PUBLIC HEARING

before

JOINT ECONOMIC COMMITTEE

on

Effect of the Policies of the State Government on Business and Industry

Held:
February 14, 1979
Assembly Chamber
State House
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Senator Matthew Feldman, Chairman
Senator Bernard J. Dwyer
Senator Lee B. Laskin
Senator John H. Dorsey

ALSO:

Patrick G. Brady, Research Associate
Office of Legislative Servoces
Secretary, Joint Economic Committee

* * *

I N D E X

SENATOR MATTHEW FELDMAN (Chairman) : Good morning, Ladies and Gentlemen. This public hearing will come to order. This hearing is being held by the Legislative Joint Economic Committee which was established by Senate Concurrent Resolution 74. The Joint Economic Committee has been directed by the Legislature to provide it with an independent appraisal of the Governor's economic policies and to increase the Legislature's capacity to initiate policies to stimulate economic growth, promote the employment of the citizens of New Jersey and to encourage business and industrial expansion in this state.

I am Senator Matthew Feldman, Chairman of the Joint Committee. Seated to my right is Senator Dorsey and Senator Dwyer is to my immediate right.

The Joint Committee has called this public hearing because we are concerned about whether or not State Government policies which affect business operations have created a negative image in the eyes of businessmen who make decisions which are vital to New Jersey's economy. Simply put: Are we, in New Jersey, competitive?

The Joint Committee has asked you here because we want to have the benefit of your knowledge and experience on how State Government can make New Jersey a more attractive place to do business. The Committee recognizes that many factors come into consideration when a business decides to maintain or expand operations in New Jersey or to relocate all or part of its operations elsewhere, and some of these factors are beyond the power of State Government to control or influence. Nevertheless, the Committee's objective is to focus upon those significant factors under State Government control which figure into business decisions relating to New Jersey's economy. The Committee will be asking you how State Government has, in either a positive or negative fashion, affected the manner in which you operate your respective businesses.

I have a list of persons who have indicated their desire to testify. If there are others in the Chamber who wish to testify, will you please register with Patrick Brady, who is serving as Secretary to this Committee. As each of the witnesses is called we ask that he or she sit at this desk in the front row and give your name, identify yourself, the address of your organization, and then, if you have a prepared statement, we would appreciate your giving in the prepared statement and then, you will be recorded for posterity with any other remarks that might be made.

If anyone present has suggestions or questions, please submit them in writing to the secretary who will pass them on to the Joint Committee.

Before we start the testimony, I wish to thank the New Jersey State Chamber of Commerce for their cooperation and efforts in assisting the Committee staff in planning this hearing. We are grateful to the Chamber, particularly Lew Applegate and Jim Benton.

One of the press came to me earlier and said, "Are they really going to unload at you?" I assured the press that nothing has been orchestrated and there will be free expressions because the future of your businesses, perhaps, may hinge on this hearing. Great decisions can come to your business, predicating what the State of New Jersey is going to do. So, let's not hold back; let's not have any inhibitions. We are not looking for approbations; if they come along, fine, but this is sort of a self-criticism and just tell us how we can better things , so that you can gainfully employ more people in New Jersey and make more profits, which will defin tely benefit our State.

Mr. Brady will you call our first witness.

MR. BRADY: Mr. Donald Scott?

D O N A L D S C O T T: Good Morning, Mr. Chairman and members of the Committee. I am Donald Scott, President of the New Jersey State Chamber of Commerce.

Today's hearing is a most encouraging event. We are pleased that the Legislature acted to create your Committee; pleased that the Legislature is turning more of its attention to the economic climate of our State; and pleased by a new concern within the State Administration for the health of New Jersey's economy.

Before I attempt to give you an overview of key problems which industry and business have been experiencing in our State, I wish to emphasize that the interests and concerns of the business community, by and large, reflect the economic concerns of the people of our State, also. Business not only provides people with the products and services they need, it provides the employment base from which workers and investors alike derive their income and from which they pay their taxes. Moreover, business itself is a prime source of tax revenues for the support of government at all levels, and our civic, charitable and cultural institutions receive their support from a combination of voluntary sources--from people who are employed by business and from direct donations from individual businesses. These institutions, of course, improve the quality of life for everyone.

With the nation's recovery from the last recession, the economy of New Jersey has also taken an encouraging upturn. But, this is no reason for anyone in our State to be complacent. New Jersey has been steadily slipping beneath the national average in many standard economic indices and that erosion seems to be continuing. This is plainly evident in the charts carried each month in the publication "New Jersey Economic Indicators", issued by the Department of Labor and Industry. These charts compare, for a ten year period, economic trends in the nation with those in the State of New Jersey. New Jersey's decline is shown clearly in the charts which cover trends in manufacturing employment, contract construction employment, non-farm payroll employment, construction contracts awarded, retail sales and electric power sales. It is discernible also in total dwelling units authorized, in the pace of new business incorporations and in the rate of business failures.

In other words, we should not be blinded by the post-recession upturn of New Jersey's economy. Major elements of our economy have been declining vis-a-vis the rest of the nation for a long time and the trend continues.

While state government cannot wave a magic wand and solve all of our problems, there are a number of actions that can be taken and will help. Some recent actions have started the process. The exemption of business machinery and equipment from property and sales taxation, repeal of both the retail gross receipts tax and the unincorporated business tax, together with the relative stabilization of local property taxes have helped to improve the business climate. So has the increased legislative and administrative concern over the economic burdens of heavy-handed regulation.

But, there are other important aspects of that climate which need attention and correction, if business and industry are to be attracted to New Jersey once again, and lest this sound self-serving for business and those who directly invest in business, it should be noted that the people of our state have experienced directly the consequences of New Jersey's economic decline. We still rank above the national average for unemployment, for example. Prior to 1972, New Jersey enjoyed a lower unployment rate than the nation. In the past four years, we have had an unployment rate 20-35% higher than the United States. On a per capita income basis, New Jersey's growth rate has lagged behind the nation average markedly since 1970.

It is true that New Jersey has enjoyed a rather dramatic influx of corporate headquarters facilities and we have also enjoyed an influx of new warehousing operations. But, neither of these types of enterprise can provide employment for the blue collar workers who have been displaced by the departure of many important manufacturing operations to other parts of the nation.

According to figures of the Department of Labor and Industry, since 1969, New Jersey has lost some 100,000 jobs in manufacturing. This is where the economy of our State is hurting. This is one of the major reasons why our unemployment levels remain high and why our unemployment compensation program is in such a serious financial condition.

It has been well documented that New Jersey is a high-cost state in which to do business, and these high costs have encouraged manufacturers to relocate, especially when they have to decide the future of an older, obsolescent production facility, and our state, being historically one of the nation's oldest manufacturing centers, has more than its share of elderly plants.

Energy costs in New Jersey, for example, are among the very highest in the nation. While the basic reason for this lies in the fact that most of our energy is derived from petroleum or natural gas--both of which must be brought here at considerable expense, the fact remains that, until recently, the State of New Jersey objected to virtually every effort of our energy industries to augment their energy resources and reduce their costs. The Department of Energy, which was created to replace the earlier State Energy Office, has seemingly placed more emphasis on difficult and costly conservation regulations for business; upon "far out", largely undeveloped or uneconomic energy technologies, than it has upon advocacy for the needs of New Jersey's energy suppliers.

Our Unemployment and Workers' Compensation programs are among the most costly in the nation. For years they have been a strong negative factor in New Jersey's business environment. The law and the administration of these programs reflect a definate lack of concern for their overall high costs. Both programs have been the subject of endless study. Abuses and other problems in both systems are well known and yet they remain largely uncorrected. The costly and inequitable nature of these programs has been tolerated for years. The state's refusal to address these important cost problems speaks clearly to business people across the nation about the attitude of the state toward its private sector enterprises.

Unlike our high energy costs, which, in some respects at least, are beyond the state to control, our Workers' and unemployment compensation programs can be turned around by the state itself whenever it chooses to act. We hope 1979 will the year that these much needed reforms will be enacted. Adoption of Senator Bedell's S-802 and Assemblyman Patero's A-840 would go a long way toward reforming the Workers' Compensation Program.

Another aspect of the business climate which deeply troubles business people is the avalanche of administrative rules and regulations enacted in recent years. It is disturbing to note that the rules and regulations promulgated by New Jersey's administrative agencies, and having the force and effect of law, in the ten years since they were first codified and published, now require almost the same amount of shelf space as is needed to house all of New Jersey's statutes enacted since the days of the Colonial Legislature.

Both the administrative and compliance costs of administrative rules and regulations are ultimately passed along to the public. Therefore, it is gratifying to note that legislative oversight proposals are moving forward, and we are pleased that the Governor recognized the problem with his "sunset" executive order issued subsequent to his jobs conference last year.

We feel that each regulation should be given an objective cost/benefit analysis by an agency exercising oversight for the Legislature. This is necessary because the costs are pervasive; they permeate many aspects of business operations and have a strong inflationary impact.

Tax predictability is another vital business climate factor. However, when the need for additional revenues arises, the first thought of too many legislators is to increase business taxes. Therefore, while the Governor has presented a balanced budget for the coming fiscal year, business remain conscious of their vulnerability. This unpredictability of tax burden, in itself, does not help New Jersey's reputation as a place for business.

The threat of "lifeline" utility rates is another sore spot in New Jersey's business climate. While we have never questioned the impact of inflation and the rising cost of energy upon the poor and elderly, we have consistently termed this a social problem to handled by social agencies and financed from the State Treasury. We think it is wrong to impose a hidden tax upon utility customers--residential as well as business--to fund a social program. In our opinion, this law was poorly conceived and should be scrapped. Even the Board of Public Utilities considers the law, in its present form, to be unworkable.

From the standpoint of today's hearing, however, the important thing is that "lifeline" adds another negative factor to New Jersey's business climate--negative in that it has been posing a threat of still further increases in energy costs. We think it is significant that the"lifeline"concept, which has been considered by every one of the fifty states, has thus far been implemented in only one--California. By far, the largest number of states have already rejected "lifeline". All of New Jersey's neighbors--New York, Pennsylvania, Deleware and Maryland, have turned the proposal down.

In our view, the most important step that the Legislature can take promptly to improve the business climate would be to enact Senate Bill No. 994, Senator Hamilton's proposal for creating a Department of Commerce and Economic development.

Business people have been gratified by the 29 to 2 vote approving S-994 in the Senate. We think this bill, if enacted, would convey to the business community that the health of our economy is now a full-time concern of our State Government. Industry and business in our state have never had their own spokesperson within the State administration, as do other interests. At the present time, the state's business community shares only a small percentage of the resources and staff of a large department basically oriented toward the concerns of labor.

We hope S-994 is acted upon soon and favorably by the Assembly. It does not entail any particular budgetary burden because it does not create any new bureaucracy. It merely restructures existing agencies into a more cohesive entity that will be more responsive to our state's economic problems and it will give business what it has long needed--a voice in the cabinet. Even the seed money to start up the department's operations--a modest $250,000--will come, not from the Treasury, but from the Unemployment Compensation Administration Fund, which is derived from penalties levied upon employers and which, by federal law, can only be used for the U.C. program or for economic development activities.

While we are talking about a department that would, among other things, promote economic development, we must note a recent action of the New Jersey Economic Development Authority, an arm of the Department of Labor and Industry. The Authority has authorized promulgation of a regulation to impose "prevailing wages" upon all contracted construction work financed through the agency. "Prevailing wages", under New Jersey law, translates to union rates, which are generally higher than other rates paid for comparable work in an area. In effect, not a true prevailing rate. The "prevailing wage" concept stems from the Federal Davis-Bacon Act of 1931 which the General Accounting Office, the watchdog agency of the Congress, recently termed ". . . no longer needed and should be repealed."

Imposition of so-called "prevailing wages" will undermine the economic development value of New Jersey's Economic Development Authority; it will dilute the cost advantage of its lower interest loans through higher construction costs. It will work to the disadvantage of distressed area workers.

We must emphasize here that economic development is a highly competitive business. Even laws and regulations that are proposed but not ultimately put into effect, send ripples throughout the business world and can serve to hurt a state's reputation. Attitude, as it is perceived by business people, is an important element in any state's business climate. "Word-of-mouth" reputation is important and while promotional devices are a part of the economic development game, they will not, by themselves, overcome a reputation for being unstable, costly or anti-business.

Offsetting the loss of 100,000 manufacturing jobs is a major task that entails persistence and a broad unity of purpose within state government. It will also take time, but viewing our citizens' interests that are at stake, we feel that it is time to give the health of New Jersey's economy the highest priority.

We think that a start has been made. Creation of the Governor's Economic Recovery Commission in 1975, the Governor's Jobs Conference last year, the repeal of some business taxes, the creation of the Economic Development Authority, the new concern of the Legislature and the Administration about the price citizens are paying for an over-regulated economy--these are harbingers of a sound new trend.

We think it is wise that New Jersey continually re-examine in depth its economic climate. While not all of our problems stem from internal actions, we think it is a mistake to look to Washington as both the cause of our economic malaise and the source of transfusions to restore our state's ecnomic vitality.

On this point I would like to conclude by quoting a few sentences from a column that appeared on the editorial page of the Wall Street Journal on January 29. The words which follow were authorized by Professor Bernard L. Weinstein of the University of Dallas, Texas, who is, among other things, the co-author of a book entitled "Regional Growth and Decline in the United States."

