VOLUME I

P U B L I C   H E A R I N G

ON

NEW JERSEY'S TAX PROBLEMS

Held:
April 25, 1962
Assembly Chamber
State House
Trenton, New Jersey

B E F O R E

THE COMMISSION ON STATE TAX POLICY

AND

THE TAX ADVISORY COMMITTEE

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MEMBERS OF THE COMMISSION ON STATE TAX POLICY

Archibald S. Alexander, Bernardsville, Chairman
David L. Yunich, President, Bamberger's, Vice-Chairman
C. Malcolm Davis, President, Fidelity Union Trust Co.
Senator Wayne Dumont, Jr., Senator, Warren County
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Assemblyman Elmer M. Matthews, Majority Leader of the General Assembly
John E. Toolan, former State Senator and attorney, Perth Amboy

MEMBERS OF THE TAX ADVISORY COMMITTEE

Dr. Lloyd H. Ashby, Ridgewood Superintendent of Schools
Mrs. Bertha Clark, Nutley, League of Women Voters Tax Committee
William Lingo Hearne, Ridgewood, a Vice-President of U. S. Steel Corporation in charge of taxes
Ben Z. Leuchter, Editor of the Vineland-Times Journal
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Kingsbury S. Nickerson, Short Hills, President and Director of the First National Bank of Jersey City
Franklin C. Nixon, Vincentown, Master of the New Jersey Grange
Saul Stetin, Paterson, Regional Director in New Jersey, Pennsylvania, Ohio and Michigan of the Textile Workers Union of America
Dr. Robert E. Watson, Cranford, President of the New Jersey Junior Chamber of Commerce

Dr. William Miller, Princeton
Staff Director of the Commission

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ARCHIBALD S. ALEXANDER (Chairman): Ladies and gentlemen, I have a brief opening statement which I would like to make on behalf of the Commission and the Advisory Committee.

We want to welcome the public to these public hearings. They are being held in accordance with a notice which has been given to the press and mailed fairly far, and I would like to put that notice in the record, dated April 10. (See p. 58)

That notice states that the hearings are under two Joint Resolutions, one of 1961 and one of 1962, which assigned the two questions stated in the Notice to the Tax Policy Commission.

The members of the Tax Policy Commission present besides myself as Chairman are: Mr. David Yunich, Vice Chairman; Former Senator John Toolan; Senator Wayne Dumont; Mr. Malcolm Davis; and Mr. Elmer Matthews will be here in a moment. Mr. James Kerney, Jr., the other member, will be here tomorrow as he is away today.

Now I am not quite sure how many members of the Advisory Committee are here but I shall identify them - at least I shall call them and those who are here if they would be kind enough to stand up: Dr. Ashby of Ridgewood, Mrs. Clark of Nutley, Mr. Hearne of Ridgewood, Mr. Leuchter of Vineland, Mr. Lienhard of Metuchen, Mr. Margolin of Morristown, Mr. Nickerson of Short Hills, Mr. Nixon of Vincentown, Mr. Saul Stetin of Paterson, and Dr. Watson of Cranford. Also - I see him so often I didn't recognize him - Karl Metzger of New Brunswick.

Now the procedure will be that the witness will go to the lectern, if he will, and try to speak into the microphone. The proceedings are being recorded so that anybody who misses part of it can in due course get a transcript and find out what he or the other person said.

We are going to be as informal as possible but at the same time there are a great many witnesses who want to be heard and, therefore, it will help if those who can will adhere to the 15 minute oral statement rule and file any additional statement with us.

So far as questions are concerned, any member of the Tax Policy Commission or the Advisory Committee is, of course, free to ask questions. I suggest that they be questions for clarification rather than argument because, I think I speak for all of my colleagues here, the fact that we hear something and don't say anything doesn't necessarily mean that we agree with it.

Now the schedule has been arranged, so far as possible, to suit the convenience of the persons who desire to appear. So it may not seem to you to have as much logic and sequence as it might otherwise have had. We thought it was more important to accommodate the individual.

We will hear everybody we can today, tomorrow and on Friday, and should there be a desire on the part of other people to be heard later, we will have later hearings, but we will do all we can today, tomorrow and Friday.

I think I can close by saying that all of us on the Tax Policy Commission and all the members of the Advisory

Committee have one purpose only and that is to try to analyze the problems referred to us and after hearing what is said and discussing it among ourselves, coming up with the best report we possibly can.

In some respects having these public hearings, having the public get a change to express its views, divergent as they probably will be, and having the Advisory Committee in addition to the Tax Policy Commission greatly enlarges the scope of the Tax Policy Commission's business and I think will give us some of the best features of the tax convention.

We have open minds, all of us, even though some of us have already given some views on the subject. I think we all want to hear the evidence and hear the views expressed by people and then reach our conclusion.

I should now like to call the first witness who is Mr. Leonard Best of the Committee for School Support.

LEONARD E. BEST: My name is Leonard E. Best, my home is in Summit, and my occupation is President of the Best Pencil Company in Springfield. As Chairman of the New Jersey Committee for School Support, I deeply appreciate this opportunity to state our reasons for urging the State of New Jersey to increase its financial help to local schools through the use of broad-based taxes.

Ten State organizations are members of our Committee and endorse our efforts. These organizations are the New Jersey Region of the National Council of Jewish Women, - The New Jersey State Grange, - The New Jersey Congress of Parents and

TEACHERS, - THE NEW JERSEY STATE LEAGUE OF MUNICIPALITIES, - THE NEW JERSEY EDUCATION ASSOCIATION, - THE NEW JERSEY LEAGUE OF WOMEN VOTERS, - THE STATE FEDERATION OF DISTRICT BOARDS OF EDUCATION OF NEW JERSEY, - THE NEW JERSEY STATE BOARD OF THE AMERICAN ASSOCIATION OF UNIVERSITY WOMEN, - THE NEW JERSEY FARM BUREAU, - AND THE NEW JERSEY SCHOOL SUPERINTENDENTS ASSOCIATION.

SPECIFICALLY, WE SUPPORT THE INCREASES IN STATE SCHOOL AID EMBRACED BY ASSEMBLY BILLS 91 and 92 AND THE SIMILAR SENATE BILLS, S-71 and S-72. INCIDENTALLY, IT IS SIGNIFICANT THAT THESE STATE SCHOOL AID BILLS ARE SPONSORED BY 14 LEGISLATORS FROM NINE COUNTIES. A-91 and S-71 WOULD RAISE THE FOUNDATION PROGRAM ON WHICH STATE SCHOOL AID IS BASED FROM THE PRESENT $200 PER PUPIL, TO $300. MINIMUM AID WOULD BE INCREASED FROM $50 TO $75 PER PUPIL. AID TO SPECIAL CLASSES FOR THE PHYSICALLY AND MENTALLY HANDICAPPED WOULD GO FROM THE PRESENT $2000 PER CLASS TO $3000 PER CLASS.

ASSEMBLY BILL 92 AND SENATE BILL 72 WOULD INCREASE THE BASIS FOR STATE SCHOOL BUILDING AID TO LOCAL SCHOOL DISTRICTS FROM THE PRESENT $30 PER PUPIL TO $38 PER PUPIL.

WE ESTIMATE THAT THESE STATE SCHOOL AID BILLS, IF ENACTED FOR THE PRESENT SCHOOL YEAR, WOULD HAVE PROVIDED AN ADDITIONAL 100 MILLION DOLLARS TO HELP OUR LOCAL SCHOOL DISTRICTS WITH THEIR SCHOOL COSTS. SEVERAL OF THE ORGANIZATIONS ON OUR COMMITTEE ARE WILLING TO FURTHER LIBERALIZE THE STATE SCHOOL AID FORMULA. ALL THE ORGANIZATIONS ARE WILLING TO SUPPORT BROAD-BASED TAXES TO THE EXTENT OF PROVIDING AN ADDITIONAL $100 MILLION DOLLARS FOR INCREASED STATE SCHOOL AID.

THERE ARE SEVERAL REASONS FOR OUR SUPPORT OF INCREASED STATE SCHOOL AID AND THE TAXES TO MAKE IT POSSIBLE.

GREATLY INCREASED BIRTH RATES HAVE FORCED SCHOOL ENROLLMENTS TO CLIMB FROM 643,083 IN 1950-51 TO OVER 1,100,000 THIS YEAR. EACH YEAR OUR SCHOOLS EXPERIENCE AN INCREASE OF OVER 40,000 STUDENTS AND OUR PRE-SCHOOL AGE CHILDREN WILL GIVE OUR PUBLIC SCHOOLS A NET ENROLLMENT INCREASE OF OVER 200,000 WITHIN THE NEXT FIVE YEARS.

THESE ENROLLMENT INCREASES HAVE REQUIRED LOCAL BOARDS OF EDUCATION TO BUILD 100 MILLION DOLLARS OF NEW BUILDINGS EACH YEAR OVER THE PAST SEVERAL YEARS. MOST OF THIS MONEY HAS BEEN RAISED FROM LOCAL PROPERTY TAXES AND IS REFLECTED IN THE INCREASE IN LOCAL SCHOOL DEBT FROM 370 MILLIONS IN JUNE 1955 TO 745 MILLIONS IN JUNE 1960. THE CURRENT FIGURE IS SUBSTANTIALLY HIGHER.

SCHOOL BUDGETS HAVE INCREASED BETTER THAN 200% SINCE 1950. IN RECENT YEARS MOST OF THE ANNUAL INCREASE IN SCHOOL COSTS HAS COME FROM LOCAL PROPERTY TAXES. FOR EXAMPLE, WHILE THE STATE WAS PROVIDING ONE OUT OF EVERY 9 DOLLARS IN LOCAL SCHOOL COST INCREASES BETWEEN 1957 and 1961, THE LOCAL PROPERTY OWNER WAS PAYING THE OTHER 8 DOLLARS. THUS EACH YEAR THE PERCENTAGE OF LOCAL SCHOOL COSTS PAID BY THE STATE DECREASES. NEXT YEAR IT WILL BE LESS THAN 18%. INCREASES IN STATE SCHOOL AID FROM 1960-61 TO 1962-63 WILL AMOUNT TO ABOUT 9 MILLION DOLLARS FOR THE TWO YEAR PERIOD. LOCAL SCHOOL TAXES FOR THE SAME PERIOD WILL SHOW AN INCREASE OF ALMOST 80 MILLION DOLLARS.

