

STATE OF NEW JERSEY

FOURTH REPORT

OF

The Commission on State  
Tax Policy

Financing a State Bonus  
for Veterans of World War II



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TRENTON, NEW JERSEY

1948

## STATEMENTS PERTAINING TO A STATE BONUS FOR VETERANS OF WORLD WAR II

### *Commission on Post-War Economic Welfare—*

Such immediate cash as might temporarily be required for the personal needs attendant upon return to civilian life after years under military authority, will be provided through the "mustering-out" pay by the Federal Government. It is not a case in which the State is unwilling to provide a bonus. Our veterans deserve everything that a grateful people can give them. But it is a disservice to the veterans themselves for Congress and State Legislatures to duplicate efforts that might well be placed on different and more substantial benefits.

—*Fourth Report* (February 28, 1944), p. 41.

### *Joint Legislative Bipartisan Commission to Consider a Veterans' Bonus—*

The Commission recommends to the Legislature that the payment of a bonus to New Jersey Veterans of World War II and to the next of kin of deceased members of the armed forces and the proposed method of financing such bonus with a bond issue be submitted by referendum to the people of the State of New Jersey.

—*Report of Study* (March 31, 1947), p. 11.

### *Sheldon F. DeBaun, retiring State Commander, Veterans of Foreign Wars (V. F. W.)—*

We are still fighting the political powers that are. Your commander and officers of the department have been huffed, bluffed and all but cuffed . . . on this issue, but we have not been discouraged by his actions. Our consistent fight for a State bonus for New Jersey veterans has become more determined by their attitude.

—*Newark Evening News* (June 25, 1948.)

### *New Jersey State Council, American Veterans Committee (A. V. C.)—*

NOW THEREFORE, *Be It Resolved:*

That the New Jersey State Council of the American Veterans Committee urge the enactment of a comprehensive, self-liquidating State program for permanent housing for those in the low and middle income brackets in preference to the enactment of State veterans bonus legislation.

—*Resolution* (Adopted June 6, 1948.)

STATE OF NEW JERSEY

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Tax Policy

Financing a State Bonus  
for Veterans of World War II

Submitted to the Governor and to the  
Legislature, August 27, 1948

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TRENTON, NEW JERSEY

STATE OF NEW JERSEY  
COMMISSION ON STATE TAX POLICY

[*Laws of 1945, Ch. 157*]

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JOHN F. SLY, *Chairman*  
*Professor of Politics, Princeton University*  
Princeton

W. PAUL STILLMAN, *Vice-Chairman*  
*President, National State Bank*  
Newark

AMOS F. DIXON  
*Assemblyman, Sussex County*  
Stillwater

CHARLES R. ENGLISH  
*Mayor*  
Red Bank

JACOB S. GLICKENHAUS  
*Freeholder, Essex County*  
Newark

NORMAN F. S. RUSSELL  
*Chairman of the Board, United States  
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**STATE OF NEW JERSEY**  
**Assembly Concurrent Resolution No. 12**

INTRODUCED MAY 10, 1948

BY MR. MEHORTER

(Without Reference)

A CONCURRENT RESOLUTION directing the Commission on State Tax Policy to prepare for introduction at the present session of the Legislature legislation providing for a veterans' bonus and for the method of financing the same, to be submitted to the voters of the State at the one thousand nine hundred and forty-eight general election.

WHEREAS, This Legislature favors the early granting by the State of a bonus to World War II veterans in the aggregate amount of one hundred five million dollars (\$105,000,000.00); but

WHEREAS, There exist substantial differences of opinion concerning the method of financing such bonus; and

WHEREAS, This Legislature feels that the decisions in these matters should properly and appropriately be left to the voters of the State; therefore,

BE IT RESOLVED *by the House of Assembly of the State of New Jersey (the Senate concurring):*

1. The Commission on State Tax Policy is directed to proceed forthwith with the preparation of necessary legislation, providing for:

a) the submission to the voters of this State at the one thousand nine hundred and forty-eight general election of the question whether or not they favor the granting of a bonus to veterans of World War II;

b) and for the submission of the further question of the method for the financing thereof.

2. The Commission on State Tax Policy shall complete the preparation of such legislation and submit the same together with a report on the effect thereof, to this Legislature as soon as possible.

3. This resolution shall take effect immediately.





## LETTER OF TRANSMITTAL

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### COMMISSION ON STATE TAX POLICY

20 NASSAU STREET, PRINCETON, NEW JERSEY

August 27, 1948.

*To His Excellency, Governor Alfred E. Driscoll, and Members of the One Hundred and Seventy-second Legislature:*

The *Commission on State Tax Policy*, pursuant to Assembly Concurrent Resolution No. 12, Laws of 1948, was directed by the Legislature—

to prepare for legislation at the present session of the Legislature, legislation providing for a veterans bonus and for the method of financing the same, to be submitted to the voters of the State at the one thousand nine hundred and forty-eight general election.

The resolution further relates that the Legislature favors the early granting of a veteran's bonus aggregating \$105,000,000.00; but because of substantial differences of opinion within the Legislature concerning the method of finance, the choice of method should "properly and appropriately" be left to the voters of the State.

The question of the propriety of a State bonus and the general method by which its financing is to be approved were not directly placed before the *Commission* for its consideration. The *Commission's* work was restricted to section 2 of the Resolution, which reads:

The Commission on State Tax Policy shall complete the preparation of such legislation and submit the same, *together with a report on the effect thereof, to this Legislature as soon as possible.*<sup>1</sup>

This *Commission* has always recognized that matters of policy decision are for the Legislature. But as the *Commission* points out elsewhere in this *Report*, the Legislature has placed it in an

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<sup>1</sup> Italics added.

impossible position—on the one hand, to maintain a sound fiscal structure in New Jersey, and on the other, to initiate policies that are in themselves unsound. We have accordingly faced what was, to us, an unhappy assignment—to find a source of revenue to finance a veterans bonus which under present circumstances, we would respectfully submit, is unsound, untimely and unnecessary. It is *unsound* because an anticipated \$105 million distribution of public money will mean little to the individual when divided among 550,000 veterans; but will nevertheless tend to postpone vital public needs and swell the tax burden for many years to come.

It is *untimely* because it is the height of imprudent finance to commit the State to a \$100 million expenditure until its present foreseeable deficits and urgent service requirements are understood and provided for. It is *unnecessary* because the Federal Government has already distributed about \$452 million for veterans in New Jersey and the State has provided an additional \$72 million for their benefit, plus general property tax exemptions which have increased in "tax value" from about \$2 million in 1946 to almost \$4 million in 1948—an annually recurring benefit.

Any suggestion to veterans that they can obtain cash from the State without helping to pay for it is to foster a false hope and to encourage disappointment. The *Commission* has sought to suggest methods of financing a bonus which, so far as possible, would not directly burden the mass of veterans themselves. The truth is that directly or indirectly the veterans—who are the backbone of our economy—will pay for a substantial part of whatever bonus they receive, because ultimately they pay their part of all government costs. A bonus will therefor, be little more than a loan repayable from each veteran's taxable share. The stimulated drive for a "state lottery" which has focused on the *Commission*, is evidence of the extremes to which some leaders are prepared to go to play veterans off against taxpayers. Aside from any moral or legal issues involved—and the Federal Government has placed every legal obstacle in the way of lotteries—"sucker financing" has no place in a sound State revenue structure.

The Legislature has plainly said that it "favors the early granting of a State bonus." Those who work closely with it know that it has not come to this decision lightly. In a representative government, it is the duty of a Legislature to represent its constituents; and if a large segment of our 550,000 veterans are represented as supporting a cash bonus and there is little public opposition to such a proposal, a Legislature has little choice but to

accept the policy. The soundness of the State is, after all, in the hands of its citizens, and this report speaks therefor to them, even more strongly than it does to the governing body. In these uncertain times, it is of the greatest importance that every citizen of New Jersey understand the significance of committing the State to an expenditure of one hundred million dollars.

The *Commission* has weighed these statements carefully. It wishes to avoid any appearance of taking issue with the Legislature on what is essentially a matter of broad public policy. But it would be unfaithful to the trust imposed upon it, if it did not speak frankly on an issue openly referred to it. These are times of unrest, hesitancy and even fear; and they place a premium upon yielding to proposals that in more steady times would die in a committee. We are entering a new period in post-war development—a period of national defense in which military service will be required of perhaps millions of young men and women. Are we to anticipate a second wave of bonuses within the near future? and still later, third, fourth and fifth waves? At the risk of stepping somewhat beyond its authority, the *Commission* would respectfully suggest that if the Legislature still believes a veterans' bonus is sound and appropriate, that it defer further consideration until such time as the need is more clearly established; the essential fiscal requirements of the State are provided for, and the implications of a bonus policy are fully understood.

#### COMMISSION ON STATE TAX POLICY<sup>1</sup>

JOHN F. SLY, *Chairman*

W. PAUL STILLMAN, *Vice-Chairman*

CHARLES R. ENGLISH

JACOB S. GLICKENHAUS

NORMAN F. S. RUSSELL .

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<sup>1</sup> Because the questions submitted to the *Commission* by A. C. R. 12 have previously received legislative consideration, the *Commission* has requested its legislative members Senator Charles K. Barton and Assemblyman Amos F. Dixon to refrain from participating in this report.