> "For the most part, the Northern leaders still harbor the misguided view that the federal government is responsible for their problems and, therefore, the feds should bear major responsibility for bailing them out of their present difficulties. To this end, the Coalition of Northeastern Governors has formulated an economic development plan that relies almost entirely on federal largesse to revitalize the region.
>
> . . .The Northeast can profit by reviewing the experience of the South. Unlike the almost adversarial public/private relationship prevalent in the North, business and government in the South have a long history of cooperation in the economic development sphere. The private sector is viewed, properly, as the major force for economic growth and job creation. Government's role is seen as one of accomodation--of providing the necessary incentives and public capital to assure continued private investment.
>
> The Northeastern governors deserve two cheers for finally recognizing the need for an economic development strategy. But they must also recognize that the road to prosperity does not pass through Washington. What the Northeast needs, far above all else, is jobs, jobs and more jobs; not short-term, government-underwritten CETA jobs, but productive employment in the private sector. The key is an improved business climate, and in

an increasingly competitive world, this means lower taxes on businesses and individuals, tighter controls on welfare programs, the protection of workers' rights and a pro-business posture by key government officials."

The presentation to your Committee today includes testimony from representatives of basic industries, including glass, automobiles, machinery, health aids, chemicals and printing equipment. We would be happy to arrange for you to hear from other industries, if you wish.

I thank you for the opportunity to appear here today . We are greatly encouraged by the Legislature's interest and concern for the business climate of our State. We will do whatever we can to assist you in this important undertaking.

SENATOR FELDMAN: We thank you, Mr. Scott, as the President and spokesman for New Jersey's industry. Senator Laskin is now with us.

I have one question. Do you find the present level of State and local services a positive asset in maintaining business operations here? When I talk about assets, I'm talking about transportation, employment training, financial assistance, business ombudsmen, social benefit programs for employees, education, technical training schools. Do we need to do more or is what we have today adequate or inadequate?

MR. SCOTT: Mr. Chairman, I think we have two elements there. I think, generally, when you refer to transportation, I think, generally, as planners refer to it as the intrastructure of a community or a state and that is generally good. There are areas where there are problems. Obviously,there are problems in transportation as there are in other areas. There are highways that need improvement; there are bottlenecks in some places, but I guess you will always have that.

The other that you talk about are services which you would consider to be rendered to the business community and some of which are being done through the Department of Labor and Industry. These are secondary to what I would refer to as the bottom line considerations; the ability to operate and profit within the community or within the state. These other things are fine, but they are not a large part of the answer. I think you have to offer some of these things in economic development area, the promotion and some of these other things. But, I think if we control our costs in the areas that we have talked about that can be controlled by the state government, certainly in the areas of unemployment and workers' compensation and some of the others, under burdensome regulations, these are the things that will do most to help business to expand in the State and to bring business into the State as I see it.

SENATOR FELDMAN: Any member of the Committee wish to ask any questions of Mr. Scott?

SENATOR DORSEY: Mr. Scott, you enumerated a number of factors which you think have an adverse effect upon business: unemployment and workmen's compensation, cost of energy, cost of regulations. Which particular one would you select as the principal one that has an adverse effect?

MR. SCOTT: I think I would--Mr. Chairman, may I say this, there will be others speaking and we will go by whatever the Chair decides that it wants to do. Maybe some of these questions will be answered in more detail, more than my overview. I will be here for the entire proceeding and if you would like to recall me later, I would be glad to do it. But, to answer your question, Senator, very high on the top of the list are Worker's Comp and Unemployment Comp, I think, of those things that can be done. Energy you can do some things. Obviously, all of us, including the public, are generally aware of the burden of over-regulation too.

SENATOR DORSEY: I heard the statement made before that although the State seems to continue to attract corporate headquarters, we have still lost 100,000 manufacturing jobs. Is that really as bad as it appears on the surface or is it simply a change in the type of work which is available, with an overall change in technology which is occurring all over the world?

MR. SCOTT: I think there is some of each. I don't expect that we will ever recoup all of our manufacturing jobs and conditions are changing. We are in a more service oriented society and I think, generally, the character of employment is changing, but what concerns us here is that manufacturing jobs have a multiplier effect that some of the other service jobs don't have and I do think that we could make improvements in attracting more manufacturing jobs, if we were realistic about our regulations and environment and other matters. Additionally, the focus these days, and rightfully so, of the Governor and the Legislature is to improve our urban centers and the conditions in our urban centers. In the urban areas, you have very heavy unemployment and you also have a lot of unskilled or semi-skilled labor and I think in order to use those resources, we need some kind manufacturing in those areas.

SENATOR DORSEY: Thank you.

SENATOR FELDMAN: Again, this is an overview and I guess we will get to more specifics from the other witnesses and we thank you very much.

MR. SCOTT: Thank you, Mr. Chairman.

SENATOR FELDMAN: Will you call the next witness, Mr. Brady?

MR. BRADY: Mr. John Mullen?

J O H N R. M U L L E N: Good morning, Senator Feldman and your Senate colleagues. I am John Mullen, Vice-President of Corporate Relations for Johnson and Johnson in New Brunswick, New Jersey. On behalf of my company, I wish to express our appreciation in being afforded the opportunity to speak to you this morning.

As you know, Johnson and Johnson is a worldwide health care corporation, headquartered in New Brunswick, New Jersey. We have major facilities in more than 20 states and have worldwide operations in 55 nations. Our organization was founded in New Brunswick, New Jersey more than 94 years ago. We are presently regarded as one of the three largest private employers in the State of New Jersey, with more than 14,000 employees working at the more than 20 locations in the state.

We have examined the seven questions which you have put forward on your information sheet, relative to today's hearing of the Joint Economic Committee. We will attempt to respond to those questions in our comments.

Perhaps, I should preface my remarks this morning by an expression of concern, not only at the State level, but at the federal level, with an over-regulation of business; not simply our business. This week it was reported by economic authorities in Washington that there are 164 federal regulatory agencies which have jurisdiction over hospitals, an area of our interest, of which 25 review admissions' procedures; 31 regulate patient safety; and 33 regulate patients' rights. It costs hospitals $35.00 per patient per day just to comply with paperwork. That remark doesn't apply to the State of New Jersey per se, but I think it is indicative of the over-regulation that we are confronted with; you are and we are.

In his fifth annual message to the Legislature, delivered on January 9 of this year, Governor Brendan T. Byrne suggested that the State must avoid wasteful duplication by consolidating services of State agencies. The Governor further suggested that it was his goal to reduce the number of laws on the books and not to expand them.

We believe that in the City of New Brunswick we have an example that is very pertinent to your deliberations. New Brunswick has gone through a very painful experience during the past 13 years, which demonstrates the wisdom of the Governor's efforts. In 1962, the New Jersey Legislature adopted a sub-committee report on new Raritan River crossings and specified a new Route 18 alignment with specific descriptions and bridge locations. In February of 1964, that Route 18 project was included in the Governor's budget proposed by Governor Hughes. By 1967, a general concensus had been reached on the proposed alignment of the new Route 18 extension, which would extend it from Memorial Parkway and Albany Street in New Brunswick, down the Delaware and Raritan Canal, behind the Rutgers' dormitories, across the river and through Johnson's park to River Road in Piscataway Township. This was to be the first major highway improvement impacting on the City of New Brunswick in more than 20 years. All levels of government, local, county, state and federal, through the area's elected representatives, including Senator Dwyer here, supported this project. It was enthusiastically endorsed by Rutgers, the State University, by the business community and by the vast majority of the affected public. A relatively small, but vocal and effective minority voiced its opposition to the specific alignment. It was not until 10 years later, after more than 12 public hearings, conducted by both state and federal agencies, often with overlapping jurisdiction and interest, that the final approval for this project was obtained. Several hearings were conducted by our own New Jersey Department of Transportation; several by the New Jersey Department of Economic Protection; several by the Coast Guard and the Army Corps of Engineers and the Federal Environmental Protection Agency and by the National Council on Historic Preservation. The environment, historic sites, water supply, navigability were all considered and reconsidered. Approvals were obtained and then revoked; obtained and then modified; granted and then taken away. This was a perfect example of the worst of government and while government was worrying about the environment and artifacts and historic sites, what had happened to the City of New Brunswick and the citizens who reside and work there? Those ten years saw a steady erosion of the quality of life in the City of New Brunswick. Transportation in and through and around the city was at a virtual standstill. A more populous area surrounding this old colonial community put thousands of more people on the existing roadways. Rutgers, in the meantime, to handle its student body had developed the second largest bus system in the State of New Jersey to transport its students among its various campuses in the New Brunswick vicinity. Yet, congested roadways prevented them from arriving in timely fashion at their classes. The inadequacies of our roadways made it difficult for potential customers to shop in downtown New Brunswick or to call on our businesses. As a result, the people turned to shopping centers and week after week, month after month and year after year, one vacant store after another appeared in downtown New Brunswick. In the meantime, the Route 18 extension continued to be deliberated by our state agencies. At the same time, more and more of the old-time residents opted to leave and move to so-called suburbs, resulting in erosion of the quality of our neighborhood and an erosion of the quality of the educatioanal system in that City. Neighborhoods suffered and the downtown business district deteriorated. In the meantime, the state and federal agencies continued to hold their hearings on New Brunswick's proposed Route 18 extension. To those agencies, time did not seem to be important. Fortunately, for us and the State of New Jersey, the attention of the Governor, Governor Brendan T. Byrne particularly, and of his Commissioner of Transportation, his Commissioner of Labor and Industry, and his Commissioner of Environmental Protection recognized the need that the City of New Brunswick had for this project; in fact, a vital link to its own rehabilitation. They, in a coordinated fashion, focused their attentions on the project and on the process and, ultimately, approvals were obtained with the help of our federal representatives. In the meantime, however, the transportation project that was to have cost slightly in excess of ten million dollars, through inflation escalated to a cost in excess of forty million dollars. In the meantime, too, the conditions in the intra-structure in the City of New Brunswick had further deteriorated to the extent that their rehabilitation would require infinately more time, money and energy to rehabilitate them. Further, neighborhoods in downtown New Brunswick had deteriorated to the extent that something very major was required in order to refocus on the potential of the City of New Brunswick and to convince its own residents that New Brunswick could, in fact, be revitalized and become the important hub city that it was.

Regrettably, this ten or twelve year Route 18 experience points out the need for the Legislature of this State to focus its attention on establishing procedures which would mandate consolidation and expediting of handling of project applications which result and impact on the economic vitality of this State. Whether we talk about new highway projects, sewer projects, construction projects both large and small, things as mundane as the siting of a new bank office, the time delays experienced by both private and public sectors in moving projects forward through the governmental approval maze is a great discouragement to the applicant and in fact, a very inflationary circumstance to deal with.

I mentioned that New Brunswick needed that one major effort. Fortunately, it came from Johnson and Johnson, which announced that it would remain in the City of New Brunswick and construct a new corporate worldwide headquarters investing in excess of fifty million dollars in the process. That decision on the part of Johnson and Johnson would not have been possible had it not been for the committment of the State to go forward with Route 18. However, the circumstances of Johnson and Johnson are unique. As I mentioned, Johnson and Johnson had been in New Brunswick for 94 years and was not anxious to reach a decision to locate somewhere else. Therefore, it was reluctantly willing to wait for ultimate Route 18 approval, which made its corporate headquarters siting in the City of New Brunswick practical. But, someone else looking to the City of New Brunswick or looking to expand in one of our cities or looking to relocate in New Jersey from outside our State, without that 94 years of relationships with one of our important communities and in our important State,would not have been as patient. They could not have afforded the luxury of that ten or twelve year delay and as a consequence, they would have and probably have moved elsewhere. Who they are is probably unknown, but in fact, if New Jersey is going to become an attractive site for business expansion and business relocation, the permit process or approval process, which every business is faced with, must be revised and simplified. It is one thing for a major corporation like Johnson and Johnson, with its corporate staff, its attorneys and other experts, to try to work its way through the problems of government approvals. It is quite impossible to anticipate and expect, however, that the small businessman would be able to cope with and handle these problems in a fashion that would permit him to continue to operate his business.

So, the policies of our state and federal government have really been anti-business and particularly anti-small business. We encourage you, therefore, to look for ways in which this process of government can be simplified.

I mentioned that the Route 18 story had a long history. We went through four governors, four U.S. commissioners of the Department of Transportation, an equal number of commissioners in the Department of Environmental Protection. You were continually trying to re-educate people to the need for this project.

We use this process because it is one that we are familiar with, but it's one that we think is a typical example that business is confronted with today. We believe that in the present circumstances, and you asked the question about today's atmosphere, we believe that the energies expended by Commissioner John Horn, by Commissioner Daniel O'Hern and by Commissioner Gambaccini in their respective departments are encouraging. Efforts are being made to simplify the process. We are convinced, too, that Executive Order 57, promulgated by Governor Byrne in July of 1977, which seeks to develop a coordinated construction permit application and review procedure for the State of New Jersey is a step in the right direction. We believe, however, that there is room for further improvement and we encourage it.

We are delighted that the Governor stressed the urban strategy as one of the main points in his State of the State message. Without any question, in our view, the future of the State of New Jersey depends, in large measure, upon the revitalization of our urban centers and we aren't talking strictly about the City of New Brunswick. Unless improvements can be seen in the City of Newark, I think the State of New Jersey is going to faced with a difficult problem.

Our own experience in seeking to establish our new headquarters in New Brunswick and to encourage others to relocate here has demonstrated the vital importance of the State's Economic Development Authority. The exorbitant costs of acquiring properties in the downtowns of our cities upholds the establishment of State mechanisms to provide monies for relocation, acquisition and demolition. The mechanisms of the Economic Development Authority are vitally necessary and should be supplemented by other tax incentives which would encourage investment in our urban centers. Without them, any State policy or effort will come up empty-handed. We believe,in this competitive world of one state seeking to attract investment from another, that a package of tax incentives relating to state and local taxes is indespensable as State policy.

The Governor, in his message, also called the Capital Budgeting and Planning Commission to develop a capital improvement program to facilitate innovative urban development projects tied to private sector investment. We would encourage the State of New Jersey to consider the location of major departments of State government in urban centers such as New Brunswick.