EVEN WHEN WE INCLUDE THE STATES CONTRIBUTION TO THE TEACHERS PENSION FUND, THE STATE OF NEW JERSEY PAYS ONLY 24% OF SCHOOL COSTS. THIS COMPARES TO 51% IN PENNSYLVANIA, 42% IN NEW YORK AND 80% IN DELAWARE. NEXT YEAR THE AVERAGE STATE SCHOOL AID PER PUPIL IN NEW YORK STATE WILL BE ABOUT $316 PER PUPIL WHILE NEW JERSEY'S SUPPORT OF LOCAL EDUCATION FROM STATE TAXES WILL AVERAGE 92 DOLLARS FOR EACH CHILD.

OUR CURRENT EXPENSE SCHOOL AID FORMULA HAS NOT BEEN CHANGED SINCE 1955. MORE SIGNIFICANT IS THE FACT THAT THE PRESENT CURRENT EXPENSE FORMULA WAS BASED ON SCHOOL COSTS PREVAILING BACK IN 1951-52. THE TAX POLICY COMMISSION USED THE AVERAGE COST OF EDUCATION OF $268 TO SUBSTANTIATE THE PRINCIPLE THAT THE LEAST AMOUNT TO SPEND

FOR A CHILD'S EDUCATION WAS $200. WE STILL USE THAT SAME $200 BASIS ALTHOUGH SCHOOL COSTS PER CHILD HAVE NOW REACHED AN AVERAGE OF MORE THAN $448. EVEN A $300 PER PUPIL CURRENT EXPENSE FORMULA IS UNREALISTICALLY LOW. HOWEVER, IT WOULD PROVIDE CONSIDERABLE IMPROVEMENT IN STATE SCHOOL SUPPORT TO LOCAL SCHOOLS.

THE PRESSURES PLACED ON LOCAL PROPERTY FOR INCREASED SCHOOL TAXES HAVE BROUGHT ON SOME CONDITIONS THAT ARE MOST UNDESIRABLE FOR GOOD EDUCATION FOR THE BOYS AND GIRLS OF OUR STATE. 48,000 NEW JERSEY CHILDREN WERE HOUSED IN SUBSTANDARD CLASSROOMS IN 1960. 57,000 WERE ATTENDING SCHOOL ON A PART-TIME BASIS. SIXTY-SEVEN BUDGETS WERE VOTED DOWN LAST WINTER AND THOUSANDS OF CHILDREN WERE DEPRIVED OF THE FULL EDUCATIONAL PROGRAM RECOMMENDED BY THEIR BOARDS OF EDUCATION. ONE OUT OF SEVEN TEACHERS IN OUR STATE FAILS TO MEET THE STATE'S STANDARD REQUIREMENTS FOR A TEACHING CERTIFICATE. CERTAINLY THESE ARE NOT CONDITIONS THAT SHOULD BE TOLERATED IN A STATE AS WEALTHY AND PROGRESSIVE AS OURS.

THESE SUBSTANDARD CONDITIONS EXIST NOT BECAUSE OUR PEOPLE DO NOT WANT GOOD EDUCATION BUT BECAUSE OUR TAX SYSTEM FOR SCHOOL FINANCING IS SO HEAVILY BASED ON LOCAL REAL ESTATE. I CITE THE SUBSTANTIAL SUCCESS OF THE $68 MILLION DOLLAR COLLEGE BOND REFERENDUM AS ONE EXAMPLE OF CITIZEN SUPPORT FOR GOOD EDUCATION. ALSO THE $100 MILLION DOLLARS VOTED EACH YEAR FOR LOCAL SCHOOL CONSTRUCTION AND THE MORE THAN $500 MILLION DOLLARS VOTED FOR LOCAL SCHOOLS FROM PROPERTY TAXES FOR THE NEXT SCHOOL YEAR. I AM CONVINCED THAT OUR PEOPLE CONSIDER SCHOOLS IMPORTANT, AND GIVEN THE FACTS, THEY WILL SUPPORT LEGISLATORS WHO PROVIDE A MORE EQUITABLE METHOD OF FINANCING THEM.

IT IS IN THE AREA OF OUR RELIANCE ON THE PROPERTY TAX FOR SCHOOL SERVICES THAT I WISH TO DIRECT YOUR PARTICULAR ATTENTION. WHEN THE TAX ON REAL PROPERTY IS OVER 4% AS IT IS IN EAST ORANGE, PATERSON, ORANGE AND NEWARK, TO MENTION A FEW, WE MUST EXPECT COMMUNITIES TO LOSE THEIR ATTRACTION FOR EITHER HOMEOWNERS OR MANUFACTURING

INDUSTRIES. TODAY, WITH CONSIDERABLE UNEMPLOYMENT, HIGH TAXES SHOULD NOT FORCE THE CURTAILMENT OF SCHOOL PROGRAMS. MOST OF OUR UNEMPLOYMENT IS AMONG THE UNSKILLED: THE SKILLED WORKER IS IN DEMAND. YET WHEN SCHOOL PROGRAMS IN INDUSTRIAL AREAS ARE CURTAILED, YOUNGSTERS IN THESE DISTRICTS FAIL TO RECEIVE THE BASIC TRAINING NEEDED TO IMPROVE THEIR SKILLS AND ABILITIES. <u>OUR SCHOOLS</u> SHOULD BE PROVIDED WITH FUNDS <u>TO DO MORE</u>, NOT LESS.

TO MAKE MATTERS WORSE, FACTORIES THAT COULD ABSORB THE UNSKILLED WORKERS HAVE AVOIDED NEW JERSEY FOR OTHER STATES. TWO OF MY LARGEST COMPETITORS MOVED OUT OF NEW YORK CITY...ONE TO PENNSYLVANIA AND THE OTHER TO CONNECTICUT. TWO OTHER COMPETITORS HAVE SHIFTED PART OF THEIR OPERATIONS OUT OF NEW JERSEY. TAXES ARE NOT THE CONTROLLING FACTOR IN MOST DECISIONS TO LOCATE NEW PLANTS, BUT A BAD LOCAL TAX SITUATION DOES NOT HELP. WHEN LOCAL PROPERTY TAXES VARY FROM AN ANNUAL CHARGE OF LESS THAN 1% OF MARKET VALUE IN SOME COMMUNITIES TO OVER 5% IN OTHERS, WE HAVE A SUBSTANTIAL CONSIDERATION INFLUENCING THE CONSTRUCTION AND LOCATION OF NEW FACTORIES, BUSINESSES AND HOMES.

A BASIC FACT THAT IS OFTEN IGNORED IS THAT A SUBSTANTIAL, IF NOT CONTROLLING, FACTOR IN SETTING LOCAL TAXES IS BEYOND THE CONTROL OF LOCAL CITY AND SCHOOL OFFICIALS. AS YOUR TAX POLICY COMMISSION ONCE PUT IT, "SOME TAXING DISTRICTS ARE MORE BLESSED WITH CHILDREN THAN WITH PROPERTY."

AS A RESULT WE HAVE MANY DISTRICTS WITH $15,000 REAL PROPERTY PER PUPIL AND OTHERS WITH $45,000 OR MORE PER PUPIL. OBVIOUSLY WITHOUT STATE AID THE FIRST TOWN WOULD HAVE TO LEVY A 3% TAX TO PROVIDE A $450 PER PUPIL PROGRAM WHILE THE WEALTHIER TOWN COULD PROVIDE THE SAME PER PUPIL PROGRAM WITH A 1% TAX.

WHEN WE COMPARE NEWARK AND MILLBURN, TWO COMMUNITIES IN THE SAME COUNTY LESS THAN SEVEN MILES APART, WE CAN SEE HOW INEQUALITIES IN TAX RESOURCES MUST RESULT IN

INEQUALITY IN EDUCATIONAL OPPORTUNITIES. MILLBURN HAS BEEN SPENDING AN AMOUNT RANGING FROM $518 TO $592 A YEAR OVER THE PAST FIVE YEARS <u>ON CURRENT EXPENSES</u> FOR EACH SCHOOL PUPIL. NOTE THAT THIS AMOUNT HAS INCREASED EACH YEAR AND IS WELL ABOVE THE STATE AVERAGE COST PER PUPIL. THEY HAVE DONE THIS WITH A TRUE VALUE SCHOOL TAX RATE THAT HAS STAYED FROM 1.07 TO 1.09 IN THE FIVE YEAR PERIOD. LET'S LOOK AT NEWARK. IN THE SAME FIVE YEAR PERIOD, 1956-57 TO 1960-61, THEIR SCHOOL COSTS PER PUPIL HAVE RANGED FROM <u>$424</u> UP TO <u>$468</u>.

JUST TO MAINTAIN <u>A PER PUPIL EXPENDITURE</u> 20% LOWER THAN MILLBURN'S, NEWARK HAS BEEN FORCED TO INCREASE THEIR SCHOOL TAX RATE, ALSO ON A TRUE VALUE BASIS, FROM 1.61 TO 1.94!

MILLBURN'S STATE SCHOOL AID PER PUPIL HAS RANGED FROM $57 PER PUPIL TO $61 PER PUPIL IN FIVE YEAR PERIOD. NEWARK'S HAS RANGED FROM $86 TO $89 PER PUPIL. NEWARK'S LOCAL SCHOOL TAX EFFORT IS ALMOST TWICE THAT OF MILLBURN'S BUT THEY ARE ABLE TO PROVIDE THEIR CHILDREN WITH A PER PUPIL PROGRAM THAT COSTS CONSIDERABLY LESS THAN THE ONE IN MILLBURN. WE THINK THAT THE STATE SCHOOL AID TO PLACES LIKE NEWARK, AND THERE ARE MANY OF THEM IN RURAL AND RESIDENTIAL AS WELL AS INDUSTRIAL AREAS, MUST BE SUBSTANTIALLY INCREASED.