# REPORT OF THE COMMISSION

## PART I

### STATE BONUS FOR VETERANS

Pursuant to Joint Resolution No. 7, *Laws of 1946*, the Legislature established a *Joint Legislature Bipartisan Commission to Consider a Veterans' Bonus*. The *Commission*, Senator Alfred B. Littell, chairman, was composed of six Senators and six Assemblymen, with a distinguished technical staff. Following frequent meetings during the summer and fall of 1946 and a public conference in September, the *Commission* reported to the Legislature in March, 1947.<sup>1</sup> It recommended a State bonus for New Jersey veterans of World War II, to be provided substantially as follows:

1. *Coverage*: Only service between December 7, 1941 and September 2, 1945 was to be considered; payments to be made to both men and women who served in the armed forces between these dates.

2. *Payments*: For each month of service within the continental limits of the United States (excluding Alaska), \$10, but not to exceed \$150.

For each month of service outside the continental limits of the United States (including Alaska), \$10, but the total of continental service and overseas service not to exceed \$250.

3. *Initial Cost*: The initial cost was estimated as follows:

*Domestic Service*

430,431 veterans with more than 15 months service at \$150 .....	\$64,564,650	
45,549 veterans with 14 months service at \$140 .....	6,376,800	
44,823 veterans with 4 months service at \$40 .....	1,792,920	
10,579 women with an estimated 10 months service at \$100 .....	1,057,900	
		<hr/> \$73,792,330

<sup>1</sup> N. J. Joint Legislative Bipartisan Commission to Consider a Veterans Bonus, *Report of Study and Recommendations* (Trenton, March 31, 1947.)

*Foreign Service*

255,200 veterans with 10 months service at \$100 .....	\$25,520,000	
109,400 veterans with 5 months service ....	5,470,000	
		<hr/> 30,990,000

GRAND TOTAL .....	\$104,782,330
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Deduct 7% for those veterans who will not apply .....	—7,334,000
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Net initial cost .....	\$97,447,570
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Add cost of administration—494,000 cases at \$2.50 .....	1,235,000
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Total initial and administration costs .....	\$98,682,570
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4. *Financing Cost:* A bond issue (term bonds) not to exceed 10 or 12 years with a callable feature making it payable in 8 years at an estimated annual cost<sup>1</sup> as follows:

	<i>If Paid in 8 Years</i>	<i>If Paid in 10 Years</i>	<i>If Paid in 12 Years</i>
Annual interest cost (1½%) ....	\$1,485,000	\$1,485,000	\$1,485,000
Annual amortization requirement.	11,326,000	8,830,285	7,169,890
Total Annual Cost .....	<hr/> \$12,811,000	<hr/> \$10,315,285	<hr/> \$8,654,890
Ultimate over-all cost of financing .....	\$102,488,000	\$103,152,850	\$103,858,680

On April 21, 1948 a bill (Assembly 473) was introduced in the Legislature to give effect, in part, to this proposal. The bill provided for a bond issue of \$105 million, but made no definite provision for distribution of the money. Section 1 postponed determination of this matter by a provision that "an apportionment of the moneys on the basis of periods and places of service of such members of the armed forces shall be provided by general laws."

<sup>1</sup> Costs were estimated upon basis of financial market as it existed in 1947. In the 1948 financial market it is probable that New Jersey would be required to pay bond interest at rates between 1.6% and 1.75% thus causing annual costs for interest to be between \$99,000 and \$248,000 greater than the estimates shown. Sinking fund earnings would probably not exceed 2%.

In addition, Assembly 473 provided means to meet the principal and interest requirements of the proposed bond issue as follows:

1. A one cent increase in the gasoline tax—an increase from three cents to four cents a gallon to produce about \$9 million new revenue.
2. A  $1\frac{2}{3}$  cent increase on the beer tax—an increase from  $3\frac{1}{3}$  cents to 5 cents a gallon to produce about \$1.8 million new revenue.<sup>1</sup>

The *Commission* has examined both the Report of the Joint Legislative Committee and Assembly Bill 473. So far as the method of distribution as submitted in the Committee's Report is concerned, the formula seems adequate for the purposes in mind. If it is to be the policy of the Legislature to give away \$100 million as a cash payment, a per month service credit weighted in favor of foreign service seems reasonable enough. This was the practice following World War I and has been generally followed by the nine states that have provided bonuses for services in World War II.

The *Commission* would suggest, however, that in a period of the highest wages and fullest employment in history, a cash payment policy does not seem the most suitable way of handling the matter. Even the maximum payments provided are so small as to make little difference to individual recipients in the inflated patterns of the day; but in the aggregate they are large enough to seriously affect the tax and expenditure programs of the State—not only in placing additional taxes on already burdened citizens—but by postponing or curtailing expenditures of a lasting and imperative character.

If the Legislature still deems itself committed to bonus legislation, it would seem that the veteran's interest would be better served if the bonus were fitted a little closer to his needs and opportunities. While it would take time and study, alternative methods of distribution might be developed that would benefit both the veteran and the State. For those who demand cash, provision could be made; but for those who are interested in deferred but more substantial benefits, alternative opportunities might be provided.

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<sup>1</sup> Another bonus bill (Assembly 439) is likewise before the Legislature. It provides for a \$165 million bond issue to be distributed at the rate of \$1.00 a day for domestic service—but not in excess of \$300 per veteran; and \$1.50 a day for foreign service—but not less than \$300 nor more than \$800 per veteran. Financing is provided by dedicating revenue now received from pari-mutuel betting and from alcoholic beverages. The *Commission* has, however, used Assembly 473 as a point of criticism because it is based on the sum (\$105 million) approved by the Legislature in A. S. R. No. 12. Assembly 439, moreover, avoids the matter of new revenue by dedicating present funds. This is no more than a transfer from the general fund, and leaves the question of financing a bonus unanswered.

## Fiscal Effects of Enactment on Revenues

The revenue provisions of the bill (Assembly 473) are not satisfactory to the *Commission*. Both methods proposed—an increase in the gasoline tax and an increase in the beer tax—are the familiar and easy resorts to special taxation when a broad base of support is clearly indicated. The gasoline tax increase is objectionable because since its inception this tax has been regarded as a *highway users tax*. Such diversions as have been made from it for general State purposes have been defended on the grounds that the State was properly entitled to excess earnings that might result from the operation of a great capital investment. But non-highway users of gasoline—airlines, industry, farmers, business and households—have always been exempt and there seems no reason why this group of taxpayers (as well as highway users of gasoline) should suddenly be singled out for taxation to support an expenditure which is an obligation of every citizen—either individually or as reflected in the broad business base of the community.

The tax would, moreover, be particularly unfair to several tax-paying groups. Business firms which use large amounts of gasoline in their operations would be required to pay substantial sums toward the veterans' bonus while other businesses would be virtually excluded from the tax. For example, the motor truck industry which pays the present three-cent gasoline tax as a large highway user would have its tax increased by one-third for *non-highway purposes*.

Persuasive evidence has been presented to the *Commission* indicating that the one-cent gasoline tax upon forty-five independent motor bus lines (now operating under a 5% gross receipts tax in lieu of a gasoline tax) would be the equivalent of a new tax at about two-thirds of one per cent (7 mills) upon their gross passenger revenues. The position of the motor bus industry is summarized as follows:<sup>1</sup>

If the amount required for the Veterans' Bonus was allocated by a tax on the gross receipts basis for all industries the tax rate would be far less than  $\frac{1}{2}\%$ . It is therefore apparent that the proposed tax on fuel consumption which is the basic operating cost for the transportation industry, would be an unfair imposition of a tax burden, compared to this tax allocated upon this basis to other industries.

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<sup>1</sup> From data submitted by the New Jersey Auto Bus Association (July, 1948), 26 Journal Square, Jersey City, N. J.



As in the case of the motor bus carriers, the air carriers take the position that they expect to pay a proper proportion of all taxes for general purposes assessed to business, but that a special tax of one cent upon their gasoline purchases would cause them to bear a disproportionate share of the over-all burden. For example, estimates indicate that in the case of American Airlines alone, a one-cent gasoline tax would approximate 2.5 per cent of the company's receipts derived in New Jersey, all of which represents interstate fares.<sup>1</sup>

Farmers constitute another group of taxpayers to whom a one-cent gasoline tax to finance a veterans' bonus has particular significance. They are now excluded from payment of the gasoline tax upon the basis that they are not highway users, but they would be brought into the base for a tax not assessed exclusively for highway use. As large general property taxpayers, farmers in New Jersey contributed heavily to the payment of the World War I bonus which was financed from annual property tax assessments over a twenty-year period. They were nevertheless in the same position as all other property holders; but the selective treatment of a one-cent gasoline tax to finance a World War II bonus would place the farmer in an unequal position as compared to other property taxpayers. It is a good rule in taxation that a general obligation should be met by a general tax.

But considerations of equity as among taxpayers are not the only factors which cause the one-cent gasoline tax to be an unsatisfactory base for financing a veterans' bonus. Although New Jersey is one of only five states which still tax gasoline at three cents or less per gallon, there is a strong possibility that this favorable tax rate cannot be maintained indefinitely. Pressures for additional revenues for highway purposes—either directly for State use or indirectly for State aid to counties and municipalities—are growing and the State may soon find it necessary to adopt increased gasoline tax rates to meet them.

Table I shows an anticipated surplus of \$12.4 million in highway funds for the fiscal year 1948-1949. By the end of the fiscal year 1952-1953, however, the highway fund surplus is expected to be virtually eliminated. Proposed highway bond issues are expected to require annual revenues for debt service charges increasing to \$4 million by 1952-1953. In the face of this trend and the growing needs for highway aids to local governments, toll

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<sup>1</sup> American Airlines, Inc., *Statement with respect to the taxation of aviation fuel and related matters referred to the New Jersey Commission on State Tax Policy for consideration by the Senate Resolution of April 15, 1947* (January 26, 1948), p. 25.