You have raised the question as to whether workers' compensation costs and unemployment compensations costs have been an obstacle to operating in New Jersey. First of all, I should indicate that the relatively clean nature of our manufacturing processes and our stable employment have helped us immeasurably in these two areas. However, the comparison of our workers' compensation costs and umemployment compensation costs in New Jersey with those encountered in the other 19 or 20 states of major investments is startling. Except for one other state, New Jersey's costs, from our own point of view, are far and away the most expensive we confront. This suggests that we have a problem that requires legislative attention. Both of those programs must be reviewed and modified to insure two things: one, that the worker who suffers serious injury or that employee through no fault of his own loses his job receives appropriate and adequate compensation; and secondly, that both of these programs are administered fairly and equitably and in a fashion that does not put New Jersey at an economic disadvantage when seeking to attract and to maintain business investment. We believe that our unfavorable positions in both of these programs is primarily a function of the provisions of our state law and their administration, not to nationwide economic problems. Without any question, these potential cost figures are examined by companies seeking to expand or relocate in New Jersey.

The State has made substantial progress recently in keeping business costs competitive and we congratulate it. The recent reinstatement of the exemption from the sales tax for purchases of manufacturing machinery and equipment and the exemption of all new purchases from the Business Personal Property Tax represent important and significant improvements in our State's economic climate. We believe, however, that other disincentives still exist. A permanent exemption from the net worth portion of corporations' business tax should be provided for the acquisition of plants and equipment used in manufacturing, research, development and polution control. This exemption would provide an added incentive for the location of new or expanded facilities in New Jersey. Obviously, any consideration at this time of increasing the corporate income tax rate would be counterproductive. At present, New Jersey is one of the few states in the nation having a tax on both corporate net worth as well as corporate net income. Considering the revenues obtained from these combined taxes, the average effective tax rate on net income of these corporations is among the highest in the country. Any further increase in this rate, after the improvements and business tax climate recently enacted, would demonstrate to the business, lack of continuity and direction in New Jersey's economic planning. We believe that this would not be in the best interests of this State.

Generally, then, gentlemen, we support the Governor in his State of the State message, his emphasis on revitalizing our government, simplifying our government and directing our attention to the urban centers of the State of New Jersey. Thank you.

SENATOR FELDMAN: Thank you, Mr. Mullen. I will extend Senatorial courtesy to Senator Dwyer of Middlesex.

SENATOR DWYER: Excellent statement.

SENATOR FELDMAN: Especially when you mention his name. The message you brought our was very clear. This went through four Governors,and God knows how many Commissioners of Transportation, and the delay became very costly and triggered you into moving elsewhere, your corporate headquarters because of the layers of bureaucracy. So, perhaps we in the future can learn from the past. We should. Thank you very much.

Are there any further questions?

SENATOR LASKIN: I am going to ask this question about bureaucracy because I am really not an optimist that things are going to change for the better. But you talk about bureaucracy and over-regulation and yet I imagine that just about everyone who is going to testify is in support of the bill which would create a new Department of Commerce. What makes anybody think realistically that the Department of Commerce is going to help you at all other than create more layers of bureaucracy, which I think it will do? What makes you really think that this new Department because it is called Commerce is going to help you? We could call it Operas, too. I don't know that that is going to help operas. Does anybody really believe - with specifics - how this Department is going to help?

MR. MULLEN: Senator, in a candid reply to your question---

SENATOR LASKIN: That is what I want, a candid answer.

MR. MULLEN: I think that more than other departments in State government are necessary. It is the atmosphere of State government. I think we can honestly recite to this Committee that the attention of the Governor and the Cabinet of the State of New Jersey has been awakened to the realistic business needs, and this is not per se a disparagment of past administrations, but there has been a recognition of need in the present administration that perhaps wasn't as apparent in past administrations, and because of that, I think we are seeing a variety of departments in government become more responsive and try to move in the direction of dsimplifying the government approval process. I personally hold out not a great deal of optimism that the establishment of any new department is going to work wonders. The only thing it does represent is a statement by the State of New Jersey that we are concerned and we are interested in economic development. Our biggest problem in this State is our reputation, not our performance. Our performance far exceeds our reputation.

But, the outsiders look to this State, and they don't see the kinds of things that a John Horn is doing on an everyday basis or Commissioner Gambaccini, or Commissioner O'Hern to recognize an appropriate balance of the environment and the economy. Many of these people from the outside don't see this in a working everyday relationship. They see a long-term problem in New Jersey with high costs in terms of unemployment compensation and workers compensation that they are not experiencing in other states, and which we in our company don't experience in other states, in most other states where we have major operations.

SENATOR FELDMAN: Senator Dorsey.

SENATOR DORSEY: Mr. Mullen, there is no question that the re-establishment, redevelopment of your corporate headquarters in New Brunswick is a great thing, not only for New Brunswick, but also for the State, but I would like to ask you whether or not Johnson and Johnson as an outstanding firm has increased the number of manufacturing jobs within its company in New Jersey at the same rate that I assume those jobs have increased as you have grown outside of New Jersey?

MR. MULLEN: I suppose any of us living in Middlesex and Mercer and Somerset County almost know the answer to that question. And that is, Johnson and Johnson has expanded dramatically its manufacturing jobs in the State. That expansion has been the result of the manner and style in which Johnson and Johnson has grown. Johnson and Johnson has grown from within. It has not grown by major acquisitions, so that its 94 years of investment in the State of New Jersey has been significant and has been growing.

I don't think the fact that it has been growing and growing dramatically really is representative of the concerns that we have at J & J for some of these problems. We think that we have a commitment and an obligation to the State. We were born and bred here, so to speak, and although our business takes us elsewhere, it is important to retain an important anexis with the State. But, we have grown here, and we hope to continue to grow here, and our corporate headquarters certainly demonstrates our commitment to the State.

SENATOR DORSEY: Thank you.

SENATOR FELDMAN: The Governor is going overseas in the Spring with some business leaders to induce or seduce - I don't know which - corporate structures coming over here in industry. If we are to send out a task force into the sun belt states, where ewe read about we have been losing some industry, or some industries have been going there. Do you think that by N.J. setting up some kind of office about the benefits of New Jersey - colleges, transportation, close to New York, the suburban life here - that this will have any sort of an impact upon firms rethinking and coming back to the northeast?

MR. MULLEN: Well, Senator Feldman, you are a businessman, and I think that your are impressed with quality, no matter where it comes from, and I think that the answer to that question depends upon the quality of our presentation as the State of New Jersey. It depends oupon the quality of our marketing. I think that there are opportunities for us to attract some companies that would naturally expand or have room for expansion in the northeast, but I think the atmosphere created in those states present a dvery difficult yardstick upon which we are going to be measured, and that is going to present some problems.

SENATOR FELDMAN: Labor costs, we know, are lower. However, productivity may be greater here.

MR. MULLEN: We have an excellent labor force. We have enjoyed excellent results in this State, but in terms of some of the operating costs, I think it is how we are perceived. You know, people perceived all over the country that from an environmental standpoint you couldn't do business in New Jersey, even if you were reasonable in your expectations of what was required.

SENATOR FELDMAN: Do you think we are tilting too much toward the environmentalists and not---

MR. MULLEN: I think we did, but I think we are tilting back now. But, I think we did. There is no question about it. I think others are more expert here to testify about that than we are, because the nature of our business as such - and we are not a heavy manufacturing business, or major chemical company with some of those problems.

SENATOR FELDMAN: Thank you very much. Our next witness will be John Flaharty. If you have prepared statements, it will make it easier for those who transcribe. If you have additional copies for the members of the Committee, it will be very helpful.

J O H N F L A H A R T Y: Thank you, Mr. Chairman.

SENATOR FELDMAN: Mr. Flaharty is with General Motors.

MR. FLAHARTY: Mr. Chairman, members of the Joint Economic Committee, I am John Flaharty, Director of State and Local Government Relations, nationally, for General Motors. Frankly, I am very pleased to be here today to offer some comments on the business climate in the State of New Jersey.

General Motors is a longstanding corporate citizen in this State by virtue of some key facilities we have here, for example, Fischer Body up in Trenton, Delco-Aremian in New Brunswick, General Motors Assembly Division in Linden, and New Departure Hyatt at Clark. Last year these GM facilities employed about 12,000 people with a payroll amounting to more than $243 million. We enjoy doing business in New Jersey, and we want to commend this Committee for investigating ways of improving the business climate.

Perhaps the best way to approach this would be a brief overview of our plant site selection process at this point. Quite obviously we are engaged, as you are probably aware of the tremendous expansions, primarily attributable to the technological changes taking place in our business, the necessity for greater mileage achievements, and the reduction of emmissions. I might add that our process of plant selection has changed dramatically in recent years.

In the past our main concern was finding a location with adequate labor in an area where transportation costs could be minimized. Today's selection process is infinitely more complex because we must consider environmental constraints imposed by the Federal, State and local governments, uncertain energy supplies, the impact of economic incentives, as well as the prevailing political climate. Now, let me interject here that two major factors are the first considerations. If we can't get energy, there is no point in considering a plant. If we can't meet the environmental considerations, even with energy, there is no point in considering the plant.

Let me take a moment to discuss in general the traditional aspects of the continuing concern we have with labor and transportation, which are still of great importance in our plant selection process.

For getting labor, our evaluation would cover four broad areas, such as the availability of labor, the union management relations, productivity and local wage rates for production and clerical workers. Transportation factors include those relating to inbound and outbound freight costs, and another important consideration is the availability of transportation facilities, that is, the access to railroads and highways, and the physical constraints such as the height of bridges, and this sort of thing that can interfere with distribution.

In recent years, the protection of the environment has been a pressing issue, which is motivated by the enactment of a wide range of federal, state and local regulations. These environmental considerations increasingly play a stronger role in the evaluation in the ultimate selection of a plant site. The legal ramifications of complying with environmental laws at all levels of government compel us to thoroughly study all these laws pertinent to a prospective site. In addition, we make a comprehensive study of the related cost factors.

For example, some sites may require more expensive capital outlays for pollution control equipment. Environmental restrictions could add to the cost of connection connection to local sewage systems or disposal of solid wastes. Also, severe air quality problems,as in the general ambient air, could result in plant shut-downs and costly litigations.

Energy availability and reliability are crucial in any site decision, whether it be a new location or expansion of existing facilities. For example, there are virtually no distribution utilities which are heavily dependent on interstate pipeline supplies that can commit firm gas to new industrial loads or additional gas to an existing plant. Although some utilities may be willing to commit for uninterruptable supplies, the true test is the proof that there are reserves adequate to sustain delivery over the long-term. There are some locations, however, for gas utilities or private producers can provide on a long-term basis intrastate supplies adequately supported by reserves that can be relied on for a new plant.

With regard to electrical power, cut backs and delays in construction of new generating capacity by electric utilities increase the likelihood of electricity curtailments in the near future. In some states, utilities are having problems in financing new construction. Often this is a result of actions taken by government agencies.

There are a number of other factors that influence the decision-making process, but my intent here today is to highlight to you the relatively new areas we are concerned with. Now may I offer some specific comments with regard to New Jersey as we perceive them.

With regard to environmental areas, I am sure you are aware of the problems associated with the development of the new ozone standard promulgated recently by the federal EPA. The New Jersey State Agencies have been diligently developing a state implementation plan to meet the federal requirements based on a standard of .08 parts per million. As New Jersey neared that completion of a State implementation plan, the federal EPA changed the rules of the game with a new standard. The impact on the states with the revised standard, and even the original standard, has tremendous significance. The expenditure of literally billions of dollars can be required by the promulgation of a standard a few hundredths of a part per million more stringent than data shows necessary to protect public health. Although the new standard is described as fifty percent higher, very few states - and probably not New Jersey - will be in compliance.

Let me explain briefly what happens when a state is in a noncompliance mode. Three things take place immediately. The state must impose transportation control strategies, which include on-street parking restrictions, vehicle use restrictions to discourage single occupant use, mass transit improvements, vehicle retrofit requirements, and in those states where it is not in use, as it is in New Jersey, a mandatory inspection maintenance program. All these strategies are designed to reduce vehicle miles traveled in urban areas, where most people consider use of a private automobile a work related necessity.

Number two, major industries would face the necessity of spending massive sums of money in an attempt to bring the state into compliance.

Number three, finally, all economic growth and development becomes subject to federal limitation and/or possible complete prohibition.

In my opinion, it's important that a legislative committee such as yours be aware of such developments so that you may consider them in the course of your eventual determinations.

In addition to air quality concerns, the Committee should know of manufacturing problems and the handling and disposal of special wastes. One of our New Jersey facilities has had a special problem in that the State has been unable to provide or license a liquid waste disposal site to accomodate special wastes. As a result, we must spend almost a million dollars for facilties to reduce liquid waste to a solid waste suitable for disposal. I mention this not because we are objecting to spending the million dollars but to note for your benefit that as industry looks at potential plant sites, this sort of extra cost could prove to be very detrimental to the State.

Energy related matters are of prime importance in plant site selection. I mentioned previously the availability and reliability of the energy supply as well as the cost aspects. For example, a recent report notes that the average prices for electricity in New Jersey were higher in 1977 than in the nation for all classes of consumers. Moreover, additional costs burdens have threatened industry by the position taken by some New Jersey State officials in support of a so-called "Lifeline" rate structure. To put this in prospective for you, proposed rules on "Lifeline" in New Jersey are estimated to cost a $500 to $1000 increase per year for GM alone. "Lifeline", as I am sure you are aware, would require the utility to provide a minimum number of kilowatt hours at a low rate. Needless to say, this is a worthwhile social goal. However, the utilities' function is to maintain and provide services to all of the customers based on the principle of cost of service. That is, the various classes of customers pay their fair share on the basis of what it costs to provide the service. Numerous government agencies have been developed to cope with the social issues and they can handle them much more efficiently than can the utilities. We suggest this issue is a social problem, should be handled under social programs and not one to subsidized by various classes of customers, most frequently by the business community and all of this at the risk of scrapping a rational rate policy.