MANY DETRACTORS HAVE ACCUSED OUR COMMITTEE OF ONLY WANTING TO SPEND ADDITIONAL MONEY ON SCHOOLS: SOME CLAIM WE'RE SET ON FORCING THE PEOPLE OF NEW JERSEY TO SPEND AN ADDITIONAL $100,000,000 ON SCHOOLS. THIS JUST ISN'T TRUE. OUR STATE SCHOOL AID FUNDS ARE RETURNED TO COMMUNITIES ON THE BASIS OF THE <u>NUMBER OF CHILDREN THEY HAVE TO EDUCATE</u> AND THE <u>LOCAL PROPERTY</u> THEY HAVE TO TAX TO PROVIDE EDUCATIONAL COSTS. LOCAL BOARDS OF EDUCATION DETERMINE HOW MUCH WILL BE SPENT ON SCHOOLS, HOW MUCH OF <u>THEIR OWN MONEY</u> AND HOW MUCH OF THE STATE MONEY! IN OVER FIVE HUNDRED OF OUR 586 SCHOOL DISTRICTS THE PEOPLE VOTE ON WHETHER OR NOT THIS MONEY SHOULD BE SPENT. THIS IS THE ONLY OPPORTUNITY THEY HAVE TO VOTE DIRECTLY ON THE EXPENDITURE OF PUBLIC TAX MONEY. THIS IS THE BEST GUARANTEE AGAINST ANY UNNECESSARY SPENDING OF TAX MONEY. ACTUALLY, WE KNOW OF NO OTHER SITUATION WHEREBY STATE TAXES ARE COLLECTED, RETURNED TO HELP LOCAL PROPERTY OWNERS <u>TO THE DEGREE THAT THEY THEMSELVES DECIDE UPON</u>.

Our State School Support Program is not an "aid" program like "foreign aid" or "farm aid". It is not a spending program. It is not a matching program. When school costs financed by local property taxes increase better than forty million dollars a year, additional money from state taxes for schools is bound to help the hard-pressed property owner. This was our experience when substantial state school aid was provided in 1955. In the school year starting in September 1955, total local property taxes for schools increased only one million dollars of the conservative $20 million budget increase. The school budgets had increased at the same rate for years and they have continued at that same rate. There was no change. But most of it was paid by the State from local property taxes. State school aid provided most of the money for the increased budgets voted by school districts.

Our program is essentially a tax revision program that asks the state to collect a broad-based non-property tax like a sales or personal income tax and distribute it to help equalize the tax inequities caused by the uneven distribution of pupils and real property.

We feel that the increased state help for schools is long overdue. The legislative resolution passed in the spring of 1961 called for a Tax Policy Commission Report in January of this year. We now may have a delay until December. Our schools cannot hold back the increasing enrollments. We urge you, the Legislature and the Governor not to hold back the funds so sorely needed to properly educate our public school children.

In closing, I would like to quote from the Ninth Report of the Tax Policy Commission:

"The policy of new new taxes has succeeded only in part. Its success has been limited largely to the legislative halls. Its effect may well have been to commit New Jersey to the support of its governmental services primarily from the property tax to the point of no return."

You have our full support to lead us away from that brink of no return.

Thank you.

MR. ALEXANDER: Thank you.

Before you leave we want to see whether anybody wants to ask you any questions. Are there any questions?

Thank you very much.

I should like to correct one mistake which I made, failing to identify two of the most important people in this business - the Staff Director of the Tax Policy Commission, Dr. William Miller, if he will stand up; and our Chief Consultant, former State Treasurer Aaron Neeld.

I would like to ask any witnesses who have a prepared statement if before he starts to read it he would hand it in to the ladies here who are trying to follow the proceedings. Those who have no prepared statement don't have to do that.

I am looking at the next witness who is, Honorable Leo Carlin, Mayor of Newark.

MAYOR LEO CARLIN: Mr. Chairman and members of the New Jersey Commission on State Tax Policy:

It is a privilege for me as Mayor of the City of Newark to submit for your consideration my views regarding the all-important question of a revised tax policy for the State of New Jersey.

Our cities have a major stake in any overhaul of New Jersey's tax structure. Property taxes locally assessed and collected constitute by far the bulk of municipal, school and county revenues in New Jersey. In Newark 83% of all 1962 city and school revenues are from this source. This dependence on property taxes is in contrast to our neighboring states. For example, New York City obtains only 41% of its revenue from property, just about half the Newark load. Within New Jersey this tax structure has had a particularly harmful effect on the older core cities, including all New Jersey cities with a population in excess of 100,000. The reason for this is that there is little relationship between the services which local government must furnish and the tax base from which to finance them.

The service load is much greater in our central cities with low income population and with blighted and obsolete property. Modern large industrial plants being erected in the suburbs require little local service, while the city's blighted residential areas produce great demands, particularly for social, welfare and health services. In contrast to popular belief, New Jersey's larger cities do not have vast tax resources to meet this great demand for services. In 1960, New Jersey's fifteen largest cities had per capita equalized assessed valuations averaging $3,669.00, while such valuations for the State as a whole averaged $5,237.00.

Data released by the Census Bureau last week showed that the average value of homes in Newark as $13,000.00, while in all of Essex County, including Newark, the average value was $18,400.00. Newark had more homes in the $12,500.00 to $15,000.00 bracket while in Essex County as a whole more were in the $20,000.00 to $25,000.00 bracket. Aggravating this problem is the fact that the tax base of the major cities has remained virtually static in the past decade just as there has been a substantial increase in the rest of the State. Yet influences beyond the control of the city governments have forced a constant expansion of city services. The inevitable result has been a tax rate approaching confiscatory proportions.

It must be recognized that, in spite of their low per capita tax base, the central cities are obligated to furnish expensive services which are relatively insignificant in the suburbs. I refer to general health services, where the fifteen largest cities in 1960 paid 50.9% of all municipal health costs in the State, to general relief, where the proportion was 60.5%, and to hospitals, where the fifteen cities paid 96.9% of all such municipal costs. In addition, in the central cities the costs imposed by traffic congestion are far greater. Here I refer to the need for wider and more expensively constructed streets, street lighting and cleaning, parking, and a major function --- traffic control. Finally, urban renewal, the main hope for the survival of the core cities, imposes heavy costs which few suburban municipalities must face. In summary, the fifteen largest cities in New Jersey with 28% of the State's population pay 41.6% of the total cost of municipal operations but have only 19.9% of the State's valuations with which to support this large population and expensive service load.

The dependence on property taxes has produced a vicious cycle in our major cities.

High taxes have discouraged business and industrial expansion and have been a factor in the movement of industry to the suburbs. This has badly impaired the city's tax base, while not reducing city services in the slightest. Thus, taxes are forced even higher on industry that remains, placing more obstacles in the path of business and industrial growth.

Another result of the predominant nature of the property tax in the municipal revenue structure is excessive and unnatural competition for industrial ratables. Everything else being equal, industry naturally gravitates to tax havens like Teterboro, thus aggravating the problem for the other municipalities of the State.

Another reason for high municipal costs in central cities is the services they must furnish to hundred of thousands of suburbanites who live and pay property taxes in suburban towns but who make use of central city facilities and services. In Newark alone at least 150,000 people commute to work every day, but the city can obtain revenue only from those who own property within the city. In addition, the central city is expected to provide employment, culture and higher education for the benefit of its whole metropolitan area.

The greatest problem facing New Jersey's central cities is blight. High property taxes are partly responsible for the physical deterioration of a community. Homeowners faced with burdensome taxes are less able to afford to make adequate repairs and improvements to their homes. Even those who can afford to do so are reluctant because of the fear that increased assessments and taxes will follow these improvements. To meet the tax burden, many convert their homes to tenements and rooming-houses, with an obvious blighting effect as well as an increased demand for municipal services.

Finally, high taxes depress property values. The sale prices of central city buildings decline when taxes rise above an economic level, since the buyer tends to capitalize excess taxes and to make allowance for them in the price he is willing to pay. Urban renewal, the only way to stem this blight, is badly handicapped by heavy property taxes. Redevelopers are discouraged, and although tax certainty programs such as the Fox-Lance Act are of great help they are palliatives rather than cures.

Why should the plight of our major cities be of concern to the State as a whole? Of course one answer is that like any organism, a state is no better off than the sum of all of its parts. More specifically, most of New Jersey's economic, social, educational and cultural activities are centered in the core cities and these cities produce a major share of the State's revenue. But of equal concern is that counterpart of central city decline, urban sprawl. Here there is governmental and private inefficiency in the extreme. There is duplication of public and private facilities, uneconomic distances for furnishing services, especially utilities, and immense transportation costs, both in highways and in mass transit facilities. Nor should we forget the time lost by workers in commuting great distances. One tangible and costly result of urban sprawl is the Green Acres program. I wonder how much of this $60,000,000. program would have been necessary had it not been for the loss of open spaces due to urban sprawl.

Through urban renewal the cities can offer facilities and space for great industrial, commercial and residential developments, and at a minimum cost in public improvements. This will not only save the major cities but will slow down and control suburban sprawl. Therefore, the State can make a major contribution to New Jersey's economic growth by participating in the redevelopment of our large central cities.

What must be done to replace this dependence on the property tax? It seems apparent that in Governor Hughes New Jersey has a chief executive ready to face up to this problem and to solve it in the best interests of all citizens of the State. The very fact that the Commission on State Tax Policy has been revived and given the broadest assignment is indicative of how seriously the question of new revenue sources is being taken. Certainly the primary purpose of tax revision must be to promote economic growth and development. However, in my presentation, I would like to emphasize that for the major cities the question of what new form of revenue is adopted is not as important as how it will be used.

This is our concern -- where will new tax revenues go. First, we will have to recognize that some proportion will go to state-administered services. For the balance, we believe that not only education, but also the health, welfare, highway, traffic and urban renewal functions administered by municipalities and counties should benefit from increased State participation.