TABLE I

## STATE OF NEW JERSEY

## STATEMENT OF ESTIMATED REVENUES AND REQUIREMENTS

1948-1953

(Amounts Rounded to Thousands of Dollars)

Item	1948-1949		1949-1950		1950-1951		1951-1952		1952-1953	
	General	Highway	General	Highway	General	Highway	General	Highway	General	Highway
REVENUES BUDGETED										
Balance at beginning .....	\$11,550	\$11,520	\$627	\$12,433	.....	\$9,353	.....	\$7,573	.....	\$3,943
Inheritance Taxes .....	9,000	.....	9,000	.....	\$9,000	.....	\$9,000	.....	\$9,000	.....
Railroad Taxes .....	5,000	.....	4,500	.....	4,800	.....	5,000	.....	5,500	.....
Misc. Corp. Taxes .....	7,500	.....	7,900	.....	8,200	.....	8,300	.....	8,500	.....
Domestic Life Insurance Corp.										
Taxes .....	1,000	.....	600	.....	500	.....	300	.....	250	.....
Foreign Life Insurance Corp. Taxes	4,500	.....	4,800	.....	5,000	.....	5,200	.....	5,250	.....
Beverage Taxes .....	14,250	.....	14,000	.....	14,200	.....	14,300	.....	14,500	.....
Racing Receipts .....	12,250	.....	12,250	.....	12,250	.....	12,250	.....	12,250	.....
Cigarette Taxes .....	14,200	.....	14,800	.....	15,000	.....	15,200	.....	15,500	.....
Dept. Banking-Insurance .....	1,050	.....	1,000	.....	1,100	.....	1,200	.....	1,200	.....
Educational Institutions .....	768	.....	800	.....	800	.....	800	.....	800	.....
Institutions and Agencies .....	6,085	.....	6,200	.....	6,300	.....	6,600	.....	7,000	.....
Rentals—Veterans Housing .....	1,000	.....	1,000	.....	1,000	.....	1,000	.....	1,000	.....
Hunters and Anglers Revenue .....	1,020	.....	1,100	.....	1,100	.....	1,200	.....	1,200	.....
Other Departmental Revenue .....	3,205	.....	3,300	.....	3,400	.....	3,500	.....	3,600	.....
Income School Fund .....	455	.....	400	.....	400	.....	400	.....	400	.....
Income Surplus Revenue Fund .....	18	.....	18	.....	18	.....	18	.....	18	.....
Motor Vehicle Fees .....	.....	31,500	.....	32,000	.....	32,500	.....	33,000	.....	33,500
Motor Fuel Taxes .....	.....	27,500	.....	27,500	.....	28,000	.....	28,000	.....	28,500
Miscellaneous .....	41	250	100	200	100	200	100	200	100	200
Non-recurring-Central R. R. Int. ....	5,070	.....	.....	.....	.....	.....	.....	.....	.....	.....
Non-recurring (return of loan) .....	.....	.....	.....	.....	.....	1,150	.....	.....	.....	.....
TOTAL REVENUES .....	\$97,961	\$70,770	\$82,395	\$72,133	\$83,168	\$71,203	\$84,368	\$68,773	\$86,068	\$66,143

Source: New Jersey State Department of Taxation and Finance, Division of Budget and Accounting.

TABLE I—(Continued)

## STATE OF NEW JERSEY

## STATEMENT OF ESTIMATED REVENUES AND REQUIREMENTS

1948-1953

(Amounts Rounded to Thousands of Dollars)

	Item	1948-1949		1949-1950		1950-1951		1951-1952		1952-1953	
		General	Highway	General	Highway	General	Highway	General	Highway	General	Highway
II	REQUIREMENTS										
	Annual bill—1948-1949										
	Current Operation .....	\$48,022	\$23,080	\$47,793	\$23,080	\$48,000	\$21,580	\$48,000	\$21,580	\$48,000	\$21,580
	State Aid .....	49,052	16,300	49,052	16,300	49,000	16,300	49,000	16,300	49,000	16,300
	Capital Items .....	260	17,357	.....	22,000	.....	22,000	.....	22,000	.....	22,000
	ADDITIONAL FORESEEABLE										
	REQUIREMENTS										
	Salary increases, bonus .....	.....	1,600	1,200	400	2,300	750	3,300	950	4,100	1,050
	Other increases .....	.....	.....	1,000	1,000	2,500	1,000	4,000	1,000	5,500	1,000
	DEBT SERVICE										
	On proposed Soldiers Bonus .....	.....	.....	10,315	.....	10,315	.....	10,315	.....	10,315	.....
	On proposed Institution Construc- tion .....	.....	.....	500	.....	1,500	.....	3,000	.....	3,500	.....
	On proposed Highway Bond Issue..	.....	.....	.....	.....	.....	2,000	.....	3,000	.....	4,000
	On proposed Vet. Housing Bond Issue .....	.....	.....	2,235	.....	3,452	.....	3,408	.....	3,364	.....
	TOTAL REQUIREMENTS .....	\$97,334	\$58,337	\$112,095	\$62,780	\$117,067	\$63,630	\$121,023	\$64,830	\$123,780	\$65,930
	Amount Required to Balance .....	.....	.....	\$29,699	.....	\$33,899	.....	\$36,655	.....	\$37,712	.....
	Balance at End .....	\$627	\$12,433	.....	\$9,353	.....	\$7,573	.....	\$3,943	.....	\$213

roads are being considered as a way to postpone the day when highway taxes will have to be increased to meet the State's highway requirements. Against such a background, it seems a policy of questionable prudence to tap the source of future highway revenues for non-highway use.

Expected revenue yield from the increased beer tax (\$1.8 million annually) or even from the entire beer tax after the increase (\$5.6 million), would not be sufficient to finance the veterans' bonus. This means that its use would require supplementary tax revenues. The result of this policy would probably be a miscellaneous assortment of special or selective taxes chosen as a matter of convenience and expediency. The question of increased tax rates upon beer is now before the Legislature (A-24). It should, in the judgment of the *Commission*, be considered upon its merits as a part of the revenue structure of the State. But as a special tax upon a single commodity, the beer tax is not suited to the purpose of paying a large general obligation such as a veterans' bonus.

### **The Lottery Question**

There are those in the State who would avoid the embarrassment of new taxes to finance a veterans bonus, by resorting to a device new to modern American public finance—the State lottery for revenue purposes. The *Commission* is reluctant to discuss a subject which under less pressing circumstances would be dismissed without comment; but the large amount of correspondence it has received urging this form of finance (much of it, however, plainly pressure manufactured), requires that it make its position clear.

Assembly Bill 482, introduced May 3, 1948, offers the fullest explanation available as to what is contemplated by the supporters of a lottery. The title of the bill reads as follows:

AN ACT to provide for the creation of a State lottery to be maintained, controlled and restricted by the State of New Jersey, the purpose of said lottery being to raise money for the payment of bonuses for World War II veterans, to provide for the establishment, and setting forth the powers and duties, of a State Lottery Commission and to provide for the submission of this act to the people at a general election for adoption or rejection.

The bill establishes a State Lottery Commission of five members, to be appointed by the Governor with the advice and consent of the Senate for overlapping terms of five years. It authorizes

the State Lottery Commission to adopt rules and regulations for the conduct of a State lottery—

Said State lottery to be patterned after the Irish Sweepstakes which have been held for years in Dublin, Ireland, with such adjustments as the State Lottery Commission in its discretion shall deem necessary under the circumstances.

The bill further provides that the proposed lottery shall be held not more than twice annually, and at the discretion of the Commission, may be held only once annually. The Commission is given the authority to establish prizes, sell lottery tickets, collect the receipts and “to have all and any power necessary to conduct a lottery including the power to hire the necessary personnel.” The substantive provisions of the bill conclude with conferring the widest possible powers upon the Commission:

Any and all proceeds which shall be received in any manner from the operation of a State lottery shall, after the necessary expenses incurred by the State Lottery Commission be paid, be turned over to the State Treasurer and the General State Fund and be dedicated to the payment of a veterans’ bonus for World War II veterans as may be or has been provided by law.

It is the purpose of this act that the State Lottery Commission restrict and control the lottery and that they have all the necessary police powers and other powers to accomplish the purpose of this act.

The remainder of the bill provides for the submission of the question to the people at the next general election, November, 1948.

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The bill is carelessly and loosely drawn. The only guide to the type of lottery contemplated is that it be patterned after the Irish sweepstakes. The widest powers of discretion are given to the Commission, including “the power to hire the necessary personnel.” The division of the proceeds of the lottery “after the necessary expenses . . . be paid” is for the Commission to decide. It is vested with “all the necessary police powers and other powers to accomplish the purpose of the act.” Aside from a flagrant delegation of legislative authority, it is hard to conceive a gambling bill that more clearly invites abuse. The Commission can establish the kind of lottery it wants; pay its members whatever it wants; hire such employees as it wants; divide the proceeds the way it wants; and turn into the treasury as much or as little

as it wants. It is difficult to believe that this bill was prepared for serious consideration by the Legislature.