Recently, the Board of Public Utilities made some recommendations at the Legislature that any form of "Lifeline" subsidy be funded by a means other than the rate restructure. The Board of Public Utility report noted a "Lifeline" program would require a committment on the part of the Administration and Legislature to appropriate and approve approximately 2.5 million a year for the administrative costs alone, while the total cost is estimated at up to 100 million dollars per year. Now, although we don't support the BPU report in its entirety, I do suggest that this Committee consider some of the supporting data with respect to your interest and concern over the State's business climate.

Of interest, might be the fact that looking at our cost of electricity and we are not a major user of electricity in terms of our total product, our national rate per kilowatt is 2.62; in Missouri it is down to 2.19; in the adjacent state of Connecticut it costs 2.32 per kilowatt; in the state of New York it averages out to 2.80; and in New Jersey it is 3.26. As previously noted, labor attitudes and related costs are traditional factors in reviewing possible plant site locations. Workers' Compensation has been alluded to here this morning, I'm not going to beat it to death, but it is one of those costs that are of concern. No responsible company believes that a worker should not be compensated for a job related injury. However, employers should not have to pay for all of the workers' problems, even those that are not job related. In reviewing New Jersey's position regarding workers' compensation, compared to other major GM plant states, I found that New Jersey ranks as the third most expensive state in which GM does business. Had GM been able to apply, for example, Pennsylvania's rate per thousand hours worked to New Jersey's actual hours worked, GM's obligations and benefits payable would have been reduced by at least $1,000,000 a year. The high cost of workers' compensation benefits paid by GM in the State of New Jersey is attributable in part to such areas as the permanent-partial disability benefits. These benefits are paid for an injury regardless of whether an employee lost time or not. In some cases there could be no actual impairment of the body. For example, an employee with a sprained back would continue to work but would additionally receive workers' compensation benefits. Occupation disease is another item of concern, wherein employees allude to illnesses concerning lung conditions alleged to have occurred due to the job; factory dust, for example, which can be alleged to create a lung condition, is awardable in the State of New Jersey. Further, under the provisions as set forth in Assembly Bill 1309, a retired employee can collect benefits for such a condition without any offset against the employee's retirement pension benefits or payments. For all practical purposes, there are no time limits after retirement in which an employee must file a claim. One such situation occurred approximately thirty years after an employee retired.

I've noted that the Legislature has laid some groundwork for compensation reform in Senate Bill 802 and Assembly Bill 840. I would like to suggest that these actions be supported in order to attract industry to New Jersey.

May I mention one final issue, which is not directly related to plant operation, but does present another opportunity for the New Jersey Legislature to enhance its image in the eyes of the business community? That is reform and relief in the area of product liability. As you are aware, this is a problem not unique to New Jersey, but is national in scope. Several states, among which are Utah, Colorado and Oregon have been not only confronted with this kind of problem, but have taken positive legislative action that has provided varying degrees of relief in this area. A number of other states are considering it this year. There are many areas within the product liability arena which calls for statutory reform such as a statute of limitations, a state of the art of manufacturer, and product alteration, just to name a few. Manufacturers, in almost every facet of industry, are confronted with problems having to do with product liability. The number and size of product liability claims have increased substantially in recent years with a dramatic increase in premiums for the product liability insurance. Indeed, many manufacturers are experiencing difficulty in even obtaining coverage, particularly for small businesses. Reform legislation is needed to re-establish equity in the area of product liability law. We feel this issue, with its attending problems, demands the highest priority by the Legislature.

These are a few of the thoughts I might offer you today. I appreciate the opportunity to visit with you and I will be glad to answer any questions you might have.

SENATOR FELDMAN: Thank you, Mr. Flaharty. Are there any questions from members of the Committee? Senator Laskin?

SENATOR LASKIN: Mr. Flaharty, I hope you and everybody else in the audience will pardon me sometimes if I like to get a little more specific, because I'm sure each one of you has a prepared statement about the value of your particular operation to the State of New Jersey and how many employees you have and so forth, and everyone appreciates that. But, some of us, or at least all of us on this Committee, when I say some of us, I mean in the Legislature, are very much concerned about this problem of attracting business and keeping it here and that's the purpose of this Committee. That's why we are here today having this conversation. You mentioned several items that are concerns of your company, as they relate to--and you said that you were going to get specific about New Jersey and you mentioned ozone levels ; you mentioned availability of energy and then when you started to talk about ozone levels, you told us about federal standards. Now, what does that have to do with New Jersey? Are New Jersey standards higher than the federal standards?

MR. FLAHARTY: No. I was afraid there would be a gap in the information available to the Committee. What I was attempting to bring forth was my desire to encourage you to become knowledgeable on this very, very important subject.

SENATOR LASKIN: Okay, but that's not a New Jersey problem.

MR. FLAHARTY: It is a New Jersey problem.

SENATOR LASKIN: Why is that?

MR. FLAHARTY: It is a New Jersey problem because New Jersey has to adopt a state implementation plan. That state implementation, as it is developed, will require certain performances, certain things to be done by manufacturers and other businesses in your state. That, theoretically, would have been delivered to the EPA in January of this year.

SENATOR LASKIN: But, the ozone level standards set by the federal government, are their standards?

MR. FLAHARTY: That is correct.

SENATOR LASKIN: And that applies to every state?

MR. FLAHARTY: It applies to every state, but it's going to have a bigger impact on New Jersey than on many other states, because of the ambient air situation that is bringing ozone into your state and is making it pretty difficult.

SENATOR LASKIN: Now, on energy availability and supply, what specifically can the State of New Jersey do about increasing energy availability and supply?

MR. FLAHARTY: Energy availability and supply, not too much; pricing you can watch. The pricing is what I emphasized.

SENATOR LASKIN: That's the next question. You said that New Jersey's kilowatt rate is 3.26 as opposed to a national average of 2.62, as opposed to much less rates in other states. Now, do you know in why?

MR. FLAHARTY: That's the General Motors rate.

SENATOR LASKIN: I think it's obscene that it's costing this kind of money per kilowatt. Do you know why it's so high?

MR. FLAHARTY: No.

SENATOR LASKIN: Do you feel that the regulation has something to do with increased costs per kilowatt, what you have been talking about, over-regulation?

MR. FLAHARTY: I think--as I recall, a significant portion of your utility costs here are taxes.

SENATOR LASKIN: One last question. You mentioned that one of the items that concerned you and I'm sure that it concerns all businesses--

MR. FLAHARTY: Let me emphasize that, by the way. State and local taxes are 18% of operating expenses for electric utilities in New Jersey, compared to 10% for the United States.

SENATOR LASKIN: One final point, which I think is the most important point. You mentioned that there were several considerations and you went into specifics. You touched on prevailing political climate. Don't you really think that the prevailing political climate at any given time is probably the most thing, the most important issue that we have to solve, or cover, or discuss as far as getting business into the state?

MR. FLAHARTY: Two things; I'll start with the last comment you made and it was alluded to earlier. I'm sure that you gentlemen are aware that most economic consultants, those who work for various states looking for business expansion, recognize that 85% of the increase of employment, expansion of business comes from expansion of existing businesses in the state, as opposed to bringing them in from outside. So, really what I am saying to you is that we have to look in New Jersey, first of all, at expanding the businesses we have here, before we worry about getting some more in from outside, if the rules apply to New Jersey as they apply to most other communities.

To go back to your first question, no I don't think the political climate is the most important. It is important. The most important, in plant selection, is the availability of energy and the meeting of environmental considerations. No matter who the politicians are, if you don't have energy and can't meet the environmental requirements, then you can't build a plant. However, I do think political environment is extremely important because it relates to all the other aspects of taxation, the various things that we discussed and I might say that I can see no objection or express no objection to the political climate of New Jersey. We have obtained a great deal of cooperation from the governmental agencies and as I indicated earlier, we enjoy doing business in New Jersey.

SENATOR FELDMAN: Any further questions? Thank you very much.

Our next witness?

MR. BRADY: Mr. Boyce Woodrum.

SENATOR FELDMAN: I understand Mr. Woodrum represents the printing industry or your firm is a printing firm?

B O Y C E C. W O O D R U M: Right, machinery for the printing industry. Mr. Chairman, members of the Committee, I appreciate this opportunity to represent small business in this group. Pamarco, Inc. is a manufacturer of machinery parts and also machinery in the metal industry in the flexographic area. Our sales are around the $13,000,000 to $15,000,000 figure per annum. So, you know we are a small business.

When I was asked to appear before this Committee, I called several small businesses, people that I know personally, about what they felt would include them in a more favorable business climate here in New Jersey. Not often does small business get an opportunity to appear before committees such as yourselves, because we don't have the clout or the lobbying and money, etc., to be able to talk with you people as to our particular problems.

One of the main problems of small business is the waste, environmental waste from our manufacturing facilities. We now have a provision of taking care of our waste problems, but I am told by the company that takes care of our waste disposal that it may be a very short time that we are going to have to have some other way of disposing of this waste. We feel that if the State of New Jersey, through the environmental group, would have a laboratory available, technicians, where we could pay our own way of getting help and assistance from this laboratory, to be able to neutralize the acids, to be able to take care of it in such a way that it would no longer be a hazard to the community in which we are in operation. We feel, also, that we should have some guidance as to what would be proper to come within the guidelines of the State's environmental area in smoke abatement and air pollution.

I think you have heard enough about Workman's Compensation and unemployment compensation. We feel that it is excessively high. The rulings that are put on small business brings about greater rates on us because we are unable to cope at times with some of the rates that have been brought upon us and I think that there should be some considerations by legislation or by something whereby we would have some jurisdiction where rulings would not be as stringent against business as they have been in the past. For instance, the retired people coming back years later saying that because of his working in the plant, he is no longer able to live properly here in his retirement and therefore he feels that he needs compensation to take care of this. This would be many years afterwards and we feel that there should be some point whereby--we are not saying that we shouldn't be responsible for anything that is incurred. But a lot of complaints are non-industry complaints.

Also, I would like to bring before this group that there are forms that have been set forth to small businesses, both the state and national, whereby the same information required from each bureau or each government agency are practically the same but in a different format. I feel and the other companies that I have talked with feel that we should have maybe a computer to assimilate the data or one type of form that would have an all-encompassing information so that I myself am not forced to fill out these forms ten o'clock, eleven o'clock at night because I am unable to do this during the business day because I am trying to make a profit during the day. So, I feel that there should be some compilation of information centrally held that both national and state government could assimilate this information and be able to get what they require.

Now, I would like to go on to another point, economic development for New Jersey. As a small businessman, I would like to project a little something. I am immediate past President of the World Trade Association in New Jersey. I have been involved in many of the organizations throughout the State in international exporting and importing, and I would like to bring about a program whereby small and medium size corporations could be able to be given the information of how to market overseas. This would bring about greater profitability to the individual manufacturer, to bring about a greater gross national product for the country and would also be able to from this would be able to expand our businesses that are here in New Jersey and by expanding businesses, there would be greater employment. Now, at the present time, the State has a very efficient office, but small, in Newark, the Office of International Trade. I think they have about six people to cover all the State in giving information. Now, I worked for several--on my own time--several organizations trying to get seminars, trying to get workshops, to show companies how they may be able to develop greater marketability overseas. I feel that if we could expand the Office of International Trade, it would be a better way of effecting greater profitability to the small businessman.

A few minutes ago, I heard a question, "Why would it be necessary to have a Department of Commerce?" I think, at the present time, the Department of Labor and Industry, in their appropriation to that Department, that only about four to six percent of the appropriation goes to business orientation. There are several other departments within the State that have business oriented divisions. These organizations could be brought together as part of the Department of Commerce and through this small businesses like myself could go to the Department of Commerce for assistance and the Office of

International Trade could work out of this office and greater benefit for exporting and getting reverse investment from overseas, as Governor Byrne is planning, at the present time, to go to West Germany to try to get reverse investment from West Germany and western Europe, to come to New Jersey, as well as some of the manufacturers of automobiles from Japan. I think that truly that expansion of our economy here in New Jersey would be the expansion of the small businesses, medium size businesses that are presently here and I think that we would derive greater benefit for those people that are involved in manufacturing here in New Jersey than they would be able to possess.

This is all I have to say at this time, but I have great hopes for New Jersey, because in recent years we have had more favorable legislation toward business, through the sales tax on fixed assets, etc. and I hope that we will have a further association and be able to develop economically the businesses here in New Jersey to be, instead of being number 10, that we can go ahead as number two, maybe one.

SENATOR FELDMAN: Thank you, Mr. Woodrum. You have made some positive suggestions. May I ask, how many people do you employ?

MR. WOODRUM: About two hundred in New Jersey and we have plants in other states.

SENATOR FELDMAN: That's a medium size, that's not small, because we have been reading so much about small firms being imperiled today, you know, being gobbled up and bought out by big conglomerates and that fiber of America that has built this country, that small or middle firm is slowly phasing out. Do you find any credibility to this?

MR. WOODRUM: Well, I feel that two hundred employees is small. Maybe it is because I envision medium sized corporations of somewhere in the fifty to one hundred million dollar sales and I feel that they are not phasing out. I think they are growing. Small businesses are growing, even though some are being more or less consumed by other companies into conglomerates, but I feel that the small businessman is here to stay.

SENATOR FELDMAN: That's what I wanted to hear. Any other questions? If not, we will have a break and give some relief to the stenographer. Thank you very much.

MR. WOODRUM: Thank you very much, sir.
(at which time a five minute recess was taken)

SENATOR FELDMAN: We will resume the hearing now. We will recognize the next witness, Paul Lobo, Director of Corporate Planning for Tenneco.

P A U L A. L O B O: Mr. Chairman, members of the Legislative Joint Economic Committee, my name is Paul Lobo and I am currently Director of Corporate Planning at Tenneco Chemicals in Saddlebrook, a division of Tenneco Inc. I hold a Doctor's degree in Chemical Engineering from the University of Michigan and have over twenty years experience in essentially all phases of the chemical industry including engineering, economics, research, planning, plant operations and marketing.