Even in the field of education, the core cities have special problems which they should not have to assume without help. It is the responsibility of public schools to provide special programs and concentrate additional attention on those schools that serve underprivileged children. The attention being paid recently to school dropouts, uniform teaching methods for all students, regardless of their capacities, the social problems of schools serving blighted areas and the serious lack of vocational training indicates that political and educational leaders are beginning to realize that these problems are having a serious social and economic effect all over the country.

RETENTION OF FEDERAL TAX DOLLARS IN NEW JERSEY RESULTING FROM A STATE INCOME TAX (1)

Effect on Individual Taxpayers at Various Income Levels (2)

GROSS INCOME	$5000	$10,000	$25,000	$50,000
STATE INCOME TAX	32	174	956	2306
FEDERAL INCOME TAX BEFORE STATE TAX	420	1372	5318	15,976
FEDERAL INCOME TAX AFTER STATE TAX	414	1334	4989	14,685
FEDERAL TAX $ RETAINED IN N. J.	6	38	329	1291
NET BURDEN OF STATE INCOME TAX	26	136	627	1015

State-wide Effect (3)

$44.3 million	$137.7 million
FEDERAL TAX RETAINED	NET BURDEN OF STATE TAX

$182 Million

(1) Tax graduating from 1% to 6%, exemptions $600 per capita
(2) Assuming family of four and itemizing deductions of 10% of gross income
(3) Yield calculated from Statistics of Income, U.S. Internal Revenue Service

League of Women Voters
of New Jersey

MR. ALEXANDER: Thank you, Mrs. deVries. Before you leave, would you wait and see if any of us have questions?

MRS. deVRIES: Yes, surely.

MR. ALEXANDER: May I repeat that lack of questions on the part of the Commission or the Advisory Committee doesn't necessarily mean that they agree or disagree, merely, I think, that they understand what you said.

MRS. deVRIES: Thank you.

MR. ALEXANDER: That goes for all the witnesses. Could I ask a couple of clarifying questions, however.

When you say New Jersey is second from the lowest among all 50 states in support of public higher education, is that on a per capita or per pupil or what basis?

MRS. deVRIES: That is on per capita of the number of students that we have in public higher education.

MR. ALEXANDER: And what is the source of the statement that the $40 million bond issue for I and A is now declared inadequate by $40 million. I am sorry. I missed that.

MRS. deVRIES: I thought that was from Commissioner Tramburg. I will have to ask one of my experts. Do you happen to know the source of that?

MRS. FRANCIS HOPKINS: The Department of Institutions and Agencies asked in the Governor's Budget Message for 44 separate items totalling $40 million of needed long-range capital construction.

MR. ALEXANDER: In which they asked for appropriations this year?

MRS. HOPKINS: Yes, and were not granted, of course.

MR. ALEXANDER: Are there other questions of Mrs. deVries?

MR. TOOLAN: I have one. I pick up the same idea that Mr. Alexander has spoken about, namely, the statement that New Jersey is second from the bottom in contributions by the State to the educational system. While that may be literally true, doesn't that statement create a false impression in that the real test of education is how much is actually spent per pupil in the State, regardless of what the source of the revenue is?

MRS. deVRIES: Well, my opinion on that is that technically we have spent a lot of money on education from all sources. But it seems to me that if we do not have comparatively free education for qualified students for higher education, we are penalizing those students who cannot afford to pay or do not have the sources to pay. Therefore, it seems to me the State has a responsibility in a highly urbanized state to supply opportunities of higher education for qualified students. I want to make that amply clear. I am not just talking across the board. But I do feel that New Jersey has a responsibility to provide opportunities at much lower costs than we are doing now and with greater facilities. As you know, more than 50 per cent of our students go outside of the State for higher education and of the people that continue their education after they get their A.B. or B.S. degree, only 30 per cent of that group can be taken care of in New Jersey and 70 per cent have to go outside for higher education.

I submit to you that this is a wicked loss because what happens is they meet people and girls marry and move to another state and we have lost them to New Jersey.

MR. TOOLAN: I suppose you think the people we breed here we ought to keep here, is that right?

MRS. deVRIES: Well, I think that's a point.

MR. TOOLAN: Isn't it a fact though so we can get the record straight - not that I am suggesting that you have not got it stright - that if you raise the question of New Jersey's relative position among all the states in the Union that there are only two or three states in the whole Union that spend more per pupil than New Jersey does?

MRS. deVRIES: You mean from local and State sources together?

MR. TOOLAN: I mean from all sources. I am talking about the amount.--- To me the real test is, regardless of the source for the moment: How much do you spend per pupil? And by that standard we are about third from the top, isn't that so?

MRS. deVRIES: No, we are not third from the top. I am not arguing against the fact that we are a wealthy state; we are. And I am not arguing from the fact that people spend a lot of money on education. The point that I am arguing is that there is not sufficient opportunity in public institutions of higher education for qualified high school graduates to attend, not only colleges of their choice, but colleges in New Jersey, and they must go outside of the State.

MR. TOOLAN: Can I epitomize your position maybe this way: The point you are making, if I understand it, is that regardless of the amount we are now spending on education, you think we should spend more money on education, number one; and, number two, that you do not feel that additional money can come from real estate taxes --

MRS. deVRIES: Yes, that's right.

MR. TOOLAN: -- therefore, there must be some other source to develop this additional money.

MRS. deVRIES: Thank you. I do. What I am trying to point out is that I think - maybe I am one of those people who give higher priority to educational opportunity. I do think, frankly, we are missing the boat if we don't educate every single young man and woman to the fullest extent of his or her ability. I think if it comes from private sources, this is fine. I am not to the point of thinking the State must supply everything, definitely not. But I think we are penalizing ourselves if we don't give opportunity for qualified students who cannot pay to have education. And I completely agree with you on this point of how much we spend.

MR. TOOLAN: Thank you.

MR. ALEXANDER: May I say one word, Senator Dumont, before you ask your question. As I understand it, it is with respect to higher education cost only you are speaking now.

MRS. deVRIES: That's right.

MR. ALEXANDER: You have two real objections: One is that the tuition is too high in comparison with other states at the publicly-supported higher education institutions and the other is that the proportion of New Jersey boys and girls who get higher education in New Jersey is too low because too many of them have to be exported.

MRS. deVRIES: -- or they don't have it.

MR. ALEXANDER: -- or they don't have it. Therefore, it is a question of increasing the number and perhaps somewhat decreasing the cost to the pupil or his family.

MRS. deVRIES: That's right.

MR. ALEXANDER: Senator Dumont.

SENATOR DUMONT: Mrs. deVries, in this statement I can't find any reference to an argument that the League always used to make in favor of an income tax, namely, that you would be able to take full advantage of the reciprocity provisions in neighboring states which do have income taxes of their own. Now, have you dropped this argument as the result of the action of New York State?

MRS. deVRIES: No, we haven't, but New York has.

SENATOR DUMONT: Well, that's what I mean. As a result of the action of New York State, have you dropped the argument?

MRS. deVRIES: We think that it is outdated at the present time.

SENATOR DUMONT: -- as a result of New Jersey passing this so-called commuter benefit tax which really is a personal income tax.

MRS. deVRIES: Yes.

SENATOR DUMONT: Now, secondly, this question was asked, I think, of Mrs. Hopkins by another member of the

Appropriations Committee this year and I would like to ask it of you: Suppose this Commission on State Tax Policy should decide the tax base ought to be broadened and should decide that the better way to do the job, would be by a selective sales tax. What then would be the position of the League of Women Voters of New Jersey?

MRS. deVRIES: We have given great thought to that and I might point out that we just had a State Convention last year at which this was thoroughly discussed. The League believes it has a very strong stand for the equity of a personal income tax as I tried to bring out. It is also true though that we have a strong stand on the need for state services and we perhaps will have to find some rapport between the two stands. I think that we can make a very strong case. I realize on the surface it is not a popular case. But I tried to indicate if you study it, you can't help but be impressed with the equity for the 64 per cent families as against the 36 per cent and I really feel that if the time actually comes when the climate of public opinion is such that for one reason or another they have decided on a sales tax, then I think the League will have to reassess its stand in the light of the benefits to be derived.

MR. ALEXANDER: Thank you very much.

MR. TOOLAN: You are a pretty good politician too, aren't you?

MRS. deVRIES: Thank you.

MR. ALEXANDER: Sorry, Mrs. deVries, you are not quite through. There is one more question from a member of the Advisory Committee, Mr. Leuchter.

MR. LEUCHTER: Mrs. deVries, nowhere in your oral presentation is there any examination of the relative costs of administering the sales tax, the selective sales tax, and the graduated personal income tax. In the League's written presentation to the Commission is that information included or do you have such information at your disposal?

MRS. deVRIES: Yes, we do. But I think I should point out at this time - you know I am the President of the League and as they say, the experts get to know more and more about less and less, and presidents get to know less and less about more and more. So since I have some experts here, would you be willing to have one of them answer that question. Mrs. Hopkins.

MRS. HOPKINS: Mr. Leuchter, we have sent to each member of the Commission and I believe in the mail at the present time there is a copy for each member of the Committee of all our basic materials. We have a booklet which we have issued on this and in which this subject is discussed and various other materials. May I say on this particular point that studies are not very clear on costs of administration of either of these taxes for the reason that many states do not separate out their one tax from their whole tax structure in cost of administration so that the statistics are not terribly clear. From what we have been able to discover, the two taxes are quite comparable in their cost and I would say that, if anything, the income tax for a similar yield may be slightly less expensive as far as you can judge from the literature I have been able to see.

MR. LEUCHTER: May I carry on a little more colloquy with Mrs. deVries?

MR. ALEXANDER: You may.