There is not space in this brief report to develop the sorry history of both public and private lotteries that marred the life of this country during the first quarter of the nineteenth century. It was, however, no Puritanic tradition or over-zealous reformers that finally destroyed the practice. It was the people themselves. The truth was that the lottery became a machine that was rapidly transforming the country into a nation of petty gamblers. It was marked by every known device of fraud, deception, default and counterfeiting. It was publically proclaimed as "a tax on the needy and ignorant"—a device where "one-half the citizens get their living by affording the opportunities of gambling to the rest."<sup>1</sup>

The last and, in many respects, the sorriest experience with lotteries was in Louisiana, where the so-called Louisiana Lottery Company was authorized by the Legislature in 1868 with the worthy purpose of raising \$40,000 a year to assist with the maintenance of the Charity Hospital in New Orleans. The first scheme was modest enough—monthly drawings of 100,000 tickets at twenty-five cents each, with a grand prize of \$3,750. But this was only a beginning. As the business developed, the first prize was increased to \$7,500 on a fifty-cent ticket, and finally a \$600,000 prize on a \$40 ticket, with the monthly and semi-monthly schemes reaching a total of \$28 million a year. The charter of the company was cancelled in 1879; but when a renewal was applied for in 1890 the company offered to pay \$1.2 million a year for the franchise. The issue was fought out in the gubernatorial election of 1892, and the lottery abolished. About the same time (1890), Congress passed anti-lottery laws which with amendments remain on the statutes today:

Title 18, United States Code, Crimes and Criminal Procedure (revision effective Sept. 1, 1948) Secs. 1301-1304 impose fines of up to \$1,000 and imprisonment of up to five years upon anyone who

- 1) knowingly deposits any lottery matter with any express company or common carrier;
- 2) carries in interstate or foreign commerce any lottery matter,
- 3) or any advertisement of, or list of the prizes drawn or awarded;

<sup>1</sup> The following materials have been consulted in preparing this statement: Herbert Asbury, *Suckers Progress* (N. Y., 1938); Virgil W. Peterson, *Gambling, Should It Be Legalized?* (Chicago Crime Commission, Chicago, 1945); J. H. Landman, "The Lottery for Government Revenues" in *Natl. Tax Assn. Bull.*, vol. XXX, no. 3 (Dec., 1944); A. B. Armstrong, "Lotteries" in *S. W. Soc. Sc. Quart.*, vol. XXVI, no. 3 (Dec., 1945); and articles and bibliographies in the *Encyclopaedia Britannica* and the *Encyclopaedia of the Social Sciences*.

- 4) or knowingly takes or receives any such paper, advertisement or list brought deposited or transported in interstate or foreign commerce;
- 5) knowingly deposits in the mails or sends or delivers by mail
  - a) any circular concerning any lottery,
  - b) any lottery tickets,
  - c) any money or payment for purchase of lottery tickets,
  - d) any publication of any kind containing any advertisement of a lottery or any list of prizes awarded;
- 6) broadcasts or permits the broadcast by any radio station of any advertisement or information concerning any lottery.

The effect of these Federal criminal laws is to surround any lottery scheme with a wall of Federal criminal penalties on all sides. A lottery obviously requires publicity for the sale of tickets, for the announcement of winning tickets and for the general information of those who participate, but the Federal statutes in effect bar the use of the three great mediums of public communication—the newspapers, the mails and the radio. A lottery requires a market for the sale and distribution of its tickets; but the Federal statute makes it a crime to seek to distribute lottery tickets outside our own State, or even to deposit any lottery papers in the mails or with any express company or common carrier.

The constitutions or laws of practically all the other states of the Union prohibit lotteries within their states. This means that not only Federal law, but the law of the several states will be violated by any lottery operations which extend outside the boundaries of New Jersey. In summary, the strictly legal question raised by any lottery proposal is this: Does the State of New Jersey wish to invite, encourage, and even promote the commission of crimes and offenses against the laws of the United States and of the several states, in the guise of a real or fancied benefit to those who fought so well for the preservation of law, order, and morality?

There are those who may refer to the numerous small private lotteries with which we are all familiar. The point is that these lotteries are and have been illegal; and the fact of their illegality is a powerful restraining influence upon the manner in which they are conducted and the purposes for which they are tolerated. If the veterans of this State were to be polled with full understanding of the criminal and economic implications of a large State-operated lottery, this Commission believes that their answer to the lottery question would be an emphatic “No”.

The *Commission* does not wish to labor the point, but all experience has shown and all competent writers on the subject agree, that the lottery is perhaps the most socially destructive form of gambling that has been devised. It may well impoverish more people, have more insidious effects on public life, deplete most rapidly the legitimate tax bases of a community, and be more widely susceptible to fraudulence, cheating and manipulation than any other gambling device. It is particularly obnoxious in a country where legitimate business is the economic foundation of the State, where labor is the honorable way of acquiring wealth, and where recent emphasis has been so strongly on the side of preventing social exploitation.

The *Commission* is unable to examine the exact form of lottery that the sponsors of this proposal have in mind, as no complete plan, so far as the *Commission* knows, has yet been prepared. There are, however, many types of lottery all identified by three factors: *first*, a distribution of prizes or prize money; *second*, dependence for the winning ticket entirely upon chance; and *third*, a consideration for the right to participate. Assembly Bill 482 suggests the Irish sweepstakes as a pattern. The Irish Hospitals sweepstakes was said to be the biggest lottery in the world when it was suspended in 1940 because of World War II. It is reported to have averaged more than \$25 million annual income of which about one-fourth was retained for the hospital benefit and the remainder returned in prizes as high as \$100,000 each. Sweepstakes of this character must necessarily be associated with horse racing, and operate, briefly, as follows:

A great many contributors buy chances on a particular race; sometime before the race each horse is assigned to a particular ticket holder, the great majority drawing blanks and thereby losing their stakes; the holders of the ticket on the horse which finally wins the race receives all the stakes, or they may be divided among the holders of the tickets on the first three horses. A contributor to whom a horse is assigned in the draw can frequently dispose of all or part of his ticket before the race at a substantial profit, varying according to whether his horse is a favorite or an outsider.<sup>1</sup>

To "pattern" a lottery after the Irish sweepstakes to raise amortization and interest charges of \$10 million a year for bonus bonds, would require a "take" of \$40 million a year. This is as much as a stiff income tax or consumer sales tax would be expected to yield. It would, moreover, fall heaviest on those least able to

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<sup>1</sup> *Encyclopaedia of the Social Sciences*, vol. IX, 613-614.



pay, and could promise no certainty or continuity of yield. It places the government in precisely the same position as the operator of a gambling house—the game must be “fixed” to raise the required revenue. If there is any doubt in the minds of anyone that this type of finance is suitable to a great State, the *Commission* would commend Herbert Asbury’s recent book, *Suckers Progress*, with particular attention to that illegitimate offspring of the lottery—Policy or Numbers—described as “the biggest, richest racket in the United States today.”

### Fiscal Effects of Enactment on Expenditures

The *Commission* would respectfully emphasize that the time of piecemeal financing has gone from New Jersey. The financing of a bonus is only a part of the State’s fiscal picture and should not be considered as a problem separate from the full requirements of the State. Briefly summarized, the State will need a minimum of additional revenues beginning in the fiscal year 1949-1950 (as detailed in Part II of this *Report*) about as follows:

	<i>With Bonus</i>	<i>Without Bonus</i>
1949-1950 .....	\$30 million	\$20 million
1950-1951 .....	34 million	24 million
1951-1952 .....	37 million	27 million
1952-1953 .....	38 million	28 million

The financing of a bonus as part of the obligation of the fiscal year 1949-1950 cannot, therefore, properly be viewed as a single item of \$10 million. The real figures—and conservative ones—are \$30 million or \$20 million.

It is here that the matter of legislative priorities becomes important. The *Commission* would suggest that the *first priority* upon which the soundness of all other projects must depend is to *balance the budget*. This means that before new expenditures of any kind are undertaken, a virtually assured deficit of \$17.9 million in general fund expenditures must be met.<sup>1</sup> This includes a group

<sup>1</sup> As shown in Table I for 1949-1950:

Expected general fund requirements	
Current operation .....	\$47.8 million
State aid .....	49.1 million
Salary increases and employees’ bonus ...	1.2 million
Veterans housing bonds .....	2.2 million
Total requirements .....	\$100.3 million
Expected general fund revenues .....	82.4 million
Deficit indicated .....	\$17.9 million

of service requirements which are first priorities because they are in the nature of fixed charges to which the State is already committed. *First*, there are increases in established salary increments for State employees and increases due to cost-of-living increments which will total \$1.2 million from the general fund in addition to about \$400,000 from the highway fund. *Second*, there are debt service requirements on the present veterans' housing bonds outstanding which will require \$2.2 million. Each of these fixed charges will fall due in the fiscal year 1949-1950.

The *second priority* would seem to be provision for capital investments neglected during the war years, and in many instances fallen to such a low state of usefulness as to threaten the safety of those who must use them. No one who has examined the reports and records of the Department of Institutions and Agencies can have the slightest doubt of the urgency of this need and of the responsibility of the State to its unfortunate citizens in overcrowded, ill-equipped and even unsafe hospitals, asylums and sanitariums. This may well require about \$28 million of a contemplated \$50 million bond issue for all institutional constructions (including educational institutions), with debt service charges of \$500,000 a year. A bill has already passed the Assembly for this purpose. With provision for new buildings and facilities, moreover, increased maintenance is expected to require about \$1 million, causing the total increase for these purposes to be about \$1.5 million for the fiscal year 1949-1950.

There are other requirements of acknowledged urgency, but difficult to establish in order of priority. Among these is a slum clearance and housing program. Decay, obsolescence and economic blight in our cities—where most veterans live—will require many millions to cure. The elimination of unsafe, unhealthy housing is so fundamental and basic to the strength of a community that it should not be put off for anything but the most urgent considerations. Our primary emphasis as a State must, of course, be to enable as many people as possible to take care of their own housing needs. But the area of public responsibility will remain large—*first* in slum clearance, and *second* in maintaining minimum housing standards for those who cannot pay even the lowest prices of the private housing market. The veterans emergency housing program—for which the State committed \$41,000,000 plus interest on a \$35 million bond issue and for which municipalities throughout the State made large commitments for sites, preparation, streets, and utilities—is barely a beginning.