Tenneco Chemicals is a manufacturer of chemical products which go into such diverse end uses as paints, pharmaceutical products, food processing, fertilizers, and plastic products. We are well established in New Jersey. Besides having our corporate headquarters in Saddle Brook, we have our operations center and R&D facilities in Piscataway and twelve manufacturing plants located in Flemington, Burlington, East Rutherford, Rockaway, Carlstadt, Bound Brook, Nixon, Garfield, Elizabeth, Fords, and two in Piscataway. Currently, 2200, approximately 70% of our employees work in New Jersey. Tenneco Chemicals also has manufacturing plants in Texas, Ohio, California, Illinois, Pennsylvania and Massachusetts, as well as numerous countries throughout Europe.

When Tenneco decides to expand production of one of its existing chemical products, or to manufacture a new product, one of the responsibilities of my department, Corporate Planning, is to assist in determining the location where this should be done. In some cases, the decision is an easy one--in others it is more difficult. But, in every case, the decision is based on the "bottom line", that is--"wher can we obtain the best return on our new investment"? In such a decision-making process, the following elements are usually considered:

- Time to obtain site plan and environmental permits.
- Investment cost (Plant construction costs and that required for the off sites).
- The freight considerations for both raw material and products.
- Raw material availability and costs.
- Utilities including electricity, steam and water.
- Availability of skilled labor.
- Wages and associated costs.
- Taxes and insurance.

Obtaining the necessary site plan and environmental approvals has become a significant factor in recent years, as local, state and federal standards must be met in any new facility or expanded plant, as well as the objections of interested and many times highly vocal parties. Thus, the permitting process can often be a lengthy one. For example, we recently have incurred a seven month delay before the local zoning and planning boards here in New Jersey, where we have sought permits to expand an existing facility. The delay was completely unexpected. Although we do not yet have our permit, we believe that the local agencies will eventually allow us to expand. The expansion, however, will now be of limited scope resulting in less construction than was originally planned--with a loss to the State and community in jobs, related services and future taxes. In another case, this one involving an investment of forty to fifty million dollars, we recently selected a Gulf Coast location over New Jersey. A major factor in this decision was the expected difficulty in obtaining permits here even though many of the other considerations, particularly proximity to market, dictated the plant should be in New Jersey.

In the latter case, plant construction costs in New Jersey were estimated at 7 to 8% above those forecast for a similar facility on the Gulf Coast and this was also a factor. However, I believe that if we had seen any real encouragement at the State level for expansion of the chemical industry in New Jersey which would have made us feel positively about the permitting process, the decision could have come out differently.

The major market for our products remains here in the Northeast, despite the move of the chemical industry to the south Atlantic and Gulf Coast states. Thus, New Jersey is still a logical point of supply and in the majority of cases, this factor makes it desireable from a freight standpoint to locate the plant here. Basically, transporting raw materials in bulk from the Gulf Coast to New Jersey and short distance transportation of our product to the customer is less costly than shipping the products to market from Gulf Coast plants, which are located immediately adjacent to the raw material source. Low freight costs and fast response time possible to meet our customers' orders are major advantages to having a chemical plant in New Jersey. These marketing advantages have helped to gain for Tenneco a prominent position in those portions of the chemical market in which we participate. But, do these considerations outweigh the other factors? As cited above, many times they do not, although I believe that New Jersey offers more to chemical companies than shown by its share of new chemical facilities.

Many times we at Tenneco Chemicals have been contacted by the industrial development departments of other states with offers of assistance in speeding our new project through the permitting process, so as to avoid delays with the local and state agencies. In fact, they have people in these Industrial Development groups with backgrounds and experience in the area of environmental control specifically for this purpose. They also offer incentives to ease the tax burden in the project's initial years, as well as to offer the use of their offices to insure a minimum of jurisdictional disputes and other union difficulties during the construction period.

While here in New Jersey, the attitude seems to be one of not help, but in some cases hindrance, or at least at best, a passive one. Recently, though, for the first time we received assistance from the State Office of Business Advocacy. This Department must take a more aggressive attitude in assisting industry if New Jersey is to maintain its prominance in this area. New Jersey was number one in chemical manufacturing and now has fallen to second place after Texas.

Environmental agencies in other states realize that the chemical industry is going to build plants and that modern plants can conform to reasonable regulations. Specifically, we recently proposed construction of a new chemical plant to the environmental agencies in Texas. They stated that they new we would build a plant womewhere and thus would work with us to insure that it was built in Texas. New Jersey too should be able to get its share of new chemical plants, but it will not if unreasonable and unrealistic controls such as those proposed in Senator Skevin's Cancer Control Act, S-711 are put in the books. If this bill had been enacted it would have essentially shut down the chemical industry in New Jersey. The bill is still active and should not be permitted to leave committee.

Another factor in the selection of sites for chemical facilties is labor costs. Where labor costs are to New Jersey's disadvantage, this differential can not be changed. But, there are other wage associated costs which make the wage difference more burdensome. Here, I am speaking of Workers Compensation where the cost for this item in New Jersey is two to ten times Workers Compensation costs in other states in which we operate. Reform in New Jersey's Workers Compensation laws has been proposed under Senate Bill 802 and Assembly Bill 840. Passage of these bill certainly would be a move in the right direction and we encourage to use your efforts to insure these bills become law.

Utility costs are generally a significant cost factor in chemical manufacturing. The cost of electricity is currently higher in New Jersey than in most of the other states in which we operate and as you know there an active effort here to raise the rates for industry.

Chemical Week magazine, a widely circulated trade magazine, recently published an article on plant site selection in which the average statewide costs for industrial power were tabulated. In this summary, New Jersey with a cost of 3.8 mils/kwh, was the second highest with only Massachusetts being higher. As to the proposals to minmize the increases in electricity costs for the aged and those on fixed incomes, the so-called Lifeline Utility Rate Program, the Commissioners of the Board of Public Utilities here have made a first and primary recommendation that the Legislature consider funding a Lifeline program by some other mechanism than rate restructuring. The current Plan which would simply pass the cost on to New Jersey industry can only result in hindering chemical expansion in the State, since the chemical industry is second only to primary metals in its energy intensity.

When the New Jersey State Income Tax became law two and a half years ago, several business taxes were eliminated. Now, however, there is serious consideration in the Legislature to increase the income tax on corporations from 7.5% to 9%. Although, it is proposed to counter this by establishing a 2% investment tax credit, among other measures, the adverseeconomic impact of the rate increase for Tenneco Chemicals overshadows the benefits offered by the investment credit and other provisions. The passage of such legislation would therefore make New Jersey's tax disadvantages, relative to other states, greater than exist today.

We at Tenneco Chemicals are strong advocates of New Jersey, fully understanding its favorable aspects. However, gentlemen, we have not seen any clear evidence that New Jersey wants any expansion of chemical activity--a field that is forecast to grow at a rate that will be twice that of the GNP over the next decade. Until the State, through its Department of Environmental Protection, Office of Business Advocacy and other involved agencies, gives the chemical industry assistance in its expansion plans and a sound legislative program to help, not hinder, industry is developed, I'm afraid the scales will more often tip against New Jersey as a site for future chemical plant construction.

Gentlemen, we appreciate this opportunity to present our views to you this morning.

SENATOR FELDMAN: Thank you, Doctor Lobo. I guess you represent the largest industry in New Jersey, the chemical industry, other than tourism. What prompted you to bring your corporate headquarters into New Jersey? Chemical plants I understand, but I am very much interested in why the headquarters is here.

MR. LOBO: Well, for many years our headquarters were in New York. We found that the time spent in commuting was very burdensome for executives. We found that transportation problems for our clerical staff getting to New York were such that we really didn't get a full eight hour day. In fact, as you know, the work day in New York is seven hours, if everyone gets there on time. This and of course there were other reasons from a tax consideration that caused us to move out of New York City. We have been very happy with our location in Saddle Brook.

SENATOR FELDMAN: Are there any questions? Thank you very much.

MR. BRADY: Mr. Robert Donovan?

R O B E R T C. D O N O V A N: Mr. Chairman, Senators, my name is Bob Donovan. I am Regional Director of Public Affairs with Owens-Illinois. Our office is in Saddle Brook, New Jersey and I am delighted to have this opportunity. The hearing by this Joint Committee, we think,is both appropriate and encouraging. It is another indication of the positive effort evidenced by the present Administration and the Legislature to make New Jersey a more desireable state in which to do business.

For your information, Owens-Illinois' domestic operations include 115 plants and mills in 28 states. The companies'American made products are exported to more than 90 countries and world-wide employment is more than 80,000 persons. Our total 1978 sales were $3,112,000,000 with a net profit after taxes of $85,000,000. Our total 1977 taxes were $153,000,000 of which total state taxes, not New Jersey, total state taxes accounted for $62,000,000. We presently operate ten facilities in New Jersey along with three sales branches. The facilties include two glass container manufacturing plants in Bridgeton and in North Bergen; a kimball operation in Vineland and Pennsauken; closure manufacturing plants in Glassboro and Wayne; a plastic product plant in Edison; a corrogated plant in Moonachie; a lily plant in Holmdel; and a Millville sand operation. These ten facilities, at year's end, employed more than six thousand persons with an annual payroll of approximately ninety million, plus fringes. Our total New Jersey taxes in 1977 were nine million, and by the way, New Jersey is one of the largest glass producing states in the country, with thirteen plants, employing in excess of thirteen thousand persons. Our records show that our employment in New Jersey has declined from 8,271 in 1973 to the present level, reflecting a loss of about 2,271 jobs. Although the factors that led to this reduction are complex and varied, it appeared that late in 1977 that the idendifiable causes included high fuel and energy costs, high state taxes, high workers compensation and unemployment compensation costs, and state environmental control laws which are some of the most stringent in the nation. I'm pleased to report, though, that we take a much more positive view of New Jersey today than we did a few years ago. There has been, in our opinion, an obvious change in the attitude of New Jersey's government that reveals a recognition of the plight of the New Jersey business climate, community rather and the desire to improve its environment.

Our changing opinion can be attributed, in part, to a number of steps such as the following, taken by the Administration and the Legislature in 1978: the January 1st, 1978 removal of the state tax,sales tax on business machinery; secondly, the repeal of the unincorporated gross receipts tax, although it didn't really affect Owens-Illinois, we felt it was a positive step; the reduction in local property taxes that saved business and industry about seventy-five million dollars, and we realize that was due primarily to the state income tax and we take no position on the state income tax, but obviously it had a positive effect; a more balanced approach to the environmental problems rather than the zealous thrust on the part of so many people years ago to solve these problems at any cost; fifth, the formation of the New Jersey Division of Economic Development within Commissioner Horn's Department of Labor and Industry. I might point out that during the past two years, Owens-Illinois has invested in New Jersey $2,000,000 for a new batch operation in which raw materials are mixed at our Vineland plant. We have recently announced a new $25,000,000 facility that will be adjacent to our Glassboro operation. Our Bridgeton glass container plant will also invest $5,500,000 in the repair or reconstruction of a glass furnace and that will commence in the near future. That's the good news. Obviously, the business climate has improved, but we continue to operate at a competitive disadvantage in the areas of taxation, workers and unemployment compensation costs, energy costs and environmental regulations.

First, I would like to touch on taxation. While our corporate tax people have not yet had the opportunity to evaluate the 1978 tax situation, it continues to be their impression that New Jersey still ranks among the high tax states. For example, our 1978 New Jersey property taxes did increase about 10% over 1977. We would certainly endorse any measure that would reduce state taxes, thereby freeing up additional funds for the formation of a capital that would, in our opinion, lead to new investments and new jobs. For example, an investment tax credit in the form of a flat tax reduction based on a percentage of the amount invested in the state for new facilities and/or new manufacturing machinery would seem to be most appropriate. A program of job incentive credits, in our opinion, would be especially valuable in the areas of high unemployment.

Now, to workers compensation. Our costs, workers compensation and unemployment compensation costs continue to be of great concern. Based upon our experience, in 1976 our workers compensation costs in New Jersey equaled 9¢ per man hour. In 1977, that cost had gone up to 12¢ per man hour, while comparable costs in New York were 10¢ and in Pennsylvania, 5¢. Our specialists feel that any real reform must deal with the problems of permanent or partial-permanent disability for minor injuries; the liberal interpretation of heart attacks; occupational pulmonary claims, aggravation of pre-existing non-work related conditions; and the odd lot doctrine concerning total disability. Presently, we feel that Senate Bill 802, sometimes referred to as the "Industry Bill", is the type of legislation that warrants our support, because it would increase benefits to the seriously injured employees, but eliminate many of the abuses which presently exist.

On the subject of unemployment compensation, our compensation costs in New Jersey jumped from 15¢ per man hour in 1976 to 23¢ in 1977. Our costs in New York and Pennsylvania for both years was 10¢ per man hour. We urge prudent application of the state's unemployment compensation plan in the hopes of eventually bringing the cost back to reality.

Concerning energy costs, we estimate that our electricity and natural gas costs in New Jersey are already 25-30% higher than the average of the 28 states in which we operate facilities. We also estimated that these costs would have been increased by an additional 25% as a result of the original version of the Lifeline Bill that was eventually amended and passed early last year. Understandably, we are adamantly opposed to the use of rate restructuring to fund a Lifeline Utility proposal. In view of our already high utility costs,we would ask that the Administration and the Legislature be especially cautious of any legislation that would add to these already high costs.

There exists also a relationship between fuel costs and air pollution standards. As you may know, traditionally the glass industry has used natural gas as its fuel. But, in 1974 because of the natural gas shortage, we were forced into the use of oil. For example, in an attempt to address in part the problem created by New Jersey's strict air pollution standards enacted in 1972, our natural gas supplier, South Jersey Gas, has recently applied to BPU for a special industrial rate that would allow them to sell currently surplus volumes of gas to our South Jersey plants at prices competitive with fuel oil. Although I realize it is not a legislative matter, we are, for your information, urging BPU approval of this in order to hold costs down and to aid in compliance with New Jersey's air pollution standards.