MR. LEUCHTER: On the subject of your statement concerning the stabilizing of property taxes, the League in this statement is not only talking about the relative merits of the two forms of broad base taxes, but also is going into some reasons for additional spending of public funds. I would like to discuss with you the question of the stability of property taxes in the event that we, "we" meaning the State, should adopt a broad base tax. Do the League studies take into consideration the growth rate of expenditures from year to year, and, using just the present increase of expenditures, can you estimate for us how long property taxes would remain stable and then go from there into ---

MRS. deVRIES: No, I might as well tell you right at the beginning I definitely cannot. One of the things that the League of Women Voters is interested in on the State level is regional planning and the State Committee on Regional Planning is at this very moment trying to decide on what is a region and how many factors must be taken into consideration for the orderly development of a region. We talked about land use and the immigration of population. It seems to me that we can find ten authorities that have ten different opinions on this subject. So I could not give you an answer on that subject.

MR. LEUCHTER: The reason I ask, Mr. Chairman, perhaps I haven't asked it clearly - it is not the League's contention, is it, that the imposition of a broad base tax will keep property taxes stable?

MRS. deVRIES: The League's contention is that it would not reduce property taxes. I think that there is no one in this room that wouldn't agree with that. It would not reduce them. What we are hoping is that it would hold the line by taxing sources - well, such as stocks and bonds that are not taxed at the present time, spreading the burden away from the property owner on to other sources of income and in that way the costs of all of government would be shared by all of the people. Does that answer your question, Mr. Leuchter?

MR. LEUCHTER: In other words, at whatever level of spending there is, it would be more equitable that way regardless of what point property taxes are?

MRS. deVRIES: Well, we think so and I anticipate quite frankly that the costs will go up. I think in a growing economy they do. I think your State budget will have to go up as you have a more urbanized state and as more people move in they demand more services from the state. I think it would be totally unrealistice to assume that the line would be held on the property tax level or that it would be reduced. What I am trying to say is that the increase should not be borne by the property tax owner alone which I think it is to a very great extent right now. I am sure that the reason 68 budgets were turned down this year is not because people are not in favor of education, but it is because they simply wnat to say "no" to more taxes on their property.

MR. ALEXANDER: Are there any other questions of Mrs. deVries? (No response.) Thank you very much.

MRS. deVRIES: Thank you very much.

MR. ALEXANDER: The next witness will be the representative of the New Jersey Highway Users Conference. Mr. Gaffney will you step forward. Will you identify yourself, please.

WILLIAM J. GAFFNEY: Mr. Chairman, members of the Commission and members of the Advisory Committee: My name is William J. Gaffney of Trenton, representing the New Jersey Highway Users Conference in my capacity as Secretary-Treasurer of that organization. The highway users of New Jersey have a vital interest in your study of the state's tax structure, for this year they will contribute more than 47 per cent of the state's tax revenues. The New Jersey Highway Users Conference believes that the benefits to be derived from this study transcend those of previous undertakings of the Tax Policy Commission which have contributed so much to the understanding of the state's fiscal problems.

Before I address myself to the main theme of my statement, I should like to mention two facts which I hope this Commission will consider in its deliberations. First, only one other state in the United States depends upon the motoring public for a larger percentage of its state tax revenues than New Jersey does. Second, despite the heavy burden placed upon the motorist, he has been short-changed in his return for his tax dollar.

Although there have been individuals calling for a revision of the state tax structure in New Jersey for years, it is gratifying that at last official action is being taken to determine the State's revenue needs and the proper sources for those revenues. If this Commission and the Governor and the Legislature wish to establish a tax base which is at once equitable and adequate, there is no doubt in my mind that they will have to broaden the tax base and include one of the so-called "broad base" taxes in the tax structure. Within our own organization there are some who favor a general retail sales tax and there are others who prefer a personal income tax. However, regardless of preference, they are in accord that a new broad-base tax is necessary.

The New Jersey Highway Users Conference will support a broad-base tax, whichever form it may take, if the proceeds are used to relieve certain fiscal inequities which now exist. It is one of these inequities, the diversion of highway user taxes in New Jersey, to which I should like to turn at this time.

I would like to point out to the members of the Commission that, although I shall keep the statistics in my statement at a minimum, tabulations have been appended to my statement which give in detail the highway user taxes and expenditures for highways and highway-related functions in New Jersey during the twelve years ending June 30, 1962.

When New Jersey first imposed the gasoline tax in 1927, the act specified that the revenue from the tax was "to be used for the construction of roads and bridges in the state highway system" (Paragraph 8, Chapter 334, P. L. 1927). It is interesting to note that this language remains to the present time (N. J. S. 54:39-75). For a few years the proceeds of the tax <u>were</u> used for highway purposes. However, beginning in the early 1930's highway user taxes have been treated as a revenue bonanza to finance every conceivable state function.

In the twelve fiscal years 1951-1962, approximately \$1.6 billion will have been paid to the state in highway user taxes. However, during the same period, only \$917 million will have been expended for highway purposes. Thus, \$641 million will have been diverted to purposes other than highways. To illustrate the magnitude of this diversion, it amounts to almost twice as much as the

$347 million of state funds spent on highway construction during those twelve years. Is it any wonder that we are being told by state officials and by other knowledgeable citizens that our highway program is far behind schedule?

The inequity of the diversion of highway user taxes may be demonstrated by saying that the motorist pays one dollar for sixty cents worth of highways. To add insult to injury, if the motorist wishes to drive on the state's only first-class modern highways, he must pay a toll, yet the $641 million of highway user taxes diverted during the twelve year period would have constructed both the New Jersey Turnpike and the Garden State Parkway without having to resort to bond financing.

It is estimated that the average cost of a four-lane limited-access divided highway today is approximately $1 million per mile. Diversion of highway user taxes has deprived the New Jersey motorist of 641 miles of these super-highways. In view of the fact that the entire primary state highway system contains only 1,850 miles, the consequences of this diversion are quite obvious.

In addition to the effect of diversion on the state highway system, one serious result has been the lack of funds available for aid to counties and municipalities. This is evident in the fact that during the 1951-1962 period, highway user revenues increased more than 155 per cent, but aid to counties and municipalities increased only a little more than 7 per cent.

There is an old saying, which has become hackneyed through use, that in New Jersey, if a person does not drink, smoke, own an automobile, play the horses or die, he pays no state taxes. The saying may not be entirely true, but if a person in New Jersey does not own an automobile, his state taxes can be slashed almost in half (47%).

I am certain that you gentlemen remember when the people of New Jersey boasted that they had the best highways in the world. Unfortunately, they can do so no longer. It is claimed that highway costs in New Jersey cannot be equated with those of other states because of the problems of engineering and construction in a highly urbanized "corridor" state. However, this is all the more reason why highway user taxes should be fully utilized for highway purposes.

We must face the facts of life. We are living in an era of "automobility," and no amount of mass transit or any other form of transportation is going to supplant the motor vehicle as the primary means of transportation for the majority of people of New Jersey or of the United States. The entire economy is affected adversely by poor highways. It is impossible to estimate what the economic consequences of diversion have been, but they have been substantial. Therefore, to remove the inequity of taxing the motorist for roads which he can never use and to provide impetus to economic growth in the state through a better highway system, the New Jersey Highway Users Conference supports the principle of a broad-base tax for New Jersey.

There is little doubt that the enactment of any new broad-base tax, with its promise of substantial revenue, will bring forth pleas for new and increased spending programs of every conceivable sort. However, we believe it to be incumbent upon the Governor and the Legislature to use the proceeds of any new tax program in those areas of the greatest importance to the state as a whole. We believe that those which deserve top priority are education and highways, both of which are vital to the future of the state. Despite the constitutional requirement that all monies be disbursed from one general state fund, we believe that it is both possible and desirable to allocate revenues to certain functions through legislative action. This is done at present by the state school aid formula. In other words, with the passage of any new tax program, there should be companion legislation enacted to direct the use of a major portion of the state's revenues into the top priority areas of government. This does not violate either the letter or the spirit of the constitutional restriction.

The New Jersey Highway Users Conference does not ask that any of the revenues from a broad-base tax be allocated to highways. What we do wish to see is the use of highway user taxes for highway purposes. Not only will this provide the means for more and better highways, but it will provide for proper highway planning. The State Highway Department will be able to plan a sufficient number of years in advance by being able to anticipate probable available funds. In addition, we believe that the use of all highway user funds for highway purposes should include a proper level of distribution to the counties and municipalities in order that they will be able to provide a system of good secondary roads.

Therefore, with provisions for spending the revenues from a broad-base tax in the areas of greatest need, the New Jersey Highway Users Conference supports the enactment of such a tax in New Jersey. The state can afford good highways. It cannot afford poor ones.

In passing, I would just like to point out to the Commission that most of the papers throughout theState on last Monday carried headlines on the first page of the terrific traffic jams and some have even carried editorials.

So, gentlemen, with those few remarks I outlined to you the position of the New Jersey Highway Users Conference and I hope you will give it your serious favorable consideration. Thank you. (Exhibits annexed to Mr. Gaffney's statement appear in the Appendix, Volume IV.

MR. ALEXANDER: Thank you, Mr. Gaffney. Are there any questions of Mr. Gaffney?

Well, I would like to trespass upon your good nature to ask you one question. I think that you feel in general those who pay taxes should get the benefits from the taxes.

MR. GAFFNEY: That's correct.

MR. ALEXANDER: Well, I am an inveterate cigarette smoker and I would like to know what you think I can do for myself? (Laughter.)

MR. GAFFNEY: Mr. Chairman, in answer to that question, I can't agree that cigarettes as a commodity can ever be compared in importance with gasoline as a commodity and we believe that the gasoline tax is a benefit use tax and the benefit is measured by the extent of the use and the cost of the benefit is likewise measured by the extent of the use. I don't know whether I answered you satisfactorily, Mr. Alexander.

MR. ALEXANDER: You did. You have answered it very well - so well I am not going to ask you about the inheritance tax. (Laughter.)

Thank you very much, Mr. Gaffney.

MR. LEUCHTER: Mr. Chairman, may I ask Mr. Gaffney a question?

MR. ALEXANDER: I beg your pardon, Mr. Gaffney. There is a question.

MR. LEUCHTER: Mr. Gaffney, you say in the eleven years from 1951 to 1962 approximately $1.6 billion will have been paid to the State in highway user taxes. Do you have any figures showing how much of this $1.6 billion was paid by motor vehicles owners, owners of autos or trucks in the State of New Jersey and how much of that came from out of state owners?