It appears that the Taft-Ellender-Wagner federal housing bill may become law during the next Congress. Upon the enactment of this type of law, municipalities and the State, in turn, will be called upon for very large sums, as will private capital, in a coordinated application of all resources to the problems of slum clearance and rehabilitation of blighted urban areas. The cost of the public part of such a program is inestimable at this time, but it is certain to greatly exceed the \$99,000,000 or the \$105,000,000 bonus figure.

Another imperative service need is relief of our overcrowded highways. The meaning of our State and municipal highway needs in terms of the public welfare and of public finance was described in a far-reaching program laid before the State in Governor Driscoll's *First Annual Message* (January 21, 1947). These are some of the points the Governor emphasized:

- 1) A continuation of the State program for the construction of freeways and parkways
- 2) A continuation of the State program to carry State highways through or around our large cities
- 3) New emphasis in the development of a secondary road program at the county level.

It has become clear that existing highway revenues would be inadequate for the large scale construction that is needed, and that it would be unwise to place three large bond issue questions—institutional, highway, and bonus—on the same ballot this November. In effect, the proposed bonus has already crowded urgently needed highway bonds off the ballot. In lieu of a program of freeways, the Administration has been obliged to undertake a program of toll roads to be financed by bonds which will not be a debt of the State and therefore need not be placed upon the ballot in November. This step will be taken, the Governor has indicated, so as to free all current highway user revenues for needed construction of normal highways which cannot and should not be placed upon a toll basis.

Another essential need is capital expansion for educational purposes particularly at the college and university level. New Jersey veterans and non-veterans alike have been forced into an anomalous position because of our State shortage of college and higher educational facilities. It has been estimated that normally some 60% of New Jersey students must go out of the State for their higher education. This was perhaps no hardship in normal

times when institutions of other States were glad to admit qualified students from this State. In recent years, however, not only have we been compelled to limit or prefer admissions to residents but educational institutions in other states have had to do likewise. The net effect is this: New Jersey is faced with the need to expand its State educational facilities if thousands of its qualified young people are not to be denied a college education or be forced to accept an inferior offering. Veterans are concerned with this situation—as students, parents, brothers and sisters. The cost of a conservative expansion program has been estimated at \$17 million and together with expected increases in maintenance costs has been included in the estimates for institutional costs.

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The benefits that the Federal Government has already placed at the disposal of New Jersey veterans is impressive testimony of the gratitude of a grateful nation to her soldier sons and daughters. Table II shows the estimated dollar amount of this recognition to exceed \$450 million (exclusive of terminal leave pay) during the fiscal years 1945-1948 for New Jersey alone, and to exceed \$16 billion in the Nation as a whole. Table III shows New Jersey's own program of benefits placed about \$72 million at the disposal of veterans up to June 30, 1948—business loans, \$31 million; household furnishing loans, \$2.9 million; veterans' housing, \$37 million (ultimate program, \$41 million); special education (secondary schools) \$574,000; and special benefits to paraplegic and blind veterans, \$56,500. In addition, general property tax exemptions (largely for veterans) have increased in tax value from about \$2 million in 1946 to about \$4 million in 1948—an increase of about \$2 million in annual recurring tax benefits to all veteran general property taxpayers.

The *Commission on Post-War Economic Welfare* weighed this matter with the greatest care in 1943. It wished to avoid what it considered the expensive and futile policy of cash bonuses that followed World War I, and to provide more fundamental and lasting assistance to returning servicemen. The *Commission* said:

The truth is State bonuses have not and will not play any substantial and permanent part in the civilian readjustment. Such immediate cash as might temporarily be required for the personal needs attendant upon return to civilian life after years under military authority, will be provided through the "mustering-out" pay by the Federal Government. It is not a case in which the State is unwilling to provide a bonus. Our

TABLE II  
FEDERAL VETERANS BENEFITS  
NUMBER OF BENEFICIARIES AND ESTIMATED AMOUNT OF BENEFITS TO NEW JERSEY VETERANS OF WORLD WAR II  
(1944-1948)

<i>Nature of Benefit (Distributing Agency Indicated in Parentheses)</i>	<i>1944-45</i>		<i>1945-46</i>		<i>1946-47</i>		<i>1947-48</i>		<i>N. J. 4-Yr. Total Amt. of Benefits</i>
	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>	<i>Number</i>	<i>Amount</i>	
Pension Benefits <sup>1</sup>									
Living Veterans (V. A.) .....	17,810	\$5,321,721	62,593	\$19,131,755	70,101	\$34,123,577	*	\$34,123,577 <sup>2</sup>	\$92,700,630
Pension Benefits <sup>1</sup>									
Deceased Veterans (V. A.) .....	2,560	1,540,600	4,746	3,739,279	5,875	4,357,990	*	4,357,990 <sup>2</sup>	13,995,859
Education and Training									
Subsistence, Tuition, etc. <sup>1</sup> (V. A.) .	395	137,995	17,754	4,889,755	34,896	36,737,640	*	43,600,000 <sup>3</sup>	85,365,390
Vocational Rehabilitation <sup>1</sup> (V. A.) ...	310	145,761	2,844	959,918	4,996	4,783,630	*	5,600,000 <sup>3</sup>	11,489,309
Automobiles and Other Conveyances for Disabled Veterans <sup>1</sup> (V. A.) ...	.....	.....	.....	.....	*	694,524	*	275,000 <sup>3</sup>	969,524
Readjustment Allowances									
Unemployment and Self-Employment <sup>4</sup> (V. A.-U.C.C.) .....	45,228 <sup>5</sup>	6,603,970 <sup>5</sup>	199,144	68,339,363	37,856	35,176,342	*	10,642,749 <sup>6</sup>	120,762,432
Mustering-Out Pay <sup>7</sup> (Armed Services) .....	25,200	6,742,500	409,200	109,238,500	50,500	13,485,000	20,200	5,394,000	134,860,000
Totals .....	.....	\$20,492,555	.....	\$206,298,570	.....	\$129,358,703	.....	\$96,315,586	\$452,465,414 <sup>8</sup>

\* Number of beneficiaries not available.

<sup>1</sup> Source: U. S. Veterans Administration Reports, 1945-46-47.

<sup>2</sup> Estimated on basis of figures for 1946-47.

<sup>3</sup> Estimated on basis of estimated national expenditure in Budget of the United States (1949). Education and training estimate is conservative. Veterans Administration releases indicate 49,000 recipients of educational benefits in May 1948 compared with a total of less than 35,000 in fiscal 1947.

<sup>4</sup> Source: U. C. C. of New Jersey, *Eleventh Annual Report* (1947). Mimeo. Table 13. Calculated on calendar year basis.

<sup>5</sup> Combines calendar years 1944 and 1945.

<sup>6</sup> Source: U. C. C. of New Jersey, *Monthly Activities* (January 1948-June 1948).

<sup>7</sup> Estimated on basis of periods of domestic and foreign service of N. J. veterans indicated in New Jersey Legislature's Bonus Commission, *Report of Study* (March 31, 1947) pp. 12-13 and Budget of the U. S. (1945-46-47-48-49).

<sup>8</sup> Does not include such items as terminal leave pay (estimated at \$98,090,000) National Service Life Insurance benefits (\$23,870,391 for the period 1944-47), etc.

TABLE III  
STATE OF NEW JERSEY  
STATE BENEFITS TO VETERANS  
(1945-1948)

BUSINESS LOANS TO JUNE, 1948 <sup>1</sup>			
<i>Number</i>	<i>Amount</i>		
13,285	\$30,675,900.27		
HOUSEHOLD FURNISHINGS LOANS TO JUNE 1948 <sup>1</sup>			
<i>Number</i>	<i>Amount</i>		
4,828	\$2,898,650.00		
VETERANS HOUSING TO JULY, 1948 <sup>2</sup>			
<i>No. of Units</i>	<i>No. of Mun. Participating</i>	<i>Amount 1946-7</i>	<i>Amount 1947-8</i>
7,767	200	\$17,668,986.86	\$19,700,782.22
VETERANS EDUCATION, SPECIAL SECONDARY SCHOOL CLASSES <sup>3</sup>			
<i>No. of Veterans To June, 1947</i>	<i>Amount</i> 1946-47		
16,000	\$574,436.82		
		<i>Amount</i> 1946-7	<i>Amount</i> 1947-8
Paraplegic Veterans Pensions	<i>No. of Veterans</i>		
	55,000 to June, 1948	0	\$12,500
Blind Veterans Pensions		\$20,000	24,000
War Orphans Education		0	0 <sup>4</sup>

Benefits as shown are exclusive of general property tax exemptions; veterans preference in civil service employment; and advantages of the special civil service employees pension act. The "tax value" of the property exemptions totaled about \$2.8 million in 1947 and about \$3.8 million in 1948. These exemptions represent substantial annual recurring benefits to veterans. These data include some firemen's exemptions which, although declared unconstitutional, are still granted. The amounts are not reported separately.

<sup>1</sup> Source: Division of Veterans' Services, N. J. State Department of Economic Development (mimeographed material).

<sup>2</sup> Sources: Numbers of units and participating municipalities from Col. Warren S. Hood, "Four Years After," *New Jersey Municipalities* (June 1948, p. 24 ff.). Amounts from *New Jersey Budget* (1949).

<sup>3</sup> Source: *New Jersey Budget* (1949).

<sup>4</sup> \$5,000 in budget for 1948-1949.

veterans deserve everything that a grateful people can give to them. But it is a disservice to the veterans themselves for Congress and State Legislatures to duplicate efforts that might well be placed on different and more substantial benefits.