On the subject of environmental regulations, at this time, I would like to single out our Bridgeton glass container plant as an example of how the combined effect of these other than normal operating costs can impact nearly any industry. I will quote from a mid-December statement by our Bridgeton plant manager, Dan Gallagher. "Between 1955 and 1976, employment at the Bridgeton glass container manufacturing plant of Owens-Illinois remained at approximately 2,500 individuals. In December, 1976, when one furnace was permanently idled, total employment at the plant decreased to about 1,950 persons. With further reduction of three more furnaces, in 1978, employment at the plant has been reduced to the current level of approximately 1,090 persons. However, plant records show that we have 345 persons on actual layoff, while the remaining reduction was accomplished through promotion, transfer, retirement or normal turnover. While the plant formerly used two different bottle making processes, we currently are operating only, what we call, IS or individual section bottle machines on our present four furnaces. All of our furnaces operate using fuel oil, due to the 1974 reduction in natural gas supplies. Total energy costs average about $800,000 per month. At the present time, the plant is utilizing fuel oil containing 1.5% sulfur, while some of our competitors are using less expensive, high sulfur fuel. Our Bridgeton plant is being continuously monitored by three sulfur dioxide and three particulate monitors located off our plant property. One set of each is maintained and operated by the New Jersey Department of Environmental Protection, while the other two sets of monitors are maintained by the plant, with samples submitted to the DEP on a regular schedule. Data from these monitors have indicated compliance with federal and state ambient air quality standards, designed to protect the health and welfare of the public. At the seven furnace level of a few years ago, one monitor had indicated an excursion above a secondary sulfur dioxide standard. This secondary standard has been rescinded by the federal government as unnecessary, although the New Jersey DEP has not rescinded this standard as yet. After this excursion, we switched to more expensive, lower sulfur fuel during the remaining operation of seven furnaces. To conserve fuel and to provide the high temperatures necessary for glass melting, our furnaces each contain a pair of large heat exchangers. Operation of these heat exchangers entails automatic reversal of the furnace firing direction every thirty minutes. These reversals can, at times, produce black smoke, if pre-ignition occurs or if an air valve sticks, and I might add that this is a temporary or momentary situation. The New Jersey DEP sampled our furnace stacks in June, 1978. These tests indicated a potential particulate emission problem at two of the four furnaces. Owens-Illinois and New Jersey DEP have had some significant technical differences regarding sampling and analytical procedures and the resulting data. These differences are being discussed by Owens-Illinois and the DEP in an attempt to resolve the matter. I might add that DEP has been cooperative. They are stuck with the laws that were passed years ago. The New Jersey DEP standards are more stringent than federal EPA standards for air pollution. There is no doubt that these tighter regulations add costs, but this is not the primary reason for the reduction in operations at the Bridgeton plant. The net result is that all of these things put together resulted or created an unprofitable situation resulting in the discontinuance of those older machines. Generally speaking, operating costs for fuels and labor, with mounting workmans compensation costs, continue to run high in New Jersey and this affects our competitive situation with other plants producing the same product, but located outside of New Jersey. It is Owens-Illinois' corporate policy that we will take necessary measures to comply with applicable air and water regulations in all of our plants. Owens-Illinois continues to invest in the future of this plant and we hope employment at our plant will stabilize at about 1,000 persons."

Before concluding my statement, I would like to touch upon another concern that plagues not only Owens-Illinois, but also the packaging, beverage and distribution industry. I shouldn't say that it is a current threat to New Jersey, but you should be aware of it. That is the continued threat of restrictive container legislation, more commonly known as the "bottle bills". These legislative proposals would mandate a deposit on soft drink and beer containers, glass plastic and metal, and in some cases, paper, in an attempt to solve a portion of our litter and solid waste problem. Legislation such as this would be extremely detrimental to the packaging industry and New Jersey especially, in that we are one of the largest glass producing states in the nation. It is for this reason that labor and industry have joined hands on this issue and have for many years advocated a positive approach consisting of recycling, resource recovery and comprehensive programs attacking the total litter and total solid waste problems. We ask for your continued support on this issue.

In closing, I would like to quote briefly from comments made by Joe Luca, one of our more experienced plant managers, at our Vineland plant, on May 30, 1978, at his plant's elected officials day. "New Jersey has received some bad press during the last few years about how tough it is to do business here. Granted, industry has experienced some difficult years, but we sense an improvement in the climate and all of us here today can help that condition along. We like New Jersey for a number of reasons. We are blessed with fine community relations and a good location, close to our markets, and much of our raw material source. We enjoy good labor relations, and we are proud of the people we work with every day. We have adequate, if not good, transportation facilities and our relations with DEP and OSHA have shown steady improvement. We have always had good relations with the Department of Labor and Industry. Perhaps the best indication of our good faith in the future of New Jersey is the recent investment of $2,000,000 to construct a new batch house. There are more good things that can be said about Vineland and New Jersey than bad and we feel confident that we have turned the corner and New Jersey's business climate will get better as long as we help it along." Obviously, the interests of this Committee parallels that of Joe Luca, our President Bob Lanagan, who recently visited New Jersey, and Owens-Illinois. Thank you for giving us this opportunity to explore with you the New Jersey business climate and to express our view-point concerning the remaining problems that we feel must be addressed together. Thank you.

SENATOR FELDMAN: Thank you, Mr. Donovan. Senator Laskin?

SENATOR LASKIN: I have just one question, which isn't even related to our main issue, but you brought it up. You say that labor and industry is opposed to those "return the bottle for deposit" bills because it would hurt the industry. I don't understand that. Why would it hurt the industry? Why would it put any obstacle in your path?

MR. DONOVAN: Well, perhaps the best way to respond to that we firmly feel that the free market is the best process.

SENATOR LASKIN: I understand that, but how would it hurt you specifically?

MR. DONOVAN: In the East, call it the megalopolis from Washington up through Boston and so forth, the switch was made long ago by the consumer to what we call a non-returnable container. Attempts to return to the old system or refillable containers would eliminate much of the glass industry and much of the packaging industry. Our experience in Oregon--

SENATOR LASKIN: In other words, you won't make as many bottles. Is that what you are saying?

MR. DONOVAN: Yes, that's primarily the reason.

SENATOR LASKIN: I thought maybe there was something else because I couldn't follow it. In other words, you are not going to produce as many bottles if we go back to the return bottle or deposit concept.

MR. DONOVAN: It is awfully difficult to predict exactly what would happen. But, the experience in Oregon is just that. It did reduce our plants substantially.

SENATOR LASKIN: Did it clean up the streets?

MR. DONOVAN: Partially, it did, yes. It did remove some of the soft drink and beer containers. But, our plea is this, soft drink and beer containers represent maybe 25% of that total litter problem and we are suggesting, let's address the total problem, not just that portion, and it's a very expensive method of addressing a problem.

SENATOR FELDMAN: Thank you very much, Mr. Donovan.

MR. BRADY: Mr. Lauver?

L O W E L L L. L A U V E R: Mr. Chairman and members of the Committee, my name is Lowell L. Lauver, Vice-President of Ingersoll-Rand Company, with our corporate headquarters in Woodcliff Lake, New Jersey.

First, on behalf of our company, I would like to thank you for this opportunity to appear before this Committee, and to commend you for your efforts regarding this important subject.

For those of you who do not know us, it may be appropriate to tell you very briefly who we are. Ingersoll-Rand is a major manufacturer of machinery and equipment that is used in industry and construction and mining throughout the world. The company operates 107 plants--67 in the United States and 40 abroad. You will find us doing business in 119 countries scattered around the globe, including the Iron Curtain countries, as well as the People's Republic of China. The latest Fortune 500 listing of American companies ranks us 120th in size. Our sales exceed $2.3 billion.

We are natives of New Jersey. Ingersoll-Rand Company was incorporated in New Jersey in 1905. In addition to our corporate headquarters at Woodcliff Lake, from which our world-wide activities are conducted, we have a major plant employing 3500 people at Phillipsburg. This plant was first established more than 75 years ago. In all we have fourteen facilities in the State, including among others, Divisional Headquarters at Liberty Corner, Parsippany, North Bergen and Phillipsburg. Our corporate research center is located near Princeton.

At the outset, let me say that although we have known to be critical on occasion, perhaps it was not without justification. For example, when you saw fit to enact anti-boycott legislation last May, we thought it was necessary to inform the public of our views on the subject. Fortunately, this legislation was superceded by federal legislation which did not penalize New Jersey corporations to the benefit of those in other states. I could cite other instances when we have been critical, but that is not our purpose here today.

We have been,,at least, somewhat encouraged lately by the restraints shown by the Legislature in enacting new spending programs. We implore the Legislature to continue in the direction of fiscal responsibility which we consider to be essential to a sound economy.

We were encouraged by your action to permit offshore drilling in the hope of approaching energy independence, not only for New Jersey, but for the Northeast. We were gratified that Governor Byrne's new budget for 1979-1980 contains no new taxes, nor any increases in any existing taxes.

The fact that our company has substantial operations here indicates that we recognize that there are advantages to locating in New Jersey. Included among these are: proximity to sources of materials and services; proximity to ports and airport facilities; proximity to cultural centers; proximity to financial centers; proximity to research centers; availability of skilled labor, technical personnel and others.

There are, of course, disadvantages on which you in the Legislature may or may not be able to impact. According to a recent survey by the Governor's Economic Recovery Mission, New Jersey has the unhappy distinction of being, and we quote,"1st most costly in coal, 2nd most costly in oil, 3rd most costly in electric power, 4th most costly in natural gas." In addition, we are, and I quote again,"2nd most costly in manufacturing hourly wages, 5th most costly in building costs."

Keeping these disadvantages in mind, I would like to dwell at somewhat greater length on other areas where we feel you have much more direct control and could either correct existing legislation or enact new legislation to improve the business atmosphere in the State.

The first and probably the most inequitable situation is the cost of workman's compensation and inequities in our present law. One of the major abuses of the New Jersey Workers Compensation Law are primarily in the permanent-partial disability area. More than one half of all payments of workers compensation go to people with permanent-partial awards for what the Workers Compensation Bureau deems as "minor awards". These awards are made for injuries where there is no loss of work, on-site emergency treatment and no perceivable permanent disability.

Alternatively, major claims are not properly compensated under our present compensation laws, so we find inequities in both areas of the law. We urge you to predeed with the enactment of comprehensive reform of the Workers Compensation Law and in this regard, we ask that you not be tempted with piecemeal, halfway type measures.

Let us take a look at the tax picture. Let me start by complimenting you on certain recent actions you have taken: first, you repealed the sales tax on manufacturing machinery and equipment; second, you exempted machinery and equipment acquired on or after January first, 1977 from the New Jersey State Business Personal Property Tax; and third, to date at least, you have resisted efforts to increase the corporate income tax rate of 7½%, when our neighbors on both sides of us have seen fit to increase this rate.

Alternatively, however, you have not seen fit to grant investment tax credits on investments in depreciable property used in manufacturing. New York State has granted such credits which can be as high as 10% in some instances. Nor have you seen fit to grant a manufacturing exemption to the New Jersey Corporate Franchise Tax which is imposed irrespective of whether or not a company is profitable. This tax should be abolished in our opinion.

Next, something should be done to eliminate some of the uncertainties with respect to the risks and costs of product liability. Approximately 15 of our sister states have enacted product liability reform legislation to overcome the product liability crisis. This crisis represents a threat to every manufacturer, retailer, and employer as well as to the pocketbook of every customer. All over the State, in the past few years, companies have suffered significant rises in the cost of their product liability insurance premiums or even the loss of such coverage. This environment has produced a proliferation in the rise of suits and in the numbers of court awards. Why, for instance, should a manufacturer or a retailer be held liable for damages caused by a product manufactured 40, 50 or even 60 years ago? Why should a manufacturer be held liable for damages where such a product has been tinkered with or misused? Such reform legislation should provide a statute of repose which would limit the time in which the manufacturer of a product is liable for a product. The defense of the state of the art--in other words, what was the legal implication at the time you built it--should be provided as well as defense against product alterations, modifications or misuse. As a constructive step, we suggest that you consider adoption of the model bill recently published on January 12 by the U.S. Department of Commerce.

Another area of genuine concern is the cost of compliance with the multitude and variety of State imposed regulations, especially those that are unique to New Jersey or that exceed the requirements of the federal statutes.

In addition, we feel that you, the Legislature, must be alert to and aware of the competition from other states. As you must know, there are numerous instances of New Jersey companies locating new facilities in areas such as the Sunbelt where the business climate is more favorable.

To offset these advantages, we believe that you would do well to look at these additional areas:

You should reduce or eliminate questionable expenditures;

Take the Governor up on his challenge to repeal a law for every new one that you pass;

You should insist that procedures for complying with State-imposed regulations be made simple, straight-forward and as uncomplicated as is possible;

You must resist any attempt to look to business for any additional sources of revenue, because any movement in the direction of higher business taxes or levies would simply result in making New Jersey more non-competitive and would, in our judgement, be counter productive.

If you will do all these things, you will be going a long way toward convincing business and industry that you do want us here in New Jersey.

It goes without saying that business and industry prefer a climate that is conducive to its prosperity. A business climate is a product of many factors, some of which may seem intangible. To a great extent, business climate is a reflection of attitudes--and by this, we mean the attitudes of State government. Business wants to be convinced by your actions and your attitudes that you intend to enhance the business climate of this state.

As an example, creation of a Department of Commerce and Economic Development, without enlarging the State bureaucracy as a whole, should help to place business interests in their proper prospective, relative to other legitimate interests.

In conclusion, we urge you to consider action in the aforementioned areas in which your actions can be beneficial to the interests of business and the State as a whole. New Jersey isn't all that bad--we would like to work with you in making it better. Thank you.