MR. GAFFNEY: There are no such figures, sir, but it is estimated by the U. S. Bureau of Public Roads that commercial transportation as such as compared to the private car owner - commercial transportation contributes approximately one-third of the total highway use tax in the Nation and it is natural for us to assume, if that is the case on a national basis, it probably prevails in New Jersey.

MR. LEUCHTER: We have no idea of the relative amounts spent by New Jersey residents and businessmen as contrasted to out-of-state motor vehicle owners in New Jersey?

MR. GAFFNEY: No figures were ever made available. But early in Governor Driscoll's administration, he directed the Motor Fuel Tax Department, on commercial vehicles only now, to determine what percentage of them using highways in New Jersey bought their gasoline here. That is so long ago that I don't think that I can remember exactly the figures, but they were amazing. In other words, they stopped every out-of-state truck and the questions they asked were: How often do you come to New Jersey? And they were questioned in four important points in New Jersey: Number 1, at New Brunswick there between the two circles in those days; at Phillipsburg and at the old bridge down in Salem County. They asked how often did they come to New Jersey; when they come, do they buy gasoline; how much do they buy; how many miles do they travel? From the statistics that they were able to acquire on that survey, the figures showed that the out-of-state trucker in those days was paying a very substantial portion of the State Highway user tax collections in gasoline taxes.

MR. LEUCHTER: Thank you.

MR. GAFFNEY: I would hesitate to quote the figures because I don't remember them exactly.

MR. ALEXANDER: Dr. Ashby.

DR. ASHBY: Mr. Gaffney, just a point of information, apparently there has been no formula to decide how much money would be diverted in each budget year to other uses than highway purposes.

MR. GAFFNEY: You mean as an annual thing by the Appropriations Committee?

DR. ASHBY: Yes.

MR. GAFFNEY: No, there never has been a formula. The formula has been, we take what we need to balance the budget.

MR. ALEXANDER: Thank you very much. I think that is the last question.

The next witness will be on behalf of the New Jersey Education Association, Dr. Charles B. Pierce.

DR. CHARLES B. PIERCE: Thank you, Mr. Chairman. Members of the Commission: I deem it a real pleasure and honor today to speak in behalf of the 47,000 professional teachers in this state, and of their concern for the 1,100,000 children in their classrooms.

Let me say at the start that, in general, New Jersey has good schools. Generally speaking, we have a well trained, highly competent core of teachers. The offerings of our schools are broad and comprehensive.

I must, however, underscore the word "in general." For New Jersey's educational reputation has been made on averages.

We have some school districts overwhelmed with problems of enrollments, teacher shortage, and slim tax resources. Despite their over-sized classes, their double sessions, their temporary classrooms, their emergency teachers, their soaring tax rates, and their defeated school budgets, these districts are riding on the reputation earned by the state as a whole. Many of the citizens in these districts do not themselves realize how much their children have lost, for they have been told "New Jersey, in general, has good schools."

Even where schools remain good, programs are maintained only at considerable effort by local taxpayers. In the past five years, increases in local property taxes have averaged more than $40 million a year. This has brought the average full value school tax rate in the state from $1.23 to $1.47.

But, averages do not tell the whole story. While almost all districts have had to raise tax rates to keep up with rising school costs, some districts have faced astounding jumps. Some of these were districts which once were below the state average; others were already well above. Today, they have full value school tax rates far above the state average. Let me name just a few:

Egg Harbor -- up in five years from $1.17 to $2.41.

Bergenfield -- up from $1.08 to $1.65.

Mt. Holly -- up from $1.25 to $1.96.

Pine Hill in Camden County -- up from $1.50 to $2.36.

West Cape May -- maintaining a small five-teacher school -- up from $1.20 to $2.29.

Deerfield Twp. in Cumberland Co. -- better known as the Rosenhayn - Carmel area -- up from $1.18 to $2.01.

North Caldwell -- up from $1.21 to $2.15.

the Franklinville area in Gloucester Co. -- up from $1.07 to $2.30

Lambertville -- one of the hardest hit sections of the state -- up from $1.37 to $3.57

East Brunswick -- up from $1.26 to $2.11

Shrewsbury Twp. in Monmouth County -- up from $1.31 to $2.32

Lincoln Park in Morris County -- up from $1.08 to $2.06

the City of Salem -- up from $1.58 to $2.29

Millstone in Somerset County -- up from $1.62 to $2.64

the Andover district in Sussex -- up from $1.66 to $2.61

Clark Twp. in Union County -- up from $1.28 to $1.72

and Oxford in Warren County -- up from $1.54 to $2.28.

These are but a few; there are many more, -- districts that in the past five years have had to raise taxes far above the average -- districts that for all their efforts are often left with programs below average and sometimes even below normal state standards.

With the resources available to this state, there is no reason for any school district to be hard pressed. With the resources available to this state, many more schools should be truly excellent. With the resources available to this state, New Jersey schools should be first in the nation.

New Jersey stands seventh among the 50 states in per capita personal income. In general, earnings are high and well above the national average.

New Jersey ranks sixth in effective buying income per household. Five of the nation's top 25 counties in effective buying income per household are in New Jersey. In general, consumer spending is high and well above the national average.

By either measure -- income or sales -- New Jersey is one of the most prosperous states in the nation.

Yet, New Jersey taxes are not high. The state ranks 31st, with the average taxpayer contributing in 1960 only $262.75 to the general revenue of his state and local governments. As a percentage of personal income, this was only 7.8%. In only seven other states, did taxpayers pay a lower percentage of their earnings in state and local taxes.

New Jersey's problem -- the question for this Commission -- is "How should that taxpayer pay his taxes?" In terms of education, how can he best pay his taxes so that New Jersey schools are not merely "good in general" but "good everywhere?"

In eight years, school enrollments have jumped by more than 40 percent, up by 332,407 to 1,100,000. Predictions point to 1,250,000 pupils by 1965 and 1,450,000 by 1970.

But, these increases in enrollments have not been felt in all districts. Suburbs have grown far more rapidly than rural areas or cities.

This year some 59,243 pupils go to school on half sessions. Less than full-day schooling is the rule for more than one out of ten students in Middlesex, Monmouth, and Ocean counties.

This year some 48,157 pupils are in sub-standard classrooms. Basements, cafeterias, churches, and firehouses are the rule for more than one out of ten students in Cape May, Cumberland, Gloucester and Ocean counties.

New Jersey schools need about 7,500 new teachers every year. Our public and private colleges supplied only 2,500 last year. Despite recent gains in salaries, teachers have still to see the great gains in earning power that have come since World War II to production workers and especially to other professions. Overall salary levels are still not adequate to attract either qualified persons from neighboring states or those who have left our classrooms for other occupations. The result is 6,612 teachers with sub-standard certificates. These are persons who have had no on-the-job training, who lack enough background courses for the subjects they will teach, who have little knowledge of how children develop and learn, or who sometimes do not even have a college degree. The teacher shortage is most severe in Burlington, Gloucester, Hunterdon, Monmouth, Ocean, Salem, and Warren counties, where more than one out of every five teachers has a sub-standard certificate.

We believe that New Jersey not only has the resources to cope with such problems, but through its basic formulas for state school aid has the means for assisting school districts. By increasing those formulas, many problem situations can be alleviated. Continued failure to increase state support will almost certainly cuase conditions to grow worse.

If no increase in state aid is forthcoming, we can expect to see the formula increase due to higher pupil enrollments bring only $33 million more in direct aid to local districts in the 1963-64 school year than was received in 1956-57. However, as things now stand, no state help is coming to meet increased costs. Local taxes will have increased by $281 million in that period.

May I refer you to the charts back here, please.

From the 1956-57 school year to the forthcoming 1963-64 school year, we will see local taxes pay for a $150 increase in the cost of educating each pupil, while the State increases its aid per pupil by only $3.

This in itself might not be a serious situation except that local revenues are completely dependent on the local property tax and, in turn, on local ratables.

There are some really "poor" communities in the state -- districts with homes widely scattered, low property values, little industry.

Added to these problem-districts are the big cities, where local school services tend to cost more and are often expected to be greater to cope with changing populations.

Fast-growing suburban areas find themselves forced to build and operate new schools before new ratables can be taxed.

Schools are an essential service in every community. Problems may differ but there are very few communities which do not have school or tax problems of some sort. State aid is an attempt to use the tax resources of the entire state to help all communities meet their different school needs.

Our suggestions for changes are, we believe, already known to the Commission. Let me review them briefly:

General operating expenses, the core of any school budget, provide for staff, materials, textbooks, and equipment. In 1954, when the state aid formula was last changed, the average per pupil cost was $282.01; this year it will run about $450. Our present formula based on a minimum foundation of only $200 should be raised to at least $350.

Every projection indicates that this present cost per pupil will go up still further in the years to come. We have asked consideration of a flexible foundation program. Rhode Island has one; New York State recently adopted one. The New York plan eventually calls for the State to pay 49.5% of the average cost of education. Such a formula automatically keeps up with school needs.

In the past eight years, capital outlay for schools has averaged $100 million a year. Most of this is borrowed, bond issue money. The total school debt is expected to reach $1 billion within a year or two, debt service charges have grown phenomenally. Applying the same formula to debt service and budgeted capital outlay as was originally used in fixing the present $30 foundation would justify an increase in that building aid formula to $48 per pupil.

Construction of needed classrooms could be further encouraged by a simple change in the present law. There is a one-year lag in enrollment figures for computing current expense aid but a two-year lag in computing building aid. The same previous year's enrollments should be used for both.

Regionalization has successfully encouraged the formation in New Jersey of special districts to build large, efficient, comprehensive high schools in rural and suburban areas. A lower local fair share gives a financial incentive which is needed to overcome local concern about shared costs.

Apportioning the costs in regional school districts among the constituent districts has, we hope, been examined by the Commission. Inequities should be removed.