It was this policy that promoted the establishment of the State Veterans' Guarantee Loan Fund—one of the most successful veterans' aid devices that the post-war period produced.

With this background, the *Commission on State Tax Policy* is unable to see how a cash bonus averaging less than \$200 per veteran can be significant in the face of the large benefits already conferred and in view of the vital service needs that are pressing for attention. It is difficult, moreover, to suppose that so small a recognition can be interpreted as a tangible evidence of appreciation to New Jersey soldiers "for their difficult and dangerous service in protecting the nation in time of peril." There are likewise other implications:

Massachusetts came through with a \$100 bonus in 1945 but that was only a starter. In 1946, 500 veterans stormed historic Faneuil Hall in Boston to demand \$900 more, to be raised by a State lottery. The \$100 bonus was labeled a "peanut bonus." As a result of this pressure, the 1946 Legislature raised the bonus to \$200 for domestic and \$300 for foreign service. The estimated cost was \$175,000,000.<sup>1</sup>

#### **Current History of State Bonus Action**

While many bonus proposals have been before Congress since the close of World War II, Congress has so far taken no action. The passage of the G. I. Bill of Rights (like the State Veterans Guarantee Loan Fund Act and other benefits in New Jersey) has at least for the time being side-tracked the issue. The Federal experience following World War I was, moreover, not a happy one. No bonus was authorized until 1924 (six years after the close of hostilities), and payment was then made in "adjusted compensation certificates" maturing in twenty years and averaging about \$1,000.<sup>2</sup>

<sup>1</sup> Minnesota Institute of Governmental Research, Research Bulletin No. 23 (July, 1948), *Proposed Soldiers Bonus in Minnesota* (St. Paul) p. 9.

<sup>2</sup> The materials for this section (in addition to those assembled by the *Commission*) are taken from several recent surveys on the subject: namely, Tax Foundation, *Cash Bonus for Veterans, A State-by-State Analysis* (N. Y., 1948); Minn. Inst. of Governmental Research, *Proposed Soldiers Bonus in Minnesota*, Research Bull. 23 (St. Paul, July, 1948); *Tax Outlook*, Vol. 3, No. 7 (July, 1948) and Natl. City Bank of New York, *Monthly Letter* (March, 1948).

The veterans were not satisfied with this type of deferred payment, and when the depression of 1931 developed, Congress passed a bill providing a government loan up to 50% of the value of each bonus certificate. It became a law over President Hoover's veto; but by 1936 pressure for full payment came before the Congress. This proposal became a law over President Roosevelt's veto and cost the country \$4,000,000,000.

Twenty states<sup>1</sup> passed bonus legislation for World War I, and five of the states are still paying for them. The total payments varied from about \$1.2 million in Vermont to \$55 million in Illinois—and it is of interest to note that these two states have provided bonus payments for World War II of \$4 million and \$385 million respectively. The total cost of cash bonus legislation for World War I has been estimated at about \$600 million of which about \$400 million was available for cash bonus payments. But New York alone has provided \$400 million for estimated cash bonus payments for World War II.

Nine states (all of which had bonuses in World War I, except Rhode Island and Connecticut) have provided cash bonus payments for World War II, as shown in Table IV.

TABLE IV  
World War II Cash Bonus Adoptions  
Estimated Payments and Indebtedness as of May 1, 1948

State	Estimated Bonus Payments	Bonds or Notes Issued	Final Retirement Date
Connecticut .....	\$50,000,000	\$50,000,000	1957
Illinois .....	385,000,000	385,000,000	1972
Massachusetts .....	150,000,000	120,000,000a	1949
		75,000,000	1958
Michigan .....	270,000,000	230,000,000	1965
New Hampshire .....	6,000,000	350,000a	1945
		3,900,000	(b)
New York .....	400,000,000	100,000,000a	1949
		300,000,000	1958
Ohio .....	300,000,000	200,000,000	1963
Rhode Island .....	20,000,000	20,000,000	1968
Vermont .....	3,900,000	— 0 —	....
<b>Total .....</b>	<b>\$1,584,900,000</b>	<b>\$1,484,250,000</b>	

<sup>1</sup> The twenty states (*Cash Bonuses for Veterans*, *op. cit.*, p. 9) were: Illinois, Iowa, Kansas, Maine, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Dakota, Vermont, Washington and Wisconsin. In five of these states (Kansas, New York, Oregon, Pennsylvania and Vermont) bonus bonds for World War I totaling \$37 million are still outstanding (*op. cit.*, p. 10).

a Notes.

b Sold privately and retired from state sinking fund.

Source: *Cash Bonus for Veterans*, *op. cit.*, p. 6.



The Tax Foundation has summarized financing of this indebtedness as follows:<sup>1</sup>

Revenues from one-cent-a-pack increases in cigarette taxes are being set aside for debt servicing of bonus bonds in Illinois, Massachusetts, and New York. Massachusetts also earmarked an additional one cent of its existing three-cent cigarette tax. In addition to the cigarette tax increases these three states earmarked other taxes to meet the debt service requirements stemming from the cash bonus legislation. Illinois upped its pari-mutuel tax on racing by 4%. New York increased its personal income tax by 10% of the full rate; Massachusetts added a 50c-a-gallon tax on all distilled spirits and on all wines containing more than 28% alcohol, and imposed a new corporation income tax of 2½% on 1946 income and 1½% for the years 1947 through 1950. Ohio intends to pay off its bond issue with revenues accruing from the imposition of a State-wide property tax, which may be levied in excess of the existing constitutional limitation of 10 mills for State purposes. New Hampshire repealed a \$3 poll tax, the proceeds of which had been earmarked for the veterans' bonus during the two years of its existence.

No specific taxes were earmarked to provide funds for the retirement of the indebtedness incurred in the three remaining States, but 1947 marked the adoption of State sales taxes in Connecticut and Rhode Island, and Michigan instituted a three-cent cigarette tax. In addition to the imposition of sales taxes, Connecticut effected a 50% increase in its corporation income tax to 3%,<sup>2</sup> and Rhode Island imposed a new corporate income tax of 4%.

Three states have considered and rejected a bonus. Maine defeated a bonus by a two to one referendum and this in the face of the fact that the successful Republican candidate for Governor urged its adoption and the losing candidate (a veteran of World War II) opposed it. In Georgia and West Virginia, a bonus bill was approved by the House and defeated in the Senate; but West Virginia expects new bonus legislation at the coming session designed to assist "needy" veterans. Eighteen additional states have considered bonus legislation but so far have not obtained favorable action; and ten states reported that no bonus bills have as yet been presented.<sup>3</sup> Eight states, however, will place the bonus question on the ballot in November. In four of them (Minnesota, North Dakota, South Dakota and Pennsylvania), the votes are on proposed changes in the constitution authorizing bonus

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<sup>1</sup> *Ibid.*, p. 5.

<sup>2</sup> Connecticut has also increased its gasoline tax one cent.

<sup>3</sup> *Proposed Soldiers Bonus in Minnesota*, *op. cit.*, p. 9. Of the eighteen states, all are western or southern, except New Jersey and Delaware. Of the ten states, all are western or southern with only one large industrial state—California.

legislation. In the remaining four (Indiana, Iowa, Missouri and Wisconsin) the votes are referenda upon bills already prepared. The general impression seems to be that these states will adopt the proposals unless a change in sentiment occurs.

Although the *Commission* has seen conclusions drawn from these surveys indicating that the bonus problem "is not receiving as favorable consideration by state legislatures as it did after World War I" it is unable to agree with such conclusions. Of the twenty states adopting bonuses at the close of World War I, *seven* have already adopted them. Seven more of the twenty will vote on the issue this fall. In addition three states have been added to the list that did not have bonuses after World War I—Connecticut and Rhode Island, which have adopted them, and Indiana which will vote on the issue in November. *The pattern of bonus legislation seems to have changed very little—either by states, by methods of distribution or in finance—and this in the face of the greatest rehabilitation program of veterans benefits that the world has even seen.*

\* \* \*

## PART II

### FINANCING A STATE BONUS

#### The State Fiscal Picture—Revenue Requirements

The New Jersey State Budget for the fiscal year beginning July 1, 1948, rests upon anticipated revenues of \$168.7 million.

This sum is composed of the following items (see Table I, column 1):

	<i>Amount</i>	<i>Per Cent of Total</i>
Taxes for General Fund .....	\$66,680,000	39.5%
Taxes and Fees for Highway Fund.	59,000,000	35.0%
Non-Tax Receipts:		
Departmental Revenues .....	\$13,128,000	
Fund Earnings and Miscellaneous	764,000	
	<hr/>	
	\$13,892,000	8.2%
Non-Recurring Revenues:		
Surplus from Prior Year:		
General Fund .....	\$11,550,000	
Highway Fund .....	11,520,000	
Railroad Taxes:		
Prepaid Franchise Tax .....	1,020,000	
Railroad Interest (Delinquent Taxes) .....	5,070,000	
	<hr/>	
	\$ 29,160,000	17.3%
<i>Grand Total</i> .....	\$168,732,000	100.0%

The important fact to note in this statement is:

*\$29.2 millions, or 17% of total revenues budgeted by New Jersey for the fiscal year 1948-1949 are of a non-recurring character. If the present rate of expenditure is maintained, this sum must in large measure be replaced.*

## Expenditure Requirements

State expenditure requirements as they are now known for the fiscal year beginning July 1, 1948, total \$155.7 millions (see Table I, column 1).

