governments on the one hand, whose spending limits are measured only by their inability to borrow, and the Federal government on the other, which has recklessly spent more than any government on the face of the earth at any time in its history. This wild orgy of spending must eventually cease but it is New Jersey's privilege and duty to have its say about it now because we must pay a heavy part of this national debt.

It must be remembered that government has no wealth of its own and that it cannot create money in unlimited quantities that will pass current. The

only source of payment of government costs in America is from the earnings and wealth of the people. I submit that we ought to stop talking about these little sacrifices that we have to make in this relief tax; we had far better consider some of these larger problems which have a vital significance for all of us. America during the last twenty years has lost much of its enviable position with respect to the burdens of taxation on its people. You and I are going to see in this country taxes that would have been considered impossible and improbable a generation ago. I plead with you to have the courage to face our problems as they are. I plead for sound financial procedure in the State, for prudent spending, and a balanced budget. I am undertaking to fight your battles, as well as those of all of the people as I see them. This is my duty, but I urge a little tolerance.

There has been no such thing as a balanced municipal budget, except in rare and unusual cases, in New Jersey for a dozen years. Let us keep our State finances as sound as they are, and let us improve gradually, step by step, our local government finances. Let us not try to do everything at once, lest we pay the same price in the State that is being fastened upon the whole country by the Federal government in this senseless and impossible effort to make our civilization over into strange and unnatural form.

Financing Relief

In October, 1931, we began to contribute to municipal relief purpose out of State funds. At that time we gave \$1,500,000 from balances in the State treasury. In 1932 we spent \$12,600,000 for emergency relief by diversion of funds, by wage-cutting, and by borrowing \$4,200,000. Almost all of the \$15,000,000 of State funds for emergency relief in 1933 came from highway bond sales diverted for relief purposes. In 1934 we borrowed \$20,000,000 more—\$10,000,000 from the sale of highway bonds—\$10,000,000 to be paid out of liquor revenues. In three years the State has borrowed almost \$39,000,000 and before it is all paid, we will have paid nearly two dollars for every one borrowed. And yet we have gone on as if nothing much has happened. We rejected the bond and budget acts, the limitation on borrowing, adequate supervision of local government finance which I urged as worthwhile, and compelling measures for true savings and economies. We continue to spend every dollar of our municipal levies with a full knowledge that we can hope to collect in the year of expenditure not much more

than sixty cents of the tax dollar, counting at the time hopelessly frozen assets as cash in the till.

Diversion of Highway Funds

I am not forgetting that figures are dull and frequently hard to understand. I could go on in much greater detail analyzing State revenues and State expenditures to show our relief problems cannot be met by robbing one pocket to fill another in an effort to delay positive action which may and did bring criticism and which required some frankness and courage. I will not do this, but I do want to refer briefly to the matter of highway funds. I am willing to be put down as against the abandonment of our modern and necessary highway system far along toward completion. Our highways are the very life streams of our social and business structures. We cannot afford to neglect them. I believe in delaying major construction in this emergency and this is exactly what we are doing.

The highway budget for this year carries thirty-eight millions of dollars. So many people have talked about this money as if it were unallocated and free for any use, that the people have generally come to think that this is so. Look at it with me, if you will. This is the total amount available from motor fuel tax, motor vehicle fees, bus excise tax, and miscellaneous revenues, unexpended balances, and \$1,675,000 anticipated from Federal funds. Over thirteen millions of dollars of this amount must go to debt service to pay the amortization charges not only on the bonded debt for highway construction but for most of our borrowings for relief during the last three years. Ten millions of dollars goes back to counties and local governments for road repair and maintenance, a little construction, and in support of local debt service. A reduction in this amount or a diversion of these funds represents no savings but places a further heavier burden on local taxpayers in support of their local governments. A million dollars is required to pay the operating expenses of the Motor Vehicle Department, the Motor Fuel Tax Division, and for other minor diversions under the law.

The highway system must be maintained. The administrative organization of the department must be carried on and when this budget is analyzed it will be found that there are seven millions of dollars of State monies allocated for projects to be undertaken this year, and this amount must include the purchase of rights of way, grading, drainage, pavement and road construction, bridge construction, and grade crossing elimination. When one considers

the legitimate costs of highway work in New Jersey he will readily recognize that this sum does not represent an elaborate program.