Of even greater importance, however, is the need to encourage regionalization for the entire school organization. Regionalization at only the high school level still leaves three or more separate boards of education, separate administrations, and separate faculties. Both school finances and educational programs in many areas could be improved if incentives were given to complete regionalization or consolidation of small school districts into single systems.

Special attention, we hope, has been given to problems of rapidly growing districts. Large scale home-building in former rural areas has brought almost wholly new school systems, with many new buildings and rapid multiplication of faculties and services. Not only does the state aid formula create a lag but so do other factors in our property tax and school budgeting procedures. Some type of emergency aid to assist districts undergoing rapid growth is needed.

We have talked about the need for teachers and the relation of teacher supply to adequate salaries. There are some districts, which at considerable local effort, have kept salaries at a level where they retain and attract fully prepared personnel. With even less property tax effort, however, other districts could pay equivalent salaries and maintain quality staffs. These choose to economize, keeping teacher salaries low, pleading the resulting shortage as reason for hiring a large percentage of less-than-qualified teachers. Since one of the most important purposes of raising state aid is to halt the increase in emergency teachers, we hope provision can be made for deductions in State aid in those districts that are not making above average effort but still employ emergency certificated personnel.

New Jersey can well be proud of its development of special classes for the mentally retarded and physically handicapped. Such programs guarantee every child an opportunity for suitable public education. To keep the same relationship to the current expense foundation program, aid for atypical pupils should be increased to $3,500 per class and 1/2 the tuition in excess of $350.

The program adopted three years ago for socially and emotionally disturbed pupils promised a broad attack on the problems of disturbed and delinquent children. State budget provisions, however, have allowed supervisory teams to be established in only a few counties. Not only should this service be extended throughout the state but further increase should go to support of local efforts encouraged by the present law.

New Jersey was a pioneer in the area of vocational education. Such county programs need encouragement, however, by including them in the state aid distribution according to some prorated per pupil formula similar to that used for local school districts.

We ask consideration of another penalty provision. No district presently spends less per pupil than the current $200 foundation program. If the foundation is raised to $350, however, further provisions should be written into the law to penalize a district which fails to expend that amount. At a time when the state average is already $450, it is hard to justify limiting any child in the state to less than $350.

Let me add a final word about timing. Four years after the 1954 enactment of increased state school aid, the New Jersey Education Association outlined the conditions I have mentioned and asked the Legislature to take action. It is now eight years, not four years later. The conditions have grown far more serious.

We have always said -- and almost every legislator and state official has agreed -- that a broad-based tax is the only means for bringing more state aid to education. Aid to schools seems stalled until this Commission recommends a revised system of broad-based taxation.

School budgets are already set for the coming 1962-63 school year. You will see in many of them little provision for changing current conditions. Half sessions, substandard classrooms, substandard teachers, and higher local property tax rates are already forecast.

By November, we will be at work on our budgets for the following year, 1963-64. These must be adopted by boards of education in mid-winter and submitted for approval by February. We cannot urge too strongly the need for an early report from this Commission.

The education of more than a million pupils must go on. But, your decision can tell how and when improvement in their education will take place. Thank you very much.

MR. ALEXANDER: Thank you, Mr. Pierce. I wonder if I might ask you one question first, myself. There are a number of suggestions here, such as, increasing the foundation program from $200 to $350. Do you have now, or, if you don't, could you furnish us later with your estimate of the cost to the state of each of these recommendations, preferrably not only for the current situation, but you have projected enrollments? Also we would like to have your estimate of the cost of these different items.

MR. PIERCE: I am sure our research department will be glad to take care of that for you.

MR. ALEXANDER: Are there any other questions that the Commission or the Committee wish to ask?

Thank you very much.

The next witness will be the President of the Essex County Teachers Federal Union, Mr. Paul Loven.

PAUL LOVEN: I am the unsalaried president of the Essex County Teachers Federal Credit Union. I want to call attention to that word "credit" that was left out of the program. We have a small minority of our members who do belong to a union, but most of our members of the Essex County Teachers Federal Credit Union are not union members.

We represent all Essex County communities, except two which have their own credit union.

At our April 18th meeting of our directors a resolution was passed unanimously to go on record as not being in favor of possible new broad-based taxes and I qualify that by saying that I feel like a thorn between many, many roses, looking at the program for today, tomorrow and Friday. We have great respect for our State Education Association, and the many speakers who will discuss that today and in the days to come will clarify that position and all of our directors know that we must have help for the students and for the teachers. Otherwise, our credit union wouldn't even be in existence because of the need of many of our teachers to borrow because they can't get along adequately on their present salaries.

However, in the distant future if new broad-based taxes should become unavoidable, we resolve that we are in favor of new small city sales taxes, first, and, if that does not suffice, then a small statewide sales tax.

We see nothing wrong in being one of the few states in the Nation requiring workers to pay unemployment and disability insurance. There is nothing wrong in being one of the states fortunate enough to have a constitution requiring a balanced annual budget and in not having a statewide income or a statewide sales tax. The Nation should honor and respect New Jersey for this.

Here is an advertisement in this weeks "Business Week," April 21st: "Taxes, Lowest in the Nation. No sales, income or so-called nuisance taxes in Nebraska in recent years. Nebraska's per capita taxload has been under $60, the lowest of the 50 states. State government has no bonded indebtedness. Average corporate income tax load per capita in 7 surrounding states is $3.84. Nebraska has no corporate income tax. Free informative literature --" Then it goes on to say: "Nebraska public power system - Nebraska's Resort Division, State Capitol Building, Lincoln, Nebraska."

New Jersey should be equally proud of its record.

It is true that property taxes in many communities have just about tripled in the last 15 years, but so have incomes doubled and tripled and even quadrupled. Property taxes must be held down and yet some communities have not even collected personal property taxes. I quote from the Newark News last Sunday: "A wave of protest was reported yesterday after residents received personal property tax bills. It is the first time in Camden's history that this personal property tax has actually been levied, although the tax has been sanctioned by state law for many years."

Some of our old tax laws had better be used before thinking up new ones.

New Jersey has a state income tax for commuters which expires December 31, 1970. Its constitutionality is not clear. New Jersey has had a law permitting certain sales taxes on cities of the fourth class - resort cities bordering on the Atlantic Coast - for over fifteen years. Atlantic City has collected this selected sales tax on the sale of tobacco, alcohol, admission to movies, rental of rooms, etc.

Speaking of coast cities reminds us of another broad based New Jersey tax. Recently the Atlantic Coast had a terrible storm. Long before a U. S. destroyer could be budged off our New Jersey sand, the New Jersey Legislature acted with lightning speed and laws were changed to extend New Jersey's horse racing and to greatly increase the inheritance tax and the papers said that it was an all or nothing package revenue deal. What could be more broad based than a greatly increased inheritance tax?

Debt and taxes are two things we can all be sure of. Do the people of New Jersey know the exemptions to this new inheritance tax? I just tried to get a copy of A 586. There was no copy available in the room next door. The Commerce Clearing House reports that the exemption for a brother or a sister went out the window and that rate was more than doubled from 5 per cent to 11 per cent on the first penny. To a niece or nephew the $499 exemption went out completely and the rate went from 8 to 15 per cent on the first cent. New Jersey heirs will long remember that storm because there is nothing in A 586 to end the tax when the storm is paid for.

New Jersey's constitution wisely provided for three readings in the Assembly and three readings in the Senate, but under the overworked "emergency," readings can be dispensed with. And, lo and behold, before the public knows what it is all about, we have a new broad based tax. I shouldn't say a new broad based tax, an added tax.

This public hearing today is unlike the emergency legislation and this is certainly what we need, open public hearings. The storm area had already received $10 million from the United States of American, from all of our tax money. There is no cut-off date in the inheritance tax and yet the papers keep telling us about the one-cent extra cigarette tax which was recently made permanent after nine months of an extended one year one-cent tax. But no one complains about the taxes for the inheritance addition.

The shore got quick action. Many thousands of our older New Jersey teachers and public workers who were promised social security offset benefits that were later lost by superseding Federal changes have been kept guessing for many years. They will be provided for if S 16 becomes law. That bill of Senator Dumont's is another popular bill. I couldn't find that either next door among the bills.

Now, it is even being hinted that new broad based taxes which were never mentioned when they voted on this integration have been sort of held out to them. Many of them have died off in the meantime and others live on with the broken promises.

A new broad base tax should not be used as an excuse or a red herring for broken promises for pensions that can stand on their own merit and which were not contingent on a broad base tax by the candidates in the last election. No mandate was given for a broad base tax and neither candidate was campaigning for one and the election results were so close that the winner was not known until the next day, the losing candidate winning more counties and the winning candidate winning more large cities.

A referendum is not needed on any new broad base taxes and it would only be a waste of time and money. The most reputable organization has already done the work for us, namely, the Princeton Research Service, called the New Jersey Poll. In the Newark Star Ledger of Thursday, January 22, 1959, the following appeared: "These were the findings when trained professional New Jersey poll staff reporters put the following question to a cross section of the State's adult citizens: Suppose the 1959 New Jersey Legislature decides the State must collect more tax moneys to meet costs. If the Legislature were choosing between higher property real estate taxes and a sales tax or a personal income tax, which would you rather see the Legislature choose? Here are the results: sales tax, 50 per cent; higher property tax, 19 per cent; income tax, 16 per cent; want no more taxes, 12 per cent; other answers, 1 per cent; no opinion, 2 per cent." So the referendum is not needed if we can go by this poll.

In the City of Washington, D. C., according to the Commerce Clearing House, they have a 2 per cent sales tax. On an income between $5,000 and $5,500, a single individual pays $48 a year. The State of Iowa has a 2 per cent sales tax. A single person pays $49 a year and a family $78. Colorado has a 2 per cent sales tax. A single person pays $45; a family, $68.

24 per cent of our total school budget. We believe that the education of our pupils is being impaired and will continue to be impaired as long as the disproportionate share of our moneys comes from property tax in the local communities.

Thank you very much.

MR. ALEXANDER: Thank you very much, Mr. Ewart. Are there any questions? [No response]

Next we will hear from Mr. Lawrence Anderson, Superintendent of Schools of Penns Grove.