This sum is composed of the following items:

<i>Annual Appropriation Bill</i>	<i>General</i>	<i>Highway</i>	<i>Total</i>	<i>Per Cent of Total</i>
Current operations:	\$48,022,000	\$23,080,000	\$71,102,000	46%
State aid .....	49,052,000	16,300,000	65,352,000	42
Capital items .....	260,000	17,357,000	17,617,000	11
Additional requirements:				
Salary increases and em- ployees' bonus .....	(\$1,200,000) <sup>1</sup>	\$1,600,000	\$1,600,000	1%
<i>Total requirements ...</i>	<i>\$97,334,000</i>	<i>\$58,337,000</i>	<i>\$155,671,000</i>	<i>100%</i>
Anticipated resources ....	\$97,961,000	\$70,770,000	\$168,731,000	
Anticipated surplus .....	\$627,000	\$12,433,000	\$13,060,000	

It will be noted that if all expectations of revenue are realized, the State will be able to complete the fiscal year ending June 30, 1949, with a surplus of \$13.1 million. This will represent a reduction in surplus of \$10 million—from \$23.1 million on July 1, 1948, to \$13.1 million on July 1, 1949. Available surpluses in *general funds* will be almost completely eliminated by July 1, 1949, shown as follows:

<i>Surplus Available</i>	<i>July 1, 1948</i>	<i>July 1, 1949</i>
General Funds .....	\$11,550,000	\$627,000
Highway Funds .....	11,520,000	12,433,000
	<u>\$23,070,000</u>	<u>\$13,060,000</u>

Assuming that revenues and expenditures for the following fiscal year (1949-1950) are exactly as expected for the current fiscal year (1948-1949), the State could not meet its overall obligations (\$155.7 million) from foreseeable recurring revenues (\$139.6 million) within \$16.1 million. Even by using the small amount of General Fund surplus and diverting all unused sur-

<sup>1</sup> Salary increases for general fund paid from highway funds and subject to repayment in future years, amount not included in general fund total.

pluses from highway funds to general use, the State deficit at the end of the year would be about \$3 million. Such diversions, however, would not only liquidate highway fund surpluses but would probably yield an increased deficit of some \$3 million due to losses in Federal aid under penalty provisions of the Federal Highway Act.

The important fact to note in this statement is:

*That under present methods of financing (without diversion from the highway fund), the State cannot meet EVEN ITS PRESENT RATE OF EXPENDITURE FROM ITS GENERAL FUND, for the fiscal year 1949-1950, within \$16.4 millions.<sup>1</sup>*

\* \* \*

But revenues and expenditures will not remain unchanged. There are strong indications and even certainties that expenditure requirements will greatly increase. Debt service costs for veterans' housing bonds outstanding will require more than \$2 million in the fiscal year beginning July 1, 1949. Other bond issues have been proposed for institutional construction and highways. Maintenance costs for inmates of State institutions can be expected to increase. The State is committed to a series of salary raises based upon cost-of-living increases. There is pressure for additional State aid to local school districts, municipalities, and counties.

Estimates prepared for the *Commission* by the Department of Taxation and Finance (see Table I) indicate that general fund revenues will be inadequate to meet anticipated requirements by almost \$20 million during the fiscal year 1949-1950 and by even greater amounts in the following years. The basis upon which these estimates were prepared is in part as follows:

1) Estimated debt service (\$500,000 in 1949-1950) on proposed bond issue for institutional construction, which has been introduced in the Legislature, in the sum of \$50,000,000 to cover the cost of providing buildings at the various institutions and agencies and at Rutgers University.

2) Amounts required for debt service (\$2,000,000) on a proposed highway bond issue in 1950-1951, which has been frequently discussed, and would become a charge in 1950-1951.

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<sup>1</sup> As shown in Table I, column 2, anticipated general fund revenues total \$97,961,000 for the fiscal year 1949-1950 and include a surplus of \$11,550,000 and other non-recurring revenues of \$6,090,000. General fund expenditure requirements for 1949-1950 total \$97,334,000, indicating a general fund surplus of \$627,000 at the end of the fiscal year. The same expenditures (\$97,334,000) for 1950-1951 financed from recurring revenues of \$80,321,000 and surplus of \$627,000 would indicate a general fund deficit of \$16,386,000 for the year.

3) The debt service requirement (\$2,235,000 in 1949-1950) on the present veterans' housing bonds outstanding, the brunt of which will be first felt in the fiscal year 1949-1950.

4) Additional amounts to provide maintenance facilities for the Department of Institutions and Agencies and State educational institutions (estimated \$1,000,000 in 1949-1950) occasioned by the opening of new buildings to be provided by the bond issue referred to above.

5) Increased salaries (\$1,600,000 in 1949-1950) for State employees based upon cost-of-living increments.

6) Increased operating and maintenance costs (estimated at \$1,000,000 in 1949-1950) for State highways.

It will be noted that these estimates make no allowance for increased grants-in-aid to school districts, municipalities and counties; no allowance for the increases due to a rising price level (except for salary adjustment); no allowance for the usual demands for increased expenditures that fall upon every Legislature—and *no allowance for an additional \$10,000,000 a year for a State bonus for veterans of World War II.*

Examination of revenue estimates shown in Table I suggest that they represent an optimistic view of anticipated yields from several taxes. For example, in the fiscal year 1949-1950, inheritance taxes are estimated at \$9 million. This is, of course, a capricious tax. Its yield fluctuates from year to year, and it seems optimistic to anticipate more than \$7 million of dependable revenue from it. Corporation taxes are expected to increase by \$400,000 over the level anticipated in 1948-1949. Race track revenues increased by new legislation from \$7 million to \$12.2 million may prove too generous an estimate. Life insurance taxes have been anticipated in the amount of \$300,000 more than the 1948-1949 expectation and the cigarette tax shows an increase of \$600,000. There is a possibility that the \$20 million deficit shown from the general fund in 1949-1950 will be nearer \$24 million.

However, comparison between expected revenues and possible expenditures suggests a general fund deficit of something like \$20 million for the fiscal year beginning July 1, 1949. Subject to various increases which are possible in State aid requirements for school districts, counties and municipalities, Table I indicates a general fund deficit growing from \$20 million in 1949-1950 to almost \$30 million in 1952-1953. While this deficit could be reduced in 1949-1950 by diversion from the highway fund to the general fund, such a solution can be effective for only one year. *The addition of State bonus bond interest and amortization requirements to*

*other costs would increase the present annual deficit of \$20 million by an additional \$10 million.*

### **Present Tax Impact**

In general, the New Jersey State and local tax structure is characterized by its lack of diversity. As shown in Table V, local taxes upon general property—exclusive of railroad property—account for about 57 per cent of all taxes in 1948. After exclusion of unemployment compensation (pay roll) taxes, local general property taxes represent about 68 per cent of the 1948 total.

Non-general property taxes in New Jersey are almost entirely in the nature of selective taxes upon special businesses or special commodities and services. For example, taxes upon railroads, public utilities, motor fuel, motor vehicles and beverages will total about \$113 million in 1948. These taxes will account for three-fourths of all 1948 taxes other than unemployment compensation taxes and local general property taxes. The remaining \$37 million of taxes for 1948—other than general property and pay roll taxes—represent taxes upon inheritances, corporations, banks and racing.

Examination of Table V indicates that the over-all tax burden in New Jersey rests upon a highly selective tax base. The State has no general tax which applies with any degree of uniformity to all businesses or to all individuals. Although the corporation franchise tax is in the nature of a general tax upon corporate business, there is no comparable tax applicable to unincorporated business. Consistent with the trend toward selective taxation, tax legislation adopted in 1948 provides additional State revenues from a cigarette tax, but added nothing in the way of general taxation either upon business or upon individuals.

### **Requirements of a Bonus Tax**

Many of the inequities of our present tax structures are due to the lack of forethought in selecting a tax base appropriate to the expenditure in mind. The tendency is to select the base that will *first*, yield the sum required; *second*, be comparatively easy to collect; and *third*, cause the least effective “squawk” from the taxpayer. This policy is largely responsible for our present hodge-podge of taxes, and the growing pressures of “special taxation.” The fact is that many of our leading industrial states are today supporting the great bulk of state expenditure programs on

TABLE V  
STATE OF NEW JERSEY  
MAJOR SOURCES OF STATE AND LOCAL TAX REVENUE  
(1939-1948)

(Amounts Rounded to Millions of Dollars)

<i>Tax Source</i>	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
1. General Property Taxes (exclusive of Railroad Taxes) .....	\$249.7	\$250.0	\$253.4	\$250.5	\$250.4	\$256.4	\$257.6	\$266.6	\$297.6	\$322.1
2. Railroad Taxes .....	18.7	18.3	15.0	18.4	23.9	21.8	20.5	16.7	15.0	16.1
3. Public Utility Gross Receipts and Franchise..	13.0	12.8	15.3	16.3	17.0	18.3	18.8	19.8	21.8	23.5 <sup>2</sup>
4. Motor Fuel <sup>1</sup> .....	22.4	23.8	26.0	25.4	16.1	15.4	15.6	20.6	25.6	28.0 <sup>2</sup>
5. Motor Vehicle and Drivers' License <sup>1</sup> (including Inspection Fees) .....	20.4	22.8	24.3	23.9	19.9	20.4	20.2	23.7	27.5	30.4
6. Beverage Taxes <sup>1</sup> .....	8.6	9.3	9.6	11.0	11.0	10.2	11.4	13.2	13.2	15.1
7. Inheritance and Estate Taxes <sup>1</sup> .....	6.9	5.6	5.4	6.4	8.8	12.1	9.1	7.6	15.8	9.6
8. Corporation Taxes <sup>1</sup> (including Insurance Corporations) .....	6.4	7.3	6.6	6.7	6.8	7.1	9.3	12.7	13.3	14.3 <sup>3</sup>
9. Bank Stock Taxes .....	0.6	0.7	0.7	0.8	0.8	0.9	1.1	1.4	1.5	1.6 <sup>3</sup>
10. Pari-Mutuel Betting <sup>1</sup> (including Breakage)...	...	...	...	...	1.1	1.5	2.4	3.6	7.1	11.5
11. Unemployment Compensation <sup>1</sup> .....	44.0	47.2	52.6	71.9	59.8	83.3	80.5	63.6	78.8	91.2
Totals .....	\$390.7	\$397.8	\$408.9	\$431.5	\$415.7	\$447.4	\$446.5	\$449.7	\$517.1	\$563.3

<sup>1</sup> Fiscal year ended June 30.