SENATOR FELDMAN: Thank you, Mr. Lauver. Don't apologize for the common threat, because we are hearing the protestations and lamentations as well as the good side of the economic climate. Are there any questions? (no response) Thank you very much.

MR. BRADY: Mr. Ronald Frano?

R O N A L D F R A N O: Mr. Chairman, Gentlemen of the Committee, my name is Ronald Frano and I am the Area Director for State and Local Affairs for the National Federation of Independent Business. Our organization consists of over 555,000 members nationally. These members are small, independent business people. 11,000 of these members are here in New Jersey. I wish to thank this Committee for allowing me to testify on behalf of our members.

SENATOR FELDMAN: 11,000 firms?

MR. FRANO: Yes, small businesses. I would like to direct my comments to those areas of concern to the small independent business, which makes up close to 90% of the businesses in New Jersey and produces approximately 50% of the gross state product and supplies half of the jobs. Whenever a group such as this begins a study of ways to attract or retain business in the state, their attention is automatically directed toward the large business, many times overlooking that segment of the business community which is the very backbone of the State's economy. The areas which I plan to discuss today have been conveyed to us as problem areas for our members and indeed all small business.

The first area I would like to talk about is paperwork. In all of our surveys, and we poll our members on a regular basis, the number one complaint has consistently been government paperwork. Nothing boggles the mind of the small business-person as much as the tons of paperwork generated by the various agencies and departments of state government. In a number of states, my organization has been instrumental in promoting paperwork reduction programs. Not only have these programs saved tax dollars connected with the printing, storage and processing of unnecessary forms, but attention has been directed toward assisting the small business in dealing with government information gathering. We are not suggesting the creation of another department or bureaucratic level; nor are we suggesting the expansion of state government with additional employees; but a program which could be handled by existing departments and employees. This type of program has been adopted in the State of Maryland.

Next are taxes. Of course, taxes are always a complaint of any individual or business. State legislators have, for years, been trying to devise the fairest system of taxation, only to face some group which is disatisfied with the effort. Small business is also concerned with taxes and many times are lost in the shuffle of locating the right tax. Tax credits and incentives specifically aimed at the small business is imperative if small business is to survive. Because the small businessperson is a working person putting in long hours and long weeks, with little time or money to spend on analyzing complex tax programs, any tax credit or incentive must be as simple as possible and easy for the small businessperson to use. As to the type of tax credits which are helpful, attention should be given to those directed at employment. Although investment credits are helpful, the small businessperson is more and more burdened with the costs and taxes associated with employees. The cost of Unemployment Compensation, Social Security, Workmen's Compensation, along with requirements established by minimum wage legislation have placed tight restrictions upon hiring practices of small business. Employee type credits would go a long way in both assisting small business people in operating their businesses and establishing additional jobs for state citizens. In another area, attention should be given to the eventual elimination of the 60% prepayment of corporation taxes. This requirement is particularly onerous to the small corporation, which can not afford such a requirement, especially if its profits are cyclical, high one year and low or non-existent the next. There should be no reason for a business to be required to pay its taxes in advance, anymore than it would be fair for any individual to be required to pay taxes on money he or she has not yet earned.

The next area of concern is capital availability. Small businesses are at a distinct disadvantage when faced with the need for funds. Most government loan programs are directed at the large corporation. Sometimes the amount of money small business requires is considered insignificant or they have not been in business long enough, but the biggest obstacle is the application procedure. The time and effort needed to prepare the mountain of forms discourages the average small business from participating in these programs. Additionally, certain requirements established by the Economic Development Authority, which by the way was created to help business, have eliminated most small businesses from participating in their programs. I refer to the recent resolution of that Authority requiring the payment of prevailing wages on all construction financed through the Authority. This action is not only inflationary and counter-productive, but it is blatantly anti-small business. The small businessperson works hard for his money and is extremely cost conscious. He will not participate in a program which requires him or her to pay unnecessarily higher prices.

If the State wishes to help the small business in their attempt to acquire funds for expansion and the State should be interested in helping them, the program will have to be more attuned to the small business goals and circumstances. The application procedure should be simple or the State should give assistance in the application procedure. Information on those programs in existance with qualification requirements should be readily available.

Another area that's on the top of the list for small business is government rules and regulations. In a recent survey of our members, they were asked what information they wanted more readily available. The number one answer was "meeting government rules". Governmental rules and regulations have become so numerous no small business person could ever keep up with them.

The State could provide a valuable service to small business by compiling a listing of all rules and regulations which affect them. At the same time, efforts might be taken to simplify, consolidate, or eliminate many of the unnecessary rules and regulations.

To go one step further, many times a small businessperson is visited by a State Inspector and is cited for a violation of some state regulation. The small businessperson compares the cost of the fine against the cost of defending himself and finds it is less expensive to pay the fine even if he truly feels he is innocent of any violation. The larger firms employ attorneys, accountants and various experts who can respond to any action by the State. The small business is not in the same position and the cost of challenging a citation becomes financially devastating. In some states, consideration is being given to legislation which removes this disincentive for small business to challenge citations which in their opinion is unjust or unwarranted because the cost of a challenge far exceeds the cost of the fine. This legislation would require state agencies whose fines or judgements are overturned in a court or in an administrative proceeding to pay the legal fees of the affected small business. This requirement would place state agencies on their toes and would force them to avoid wasting time in unnecessary harrassment.

Another deterent to unnecessary and costly regulations would be legislation which would small business economic impact statements before new rules regulations could be adopted.

These are some areas where the State can help small business in New Jersey. There are numerous others. As a final suggestion, this Committee might consider the appointment of a small business advisory board to continue supplying suggestions and ideas for the further development of the small business community.

Again, I wish to thank you for allowing me to testify today.

SENATOR FELDMAN: Mr. Frano, you mentioned the proliferation and the duplication of paperwork for the small businessman. Can you, at some other time, relay to this Committee the paperwork that is most agonizing to you; what you feel is duplication? One of the purposes of this Committee is to try to do away with the layers of bureaucracy and the layers of paperwork that plague you.

MR. FRANO: We can survey our 11,000 and ask them.

SENATOR FELDMAN: Please do that. Thank you. Any other comments or questions? Thank you, Mr. Frano.

MR. BRADY: Mr. Martin Green?

M A R T I N   G R E E N: Mr. Chairman and members of the Committee, I would like to take the opportunity to thank you for allowing me to testify in front of this hearing and give you the reasons that I feel that I should be here.

I was the first employee of the Economic Development Authority other than Robert Powell, their Executive Director. I came aboard in 1974 as their Chief Fiscal Officer and remained in that position until 1977, when I chose to leave government and pursue a career in private industry in the field of government related financing. I left and pursued that field and am still in that field. I feel this gives me a unique prospective on the economic development process in our state. I might add that I feel that during my tenure with the E.D.A. that I was an integral part of shaping some of the legislation and some of the policies of the E.D.A. and the State of New Jersey.

I am of the strong opinion that to strengthen our economy we must bring economic vitality back to our urban areas. This is done by increasing and stabilizing the tax basis of our cities and most importantly creating jobs for the residents of those communities. This state, as we all have heard this morning, has sharp competition for our industry from many other states, including the so called attractive "sun belt".

They particularly attack our manufacturing businesses. Therefore, I maintain, that this state must keep an "I want you", "I need you" and "I will do for you" attitude amongst our business community. This state can ill-afford to give an anti-business impression, be it to its manufacturing companies or its or its retail or commercial enterprises. In 1973, Governor Byrne took drastic steps to promote our economy by creating the New Jersey Economic Development Authority and also expanding the scope of the Division of Economic Development. As I recall, back in 1973-74, the State of New Jersey spent approximately $300,000 on economic development and now it is far in excess of $1,000,000 and has greatly expanded its scope in many areas of the State. Governor Byrne, I feel, successfully dispelled any attitude that New Jersey is anti-business. I've heard many comments of long range and continuing problems, but I feel, over the long run, this Administration has given good attention to those problems. Now, in 1979, when I feel this country is on the brink of severe economic hardships, due to federal cutbacks in aid programs and unstable foreign trade markets and a serious uncertainty as to our future energy sources, the state Economic Development Authority is attempting to target its assistance to certain areas of our state. In fairness to their policy, no limitations are being imposed on manufacturing, industrial, research and development, or large office complexes. Limitations are being imposed on retail, motel and hotel developments, which is our second largest industry, and small commercial developments. When I say commercial developments, I mean office buildings, as they indicated in their policy paper, under 30,000 square feet of usable space. I think what they are saying, in effect, is that we will not support our major employers; that being hotels and motels, supermarkets, and the small businessman and will allow, again, the small businessman to utilize the assistance, the financial assistance offered by the Authority. I feel that this policy change, that being targeting, should be abandoned and no restrictions placed on any development within this state. The people who are ultimately going to lose are those people in our inner cities, not the suburban community. New Jersey is one large metropolis, especially the northeastern part. If we restrict growth in the areas I previously indicated,these jobs, which are potentially well-paying jobs, will be lost and probably will not be available to those in the inner-city.

A point that should be made is that in addition to targeting, the Economic Development Authority is adopting a policy that financial assistance will only be granted to those firms who are willing to pay the prevailing wage, regardless of what type of project it is. One strong inducement that we do have in the cities is our labor force and another strong inducement is that in our inner-cities we have small contracting firms that remain competitive with our larger contracting firms because they are not union-scale wages. If we seek to ruin this, I think that our minority businessmen in these communities will be greatly hurt.

Besides putting geographic restrictions on a company because of targeting policy, the State of New Jersey is also going to put wage restrictions on companies. These two policies are critical to our State's future development and must be given a much closer look by our Administration and our Legislature. If these two items--that being targeting and prevailing wage--are made regulation, it would materially alter the intent of the E.D.A. legislation and its subsequent amendments.

I hear every day as I go to work advertisements for the State of New York, "I love New York", "speak to John Dyson", do this and do that. I honestly feel, because this is such a competitive market, that the prevailing wage and the targeting will become part of the other states' competitiveness against this state.

I also feel that it will give New Jersey the distinction of being the first state to consciously restrict its economic growth.

The substance of the targeting policy report, as I see it, has two major points:

1. That the state is in a post-recession recovery period and because of that, it must be more choosy in its assistance to businesses.
2. That there are limited resources available in the area of tax-free financing.

Based on these assumptions, they propose the following:

1. To exclude, because of lack of desireability, retail, hotel and motel, and small commercial developments.
2. Limit commercial development, as defined in their report, to those cities on their targeting list.

Absent from their recommendations are these two critical points:

1. Provisions for economic down trends which I selfishly feel these policies will create.
2. A survey of the communities on their targeting list to see what is available for development and how it impacts on the rest of the State.

Being in the economic development business, I do try to encourage people to locate in the inner-cities. The City of Newark has what they call the R-121 project, which has carved out a piece of property, large pieces of propety, for economic development. If you went to the City and wanted to locate in that R-121 development, there is no sites available. Believe it or not, it is all filled up.

On page 131 of the targeting report, the Authority has introduced some very interesting statistics. Without being restrictive, 85% and 79% of the E.D.A. assistance in dollars has gone to communities on their targeting list in 1978 and 1977 respectively. Based on this, a conslusion can be drawn that investment in these areas are not lacking, but a strong trend towards their development is occurring.

To be direct, once again, I am strongly opposed to this policy change and will attempt to give my reasons in a logical and sensible manner in order to elicit your support so these tragis changes will not be made. My opinions are based on discussions with developers, lawyers, accountants and municipal officials which will be affected by these decisions.

To start, the manner in which this is being done, in my opinion, is questionable. The targeting policy as presented is in basis conflict with the enabling legislation. Such a radical change should be presented to the lawmakers who originally created it. The legislation as adopted and subsequently amended did not call for restrictive aid in any areas of our State. In fact, when the legislation was originally adopted, there were questions on how it could be more liberalized to accomodate more diverse development such as retail stores and speculative development. Because of the need for these type of projects, the legislation was amended in November of 1975 to specifically include those types of projects mentioned above. These changes enabled developers to start building on speculation, and to increase our State's new building inventories and shopping centers. This has succeeded and is being seriously jeopardized now by the targeting policy. It should be pointed out that in states where there are restrictions for tax-exempt financing, it clearly delineated in the legislation and those governing authorities do not regulate those restrictions.

I attend every E.D.A. meeting because I represent clients presenting matters to the Authority. I have, therefore, heard all public discussion on the targeting matter. At the December meeting, Mr. Robert Powell indicated that the targeting policy would be circulated to municipal officials and concerned parties for comment. The document was circulated in the normal E.D.A. mailing and was received by those on the Authority's mailing list in mid-January. There was no notice in the mailing that asked for public comment or indicated that this matter would be voted on by February 20,1979 and become effective March 1, 1979, which now has been changed to April 1. Normally, When people receive something like this, that has such a great impact on their communities, an explanation should accompany such a communication. This was not done. This would lead me to believe that those receiving the targeting paper really did not understand the magnitude of what will happen if targeting assistance becomes effective.

At the January E.D.A. meeting, Mr. Powell commented that he will present to the Board a summary of responses that he had received by mail. He indicated that he would attempt to bring to them good comments on this policy, which I feel is not fair, because I feel that the Board should be subjected to both good and adverse comments. If the Board members are only shown the favorable comments, they might be compelled, because of favorable public comment, to adopt the policy. I maintain that that there is no public forum to speak out on this targeting policy. I'm thankful that this Committee has convened before February so that I might air my views. I think given a forum, free of E.D.A. filtering devices, the Board members, public and private, might draw different conclusions.

The actions described above lead me to believe that the Executive Director will not be objective in his presentation to the Board because this is something he personally favors. This major change should be subjected to public hearings and a report should be presented to the Board and Governor on those public hearings and then a determination should be made if this policy is sensible for our State.