I would not have objected to diversion of a substantial part of this amount had it not been for the regulations adopted by the Federal government which placed as the cost of any diversion of funds dedicated to highway use in any amount the loss of \$1,675,000 of Federal funds and possible other retaliatory action. Within recent weeks out of the enormous recovery fund of \$4,880,000,000 of dollars the Federal Department of Agriculture has announced allocations of seven millions of dollars to New Jersey for highway construction and grade crossing elimination, with some promise of further allocations. A lot of people take it for granted that this money has been received and many men are or could be on the payroll as an aid to recovery process. This is far from the truth. Not a dollar of the moneys allocated has been received, the date of its receipt has not been fixed, and the action so far has amounted to a tentative promise that we will receive these monies provided we supply the right of way, the materials, the equipment, and meet other incidental costs. The sum total of all these acts of the Federal government is that, exclusive of rights of way, New Jersey, if we desire to participate in the Federal program, must spend at least a dollar and a half of its own funds every time the Federal government makes a dollar available for highway and grade crossing purposes under its recovery program.

We want recovery in New Jersey, we want it and need it badly. We are heavy contributors to the Federal Treasury and I take the position that we had better spend seven millions of dollars to get eight or nine millions of the Federal funds and possibly a great deal more as the State's contribution in this movement.

Recently I have been working on a plan under which I hope that we can give further aid to local governments out of our highway budget to the extent of about two million four hundred thousand dollars and still meet the letter of the Federal requirements. The mere announcement of this was received by those who are interested in confusing the issue as an indication of my acknowledgment that the position I have taken has been found untenable. Nothing is further from the truth. I am seeking a way to help everybody most in this emergency. I am willing to wait for approval of my actions as that may be necessary. But I must hasten on.

Let Us End Costly Practices

The really significant point in this whole question is that I am determined that we shall turn away from the whole political policy of endless and expensive borrowing and that we shall move now—we have already begun to move—in the direction of a sound cash basis for the State government as well as for all of our local governments in which are found our real difficulties. You know and I know that we cannot undo all of the harmful results of the foolish and weak procedure, direct consequences of timidity and wishful thinking on the part of those who lacked the courage to face the facts which has had its pernicious sway in New Jersey for twenty years past.

Nor can we compose and settle all of our very real and very complicated financial and administrative problems by waving a magic wand or pulling pink rabbits out of a hat. We, and I mean, the people of New Jersey, are faced with the necessity of performing a tough surgical operation on a resisting patient when the old soft-soap political anesthesia will not render the patient senseless under the surgeon's knife. Because of the unsound procedures that have been followed for years we are obliged to cut where it hurts and we cannot relieve all the pain while the cutting is going on. The only comfort we have is in the knowledge that the patient will be assuredly better after the operation is complete.

I have not lost my confidence in the ability of the people of my State to meet their problems or in their determination to do so. We have succeeded in turning the tide of years of unbroken mounting costs in public administration in the other direction. We are beginning to make some headway in paying our public debts already contracted. The payments which we have been making and which we have yet to make for dead horses are actually dwindling. When the people understand these things and the absolute necessities of their government I am confident that they will accept the same policies which I have advocated or comparable policies.

Whether this reaction comes during my time in office or whether it comes later on may make some difference to me, but it will make little difference to the people of the State. I know that the program which I have offered is sound. I know that it is necessary. I realize that I have taken on a difficult task. I want the confidence and the cooperation of your Association and of all the people in my efforts to administer their business. I do not think that you will give that confidence and cooperation completely at this time. I am willing to wait.

If you must call this relief tax which I have approved to keep people from starving "a Hoffman tax" then I say that you should go ahead and do it. I am willing to pay whatever price may be required of me, so far as my personal fortunes are concerned. I urge you in all seriousness, in all earnestness, not to injure your own business and not to create further problems of unrest and dissatisfaction among the people who have not thought this thing through. The times are too hazardous, our problems are too difficult for us to indulge, if we should be so inclined, in such measures.

There is ample evidence in the world that we have not yet completed the proof that a free people can govern themselves wisely and withstand all of the shocks that may be hurled against our social, economic and political structure. I am confident that we shall win in this struggle, as I am confident that you will come to see that the program which I have offered for strengthening the structure of government in our State is sound and essential. I ask your consideration of these vital problems. I can wait for your support.