<sup>2</sup> Estimated.

<sup>3</sup> A small amount of duplication for financial business tax exists as between amounts shown for corporation taxes and for bank stock taxes.

Source: New Jersey State Department of Taxation and Finance, and County Abstracts of Tax Ratables.



a narrow base of "selected taxpayers" while the individual (or even the broad base of business) is contributing very little to the costs of State Government.

A tax to support a veterans' bonus has, however, certain restrictive qualifications that must be considered in part, at least, in determining an appropriate base. *First*, there is a widespread demand—especially from veterans' organizations—that the base of support for a bonus must be so selected *that the veteran will pay no part of the costs*.

*Second*, a veterans' bonus is, of all public charges, a State-wide responsibility and should be spread upon as wide a base as possible.

*Third*, a tax base to support a bonus must be such that it will yield about the sum required, without undue expense in collection or difficulty of administration.

*Fourth*, it should "fit" the present tax structure in the sense that it does not unduly burden the productive capacity of the State or any selected portion of it.

Theoretically a tax could probably be developed to meet these standards, but the broad implications of a recommendation make it impossible for the *Commission* to decide the issue. The *Commission*, like the Legislature, is well aware of the tax sources that are potentially available; but it faces, also like the Legislature, prestatd conditions that make it futile to indicate a choice.

The *Commission* has elsewhere in this report stated its opposition to special taxes—that is, taxes falling on a selected group of taxpayers—to meet an obligation that is clearly a state-wide responsibility. With this type of taxation eliminated from its thinking, the only two bases broad enough to satisfy the requirements are an income tax, or a consumer sales tax.

The Democratic State Platform adopted June 17, 1946, leaves no hope of legislative support for either of these taxes. It reads,

*We affirm our strong objection to an additional tax on the people of our State, whether by a sales tax, income tax or otherwise.*

The Republican State Platform adopted June 7, 1946, is almost equally emphatic. It reads,

*We declare it the policy of our party . . . to oppose any all-inclusive state consumer sales tax or income tax.*

If there could be any possible doubt of the meaning of this declaration the Governor removed it in his *Inaugural Address* of January 21, 1947,

*I have heretofore made it plain to the voters of the State that I would support no proposals looking towards a State income tax or a State consumers sales tax.*

In the face of such political declarations, the *Commission* feels that it is futile to prepare legislation embodying tax policies that have been so clearly and forcibly rejected by both major parties. The question is not, at present, one that can be decided on the merits. Until some positive solution to this problem is developed, the *Commission* can only be guided by the history of the issue, and the pronouncements of those who speak officially for the public policy of the State.

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But even if the political difficulties were less numerous, the *Commission* would hesitate to recommend such a tax program at this time. It is emphasized in this report that "the time of piecemeal financing has gone from New Jersey"; that the financing of a bonus is only part of the problem; and that it should not be considered as a problem separate from the full fiscal requirements of the State. To tie up a major tax at this time—or even a large portion of it—without regard to the State's known needs for the ensuing fiscal year, is to violate the most elementary rules of financial prudence. The *Commission* has shown in this report that as of July 1, 1949, a State general fund budget will lack \$20 million to balance its 1949-1950 requirements—and this is a most conservative figure. It assumes only committed expenditures and is based on the realization of estimated revenues. At the risk of repetition the *Commission* must emphasize *that before any new expenditures of any kind are undertaken, the 1949-1950 budget must be balanced.* This should be given first consideration, and in the light of its full fiscal impact, the Legislature can then reconsider the wisdom of additional expenditures. But to undertake at this time a commitment of \$100 million without regard for even known requirements and without agreement as to sources of revenue is unsound financing in its most extreme form.

### Providing a Referendum

The resolution (A. C. R. 12) referring this matter to the *Commission* suggests that the people might be asked to select the tax with which to pay off the bond issue, from among two or more proposals. The phrase reads:

The Commission on State Tax Policy is directed to proceed forthwith with the preparation of necessary legislation, providing for:

a) the submission to the voters of this State . . . of the question whether or not they favor the granting of a bonus to veterans of World War II;

b) *and for submission of the further question of the method for the financing thereof.*<sup>1</sup>

The Constitution of 1947 provides (Article VIII, sec. 3) that the Legislature shall create no debt in excess of "one per centum of the total amount appropriated by the general appropriation law for that fiscal year"

" . . . unless the same [such debt] shall be authorized by a law for some single object or work distinctly specified therein"

" . . . such law shall provide the ways and means, exclusive of loans, to pay the interest of such debt or liability as it falls due, and also to pay and discharge the principal thereof . . .

"No such law shall take effect until it shall have been submitted to the people at a general election and approved by a majority of the legally qualified voters of the State voting thereon."

The *Commission* sought guidance from the Attorney General as to the interpretation of these clauses, as they applied to the submission of a veterans' bonus to a referendum and to the means of financing it. It accordingly certified two questions to the Attorney General as follows:

1) Under Article VIII, Section 2, Paragraph 3 of the State Constitution, may the Legislature submit alternative "ways and means" to pay the interest and principal of a bond issue? If you should be of the opinion that the Legislature may submit to the people alternative methods of financing a bond issue, in what form or forms may the question be submitted and the results of the referendum determined?

*The answer of the Attorney General to this question was: NO.*

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<sup>1</sup> Italics added.

2) If the Legislature should wish to pledge the revenue from a tax not now in effect in any form, would it be necessary for the Legislature to adopt simultaneously or as part of the bond referendum law a complete tax law (including a complete definition of the tax base, exemptions, deductions, rate or rates, and details of administration) ?

*The answer of the Attorney General to this question was: YES.*

The pertinent portions of the Attorney General's ruling is as follows:<sup>1</sup>

"Your first question makes inquiry as to whether the Legislature, in providing a method for financing a soldiers' bonus may submit alternative 'ways and means' to pay the interest and principal of a bond issue.

"Our answer to this question is in the negative. The Constitution, Article VIII, Section II, Paragraph 3, as you point out, provides that before the indebtedness incurred by a bond issue may be incurred, it must be submitted to the people at a referendum and approved by them. The Constitution further provides that 'No such law shall take effect until it shall have been submitted to the people at a general election and approved by a majority of the legally qualified voters of the State voting thereon.'

"It is apparent from this that the function of the referendum is not to permit the electorate to legislate in the sense that it may choose various plans which may be submitted to it in the way of alternatives but that it is given the opportunity of either approving or disapproving the law and specific plan which the Legislature has enacted. In other words, if the Legislature could by its adoption of such a law make it effective without a referendum, the law would have to be specific and not in the alternative and, in my judgment, the purpose of the constitutional provision is to give the voters at the ensuing election the opportunity to make either effective or ineffective that which the Legislature has adopted and therefore the voters' privilege extends only to approving or disapproving a statute which in its nature must be such in this instance that it would constitute a single definite method of financing a bond issue.

"Therefore, our conclusion is that the method of financing as contained in the bill which is submitted to the voters, must be specific and not in the alternative.

"Your second question is:

If the Legislature should wish to pledge the revenue from a tax not now in effect in any form, would it be necessary for the Legislature to adopt simultaneously or as part of the bond referendum law a complete tax law . . . ?

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<sup>1</sup> Letter from Walter D. Van Riper, Attorney General to John F. Sly, Chairman, New Jersey Commission on State Tax Policy, August 3, 1948.

Our answer to this question is in the affirmative with the proviso, however, that the new method of taxation may either be included in the bond referendum law or it may be a separate act of the Legislature.

“In the latter instance, as a matter of good practice, the tax act should have been introduced in the Legislature before the passage of the bond act so that the tax act may be referred to by reference, although this is not necessarily a legal requisite. The bond act could provide that the bonds should be financed ‘by monies to be raised from a tax on . . . when authorized by the Legislature of this State.’

“However, in that case, the new method of taxation would have to be enacted into law before the election at which the bond referendum was submitted to the people, it being the intention of the Constitution that when the people vote upon the question to authorize the issuance of bonds, they should have knowledge as to the exact manner in which the financing is to be carried out.”

The *Commission* would, therefore, respectfully suggest, that neither the *Commission* nor the people are in a position to select a method of financing a soldiers bonus or of financing any other service requirement. The choice remains purely a legislative responsibility.

\* \* \*

### Conclusions and Recommendations

The *Commission* regrets that it has been unable to comply with the full requirements of A. C. R. No. 12; but it feels that the Legislature has set it an impossible task—on the one hand to maintain a sound fiscal structure in New Jersey; and on the other to initiate policies that are in themselves unsound. The recommendations, therefore, are not entirely in accord with the mandate of the resolution but they are nevertheless most sincerely and most seriously presented. They are as follows:

- 1) *That the Legislature postpone further consideration of a veterans bonus until the fiscal requirements of the State are more fully understood.*
- 2) *That the Legislature give first priority to balancing its 1949-1950 budget and meeting its urgent service commitments, before assuming new and heavy fiscal obligations.*
- 3) *That the Legislature give consideration to the development of appropriate tax bases in order to permit a broad consideration of tax sources on the merits.*