As I would understand it, targeting of any sort is used when there is limited or restricted resources available. In attending the E.D.A. meetings and listening to discussions of Borad members who favor this policy change, their argument is that there are a limited amount of tax-exempt financing available throughout the State, which includes our normal municipal funding, State bond issues, our highway authorities and our E.D.A. loans. The lending institutions of this state will always maintain their fiduciary responsibilities to the municipalities and the governing bodies when it comes to the purchasing of their obligation. The decision to purchase an E.D.A. bond is based totally on the credit of the individual borrower, not on the availability of E.D.A. bond financing. The tax-exempt nature of the financing does offer the banks advantages other than tax-free interest, such as a commercial banking relationship. A bank will not make an E.D.A. loan if they do not feel that the applicant can repay the loan, because the obligation is based on their general credit and not the State of New Jersey's or the New Jersey Economic Development Authority. Those banks who do not need extra tax-exempt income will not purchase E.D.A. bonds or involve themselves in State E.D.A. matters. When and if they are in the market or in the position to purchase E.D.A. bonds, they will then enter the market and seek the type of loans that they prefer and the the type of credits that they prefer.

Another point brought out by those favoring the targeting policy is that we must protect our federal tax dollar by limiting the use of tax-exempt financing. As you know, the recipient of those bonds gets tax-free interest, and they are mainly banks. I do not subscribe to this because those banks who purchase E.D.A. bonds are usually in the 25-30% tax bracket. The revenue loss to the federal government is immediately offset because if interest rates are lower, corporate profits are higher or increased. Therefore, there is an immediate trade-off of the tax advantage to the lending institution. In all probability, the corporate tax rate being paid will be in the 46% range, not in the 25-30% range, therefore giving a theoretical gain of 20%. In addition, we are creating jobs, taking people off the umemployment lines, and we are creating more witholding and social security taxes for our federal government.

The State benefits by increasing the amount of sales tax and income tax it receives, lessens the burden of unemployment tax and allows the community to raise revenues by increasing its tax ratables and in turn taking some burden off of our State Treasury. To conclude this point, giving tax-free interest to a bank has more positive affects on the cash flow of our federal, state and local government than negative effects. The lending institutions choosing to issue E.D.A. bonds are given the choice, therefore there is no limited resource here. It is a matter of picking and choosing, rather than restricting.

The Economic Development Authority has already provided for restricting its assistance in a sensible manner. When a speculative commercial site is applied for, they indicate to the applicant that they maintain the right to review and approve prospective tenants moving into the finished buildings. The purpose of this is to avoid the Authority assisting developers in building buildings and filling these buildings with companies moving out of our urban aid cities. To date, this policy has worked well and those developers wanting to use Authority assistance have agreed in writing to this restrictive covenant.

In addition to this policy, the Authority will not approve,unless strongly documented evidence can be obtained, any move out of an urban aid city to a suburban or rural area. This policy has worked with great success to date.

They also have a policy that restricts their assistance to commercial and retail projects that do not create 30 new jobs. The Authority staff polices this requirement with great diligence and have effectively discouraged development projects that do not meet this standard.

Of the three policies mentioned above, I concur with the first two and strongly oppose the third. My reason is that is effectively cuts the small developer and businessperson out of E.D.A. assistance. This policy was adopted to discourage the fast-food operations, and tennis and racquetball clubs. It does not consider part-time employment nor the quality of jobs to be created. The policy is strictly based on body count. This policy was passed with no public discussion, just as they are attempting to do with targeting.

The E.D.A. was created to help stimulate the entire state's economy and not just those projects that create 30 jobs. I have personally spoken to many members of the Authority staff regarding their attitude toward retail projects and their consensus is that "This is not the type of project that we would like to do". In my opinion, they do not have a choice because they have a legislative mandate to do all types of projects deemed eligible by their enabling legislation and subsequent amendments. To promulgate a policy such as this, at staff level, and impact it on the entire state with no public forum is not fair. Another important point is that all Board members are not in full accord with the idea of the body count system. They favor an investigation of the impact of the part-time jobs and the quality of the job created.

Before leaving this one point, I would like to point out a recent example of the 30 job policy. Hilltop Supermarkets, an owner-operator of four Shop-Rite supermarkets, applied for Authority assistance in the amount of $2,000,000 for the expansion of three of their four stores. The job impact for all three stores would have been 39 full-time jobs and 65 part-time jobs. The full-time jobs projected salaries ranging from $12,000 to $20,000, the bulk of which was in the $12,000 to $14,000 range. The part-time jobs due to the union contracts were forecast to pay approximately $6500 per year. The part-time jobs here paid more than our miminum wage that we now have in law on a full-time basis. This project passed the Board on a 4-3 vote even though the staff recommended against the passage because it did not create 30 full-time jobs in the three communities where the expansion was taking place. The three communities involved were Woodbridge, Iselin, and Colonia, all of which are contiguous and draw from the same labor market. The Governor subsequently vetoed this project because I really don't think he was properly informed.

Until now the Authority has been free of outside political influence on its decision making. If targeting is approved, the possibility of political favoritism of one municipality over another will start because of the exceptions delineated in the targeting paper. I think that this is a fact of life that cannot be overlooked if targeting is approved. People do pay homage to the political system and expect some sort of reward in return. If the Authority is given this type of leeway, I think those people who supported governance will knock on the doors of the Governor, the Commissioner and Authority members to aid themselves and their constituents in the Authority's approval process. This is dangerous and could cause the Authority embarrassment in the future. Developers might attempt to exert influence on the Authority staff members to persuade them somehow to get their projects approved. Can we afford this type of government? I don't think we can. The Governor has worked hard and employed people of integrity and why provide a method that possibly could destroy six years of hard work.

In recent years, the 567 municipalities of this state have formulated strict development plans for their communities and reserve the right to pick and choose what type of development can be built. This in itself should give the Authority some comfort because these communities will only approve developments, especially commercial, that are good for their community. The years of shotgun development, as can be seen on some of our major highways, are gone.

The State has cap laws, also, on municipal spending and each municipality must provide tax revenues from its commercial and residential propetties. To have the State say that it will not assist a community because it is not in a target area is unfair to those communities not chosen, because they also need increased tax ratables.

In reviewing the communities targeted for assistance, it should be pointed out that a lot of these communities do not have commercial space available for development. This aspect of research is not mentioned at all in the Authority's draft.

New Jersey should be viewed as one large urban area and when a new business comes into the state or expands within the state, they pool their labor force from the surrounding communities. If, for example, a supermarket opens in West Orange, in all probability it will draw employees from East Orange, Orange and Newark which are our urban aid cities. If an office complex opens in Livingston, the clerical and support personnel in all probability will come from the surrounding urban aid communities. By restricting growth in these suburban communities, it would restrict employment opportunities for those in our urban aid cities. A great concern is the restriction of retail projects. The supermarket chains that are expanding in New Jersey employ people who are members of the Retail Clerks' Union. At face value, it might not seem that working as a cashier in a supermarket is a high paying job, but as a matter of fact, those union members who are cashiers make approximately $12,000 to $14,000 per year. This is double the minimum wage and far in excess of some of the warehouse jobs that are now being offered in some of our inner-cities. These are new jobs and can employ the non-skilled worker coming from displaced manufacturing jobs. These jobs cannot be discouraged.

The E.D.A.'s targeting policy will eliminate all retail expansion if not in a targeted area. You cannot ask a supermarket operator to build his store in a targeted area and neglect other non-targeted municipalities, because these types of ventures service a particular population. We should not discourage the small retail venture, because these people who operate these stores could have been people who have saved some money and now want to go into their own business and because they cannot get assistance from the E.D.A. or some other program or this program, they might be discouraged from doing so.

We have heard--I have heard from many people--that New Jersey is no longer the manufacturing state it once was. The employment base is slowly turning to a service economy. We must not and should not discourage this commercial development.

New Jersey, along with our neighboring states, are vulnerable to the enticements offered by Southern states. If we now attempt to restrict economic growth in any way, we will be termed anti-business as we were prior to Governor Byrne taking his office. We should continue our liberal economic expansion plans because it has worked and to now put unnecessary restrictions on that growth is detrimental in my opinion.

President Carter's new budget severely curtails CETA and public works and according to published reports can cause losses somewhere in the neighborhood of 15,000 to 20,000 jobs in New Jersey. These people will have to find jobs in the private sector or return to the unemployment lines or welfare roles if we cannot provide jobs for them. We cannot afford to limit this type of assistance,,esoecially when it does not involve our taxpayer dollars.

In closing, being a part of the E.D.A. and seeing it grow into a successful organization, it has accumulated some large surpluses. Rather than restricting economic policies and restricting their assistance, I think they should dig into their pockets and take that targeted list and provide grants to those communities so they can develop an economic plan. A good example is the County of Essex. They don't have a good delineated plan of economic development. They find it very hard to appropriate money. I think if the E.D.A. took its surpluses and offered it to communities and don't forget their surpluses do not come from the taxpayers, they come from the companies who use their assistance, I think this generation of dollars in from business and out through the E.D.A. into the community will be of great help.

I thank you very much for listening to me.

SENATOR FELDMAN: Mr. Green, we thank you. Many of your concerns were raised by this Committee to the E.D.A. We met with them twice and some of the members of the Committee raised the same doubts and concerns about the targeted areas. Are there any other questions?

SENATOR LASKIN: I don't have a question, Senator Feldman, But you know this problem of prevailing wage is going to be with us for a long time and perhaps this Committee should take some time to look into that very specifically. I think we can all remember just two years ago by federal legislation, every single public project involving federal funds, we had the same prevailing wage problem. All the municipalities that were going to build garages or whatever they were going to do, if it involved federal funds the cost of the projects tripled and quadrupled in many instances because of the requirement of this prevailing wage. So, who is it really helping? It's not helping anybody, because by requiring the payment of the prevailing wage, we think from a shortsighted viewpoint that we are helping the worker, but we're not because we are driving the cost of every project up considerably, so the same workers are going to make up the money from their other pocket by higher taxes. I think that is a very serious problem that really deserves special consideration.

SENATOR FELDMAN: That is something that we will have to wrestle with.

MR. GREEN: I just think what they are doing by regulation is something that you should be doing by legislation.

SENATOR FELDMAN: Thank you, Mr. Green. Is Mr. Allen here? (no response) Then, we have no further witnesses. We want to thank everyone that stayed and participated and we will advise you of the next meeting ot the Committee. Thank you.

(Hearing concluded)

Association Management Corporation

66 morris avenue, p. o. box 359 · springfield, new jersey 07081 · (201)379-1100

STATEMENT

OF

PETER ALLEN

ASSOCIATION MANAGEMENT CORPORATION

on behalf of

ASSOCIATED BUILDERS and CONTRACTORS, INC.

on

CONDITION OF NEW JERSEY'S ECONOMY

Legislative Joint
Economic Committee

February 13, 1979

NATIONAL ASSOCIATION OF EXPOSITION MANAGERS
N A E M
Regular Member

MEMBER
iamc
Institute of Association Management Companies

My name is Peter Allen and I am government relations director of Association Management Corporation of Springfield. My firm and I represent the North and South Jersey Section of the Associated Builders and Contractors, Inc.

The Associated Builders and Contractors of New Jersey today join a growing chorus of criticism concerning the decision by Governor Brendan Byrne to honor a campaign commitment to New Jersey's construction unions to institute "prevailing wage" rates on all construction jobs begun under the auspicious of the state's Economic Development Authority. This action will have a detrimental effect on local economic development and will hit hardest at minority firms and workers.

The Governor's action is irresponsible and a subversion of the intent of the Legislature in setting up the EDA, which is intended to spur the state's faltering construction industry by coordinating a combination of private funding and government guarantees for construction in urban and hard-pressed areas.

The Governor's commitment, as admitted by his aide, Robert Mulchay, in a public meeting late last month, amounts to political interference with the entire EDA concept.

It is inflationary, possibly illegal and definitely discriminatory against small independent and minority contractors attempting to do business in the state. At a time when the national prevailing wage law--the Davis-Bacon Act--is being reexamined because of its blatently inflationary aspects, it is ironic that New Jersey is officially endorsing the philosophy behind it.

At a meeting of the "Make Jersey Work" Roundtable of business leaders January 23 in Trenton, Mulchay admitted that the Governor was supporting the prevailing wage concept "because he made a commitment (to do so)."

'Prevailing wage' was originally defined in the Davis-Bacon Act of 1931 as the average wage paid in a region. However, the 'prevailing wage' in N. J. has become synonymous with union scale. In a report issued in December 1978, by the federal General Accounting Office, the Davis-Bacon Act was declare "outdated, unnecessary and inflationary."

'Prevailing wage' is also discriminatory because it effectively eliminates small independent and minority contractors who employ non-union workers, from bidding on EDA jobs. If 'prevailing wage' must be paid, these small contractors, knowing they cannot afford to pay at that scale, refrain from bidding or cannot compete. Since a goal of the EDA is to provide small and minority contractors an opportunity to participate in the construction industry and also to provide jobs, imposition of the prevailing wage clearly flies in the face of the enabling legislation setting up EDA.

The New Jersey Chamber of Commerce, in addition to numerous banking, construction and building material groups, is on record as opposing the prevailing wage decision.

It is the feeling of these many groups that implementation of a prevailing wage rule also violates the spirit of the Governor's "State of the State" message to the Legislature on January 9.

'Prevailing wage' laws, whether they be national, like Davis-Bacon, or local, like the Byrne commitment to the construction unions in the EDA case, are detrimental to the state and national welfare and especially the urban businessman and urban workers.

On behalf of the Associated Builders and Contractors, and the overall New Jersey construction industry, I urge the Subcommittee to investigat the Governor's decision to impose prevailing wage rates on EDA projects. I would also advise the Subcommittee that we have asked Assemblyman Kenneth Gewertz in his capacity as chairman of the Assembly Legislative Oversight Committee, to investigate this matter to determine if the Governor's commitment subverts the intent of the Legislature in creating EDA.

Prevailing wage is a concept whose time has passed. It must not be allowed to detrimentally affect the revitalization of our cities and our State.

Thank you.

DATE DUE