L A W R E N C E   A N D E R S O N: I represent a district in southern Jersey like Mr. Ewart - 3100 students in eight schools and approximately 126 teachers.

Our district this last year was regionalized from grades kindergarten through twelve. It is one of only four districts in the state that are so regionalized. This regionalization made it possible for our school district in the next school year to receive something like $85,000 in increased state aid. However, even though we receive $85,000 in the next year in increased state aid and even though our taxes raised locally are $58,000 less, our tax rate went up. And if you don't think this was hard to explain to the voters, I'm sure you are not very familiar with politics and local tax situations, because it was. But we did explain it to the voters and, in fact, they passed our budget by a vote of 236 to 20.

The fact is, however, that our district is a poor district. In back of each student, like Mr. Ewart's district, we have only $14,000 in ratables, contrasted to the state average of over $29,000, and this increased money for us in this particular year provided only a breathing spell. We could really not make any basic improvements in our whole program or even improve our salary scale very much compared to many of the more well-to-do districts in the State. In this regard, it is interesting to note that our full value tax rate in Penns Grove in 1959 and '60 was 192 as against the state average of 147. Today, of course, it's higher than that. Our total tax rate in Penns Grove was 340 in that year as against the state average of 296.

We think that for this money in Penns Grove we are providing what amounts to a good minimum program, but I would emphasize the word "minimum" and even paraphrase it further and call it "a bare minimum program." This cost is low in Penns Grove because we do without many of the services and elements in our program that we think ought to be there. For example, just let me talk about four major headings:

First of all, teachers' salaries. There has been a great deal of talk in New Jersey and other states recently about the merit pay idea; the teachers ought to get what they deserve, and that the better teachers ought to be paid more. Everybody would be in agreement with this. It is true, however, that while there are not many districts in New Jersey that have merit pay programs within their district, it is true that within the state as a whole a merit program is in operation and, in fact, the better districts, the ones that pay the bigger salaries, tend to get the quality teachers of the college graduating classes. Now, in this regard I will just tell you about one instance that happened to me this winter: I interviewed a boy from a college in Pennsylvania who was, in my opinion, a very fine potential math teacher. He was co-captain of his football team, he was a student leader, and in every regard I considered him to be a high-type candidate. He came to our district and he was impressed with our schools as he saw them, and with the friendliness of the people, but he promptly went to a district that could pay him a total of four or five hundred dollars more. In effect, he went to a district that paid him a merit salary. And so, while we say there are not many districts with merit programs in teachers' salary scales, in effect within an area within a state there is such a program in operation, and those of us who must battle for a bare minimum salary position are in an inferior position when it comes to hiring the quality people that we would like to hire for our schools.

I would just like to tell you about some of the bare essentials and programs that I think and Mr. Miller, our Board President, thinks are lacking in our particular district. For instance, in our elementary school, a school of 800 students, we have no library for the children; we have no auditorium room; we have practically none of the special facilities in this big building of 26 rooms and 800 students that most of the districts in New Jersey would now regard as commonplace - things such as shops and home economics rooms, special art and music facilities, and auditorium as I mentioned. This, in our particular district, we do without. You might say, why don't we build an addition to this school or build another one? As a matter of fact, we are now at our very debt capacity - we exceeded it with a recent addition to the high school; we need other facilities too, and with a true value tax rate what it is we are going to find it extremely hard to remedy this condition and the other shortages in the program which really are of concern to us.

I would just like to say one thing about our high school. Last year we completed a $580,000 addition and alteration program on this building. Next year we will go on a staggered schedule. We have over a thousand students for a building that we had planned for 900. This will result in severe community pressures on us because of what they will say was poor planning on the part of the Board perhaps back as far as 1956. The fact is that there were many intangibles that could not be estimated at that time, and we find ourselves now with an overcrowded building and with very, very few tax resources and building possibilities to which we can turn.

In effect, I think that we in Penns Grove and many of the smaller school districts of the state are on a vast treadmill. We are fighting every year to keep abreast of the position that we have been in, and we have almost no possibilities of treading ahead or making progress, and in this age of specialization, of rockets and other things, and of all the advanced technology, it doesn't seem to me that school districts should be in the position of fighting to maintain only that which has been acceptable in the past, but that we should try to provide those programs for children which will equip them to meet the needs of a really modern, present-day world. We don't think in Penns Grove that it's really possible for us to do this under the present tax situation.

In conclusion, I should just like to say this: I think the people in Penns Grove are in back of us, the school administrators and the teachers, in the orderly conduct of a basic minimum program. However, with our debt limit surpassed, with the increasing cost of education, with the state's share becoming smaller and smaller as the percentage of the whole each year, we find ourselves fighting to remain in the same position. We need additional help from the State to correct present deficiencies and to make some progress.

I would just like to quote three other sentences, if I may, from a little paper that the President of my Board made up, and I think there is also some additional information. He says, "I am not one who believes that the only measure of the effectiveness of a school system is the amount of money spent per pupil, but I do know that when a district is so continually hard pressed for some money, as we are, the things that should be done for education simply are not done." And this is a fact - two other sentences: "We in Penns Grove can see little likelihood that our valuation picture will ever improve enough to offer any substantial relief in our tax situation. In fact, the reverse is more likely to occur. From my geographical position, we seem much more likely to attract residential rather than commercial construction with attendant larger number of children to educate from property that does not pay its way so far as educational costs are concerned. Our only hope of being able to do the things educationally that we know should be done, of giving our boys and girls an educational opportunity that is even as good as the state average is by an increase in state aid. Personally, I would like to see an open-end formula devised and recommended, one that would keep pace with rising educational costs rather than one based on the dollar expenditure per pupil, which just by the nature of the legislative process is always obsolete by the time it is passed.

Mr. Miller has over the years been a student of tax matters. He does have such a formula which he has been cogitating and pondering over for some years, and if at some future meeting of the Tax Policy Commission you would wish him to present this in some ten or fifteen minutes, he would be happy to do so.

Thank you very much, gentlemen.

MR. ALEXANDER: I might ask before you go. Mr. Anderson, could that be presented to us in writing, or would he wish to present it in person. We'd be delighted to have it.

MR. ANDERSON: Well, I have a copy of his formula, but without an explanation it would be totally inadequate. Mr. Miller is here with me today but in a short time we just couldn't go into his ideas about a flexible program.

MR. ALEXANDER: My other question is: Do you know the number of teachers in your system and how many of them have sub-standard certificates?

MR. ANDERSON: We have in our system 126 teachers, and of the total I would say that there are probably 15 to 20 with sub-standard certificates. Some clarification of the term "sub-standard" is needed, however. Some of these substandard certificates in our particular district - for instance, one teacher has a permanent elementary teacher's certificate but an emergency art endorsement. We would regard that as an emergency endorsement in her particular case. I would say that the real emergencies would perhaps be as few as eight to ten.

MR. ALEXANDER: That is, that teacher is teaching art?

MR. ANDERSON: She is teaching art in that regard as an emergency certification, whereas her full certification is permanent -

MR. ALEXANDER: Are there any other questions of Mr. Anderson? [No response]

The next organization to be heard from is the New Jersey Wine and Spirits Wholesalers.

M I L T O N H. C O O P E R: Mr. Chairman and members of the Commission, I am going to probably provide a little interlude from this highly important question of school aid and refer primarily to a particular problem as it affects a particular industry.

I represent an industry that not very often gets an opportunity to be heard but all too often seems to be placed in the position where it gets a pretty good shaking up when it comes to taxes. We have in the past appeared before legislative committees and we are very happy now that I have the opportunity of appearing before a Commission before we have to talk about specific legislation. The reason I'm here is that it is conceivable that this Commission may come to a decision with reference to the existing Chapter 51, Laws of 1960, which provides for not only personal property taxes but specifically a formula for inventory taxes.

We feel very strongly that the personal property tax situation should be alleviated and in all instances the business inventory tax obviated. In our own particular case, and I am only speaking about our particular case now because I've got a chance to - we have laid-in cost merchandise upon which this personal property - business inventory tax - is levied, that in most instances represents a minimum - and I reiterate - a minimum of over 50 per cent in already-paid federal taxes. It goes as high as 60 per cent in some instances. Now, this is at the wholesale level before any retail tax has been paid. That inflicts a very heavy burden on us. We are already very heavily taxed by the State; we are highly regulated. We are not complaining about it; we are not complaining about paying taxes; we are not complaining about being regulated, but we do feel we are entitled to a fair shake.

I don't feel that the inventory tax section of Chapter 51, Laws of 1960, gives us a fair shake. I am not arguing about this for the first time. As I said, I have argued before legislative commissions before and Assemblyman Matthews is tired of hearing me talk about it probably, but I am going to continue to talk about it because it's unfair. I think it is unfair for a State to even attempt to levy an ad valorem tax on a product which is represented in its laid-in cost of over 50 per cent in already-paid state taxes.

Now, you may say, "Well, you have a legal problem there. You can get relief in the courts." Maybe we can; maybe we can't. But I do feel that at least we are entitled to consideration by this Commission when it makes its report, and I am sure it's going to consider and will make recommendations - or at least I feel it should make recommendations as to the effectiveness of Chapter 51 of the Laws of 1960.

Now, in addition to that, in our particular industry - and this is easy to trace because we are so heavily regulated we have to report every month at the wholesale level for every bottle of whisky that goes out. Every bottle of whisky carries a serial number, and both the federal government and the state government can trace every bottle right down to the consumer. It is highly probable - not only conceivable, but highly probable - that the same inventory tax can be paid three times, at least three times, on the same bottle. We don't think that was ever intended. We don't think it was fair. In other words, a distiller, and there are distillers who have warehouses in New Jersey -there are a lot of distillers who hold wholesale licenses but they don't sell to retailers; they merely have a wholesale license for convenience in selling to wholesalers. They can sell in January to a wholesaler. Still they'll have to report that inventory, as far as their monthly report is concerned, under the Laws of 1960. That same bottle, then, will have to be reported by the wholesaler, while he's got it in the month of February. If he delivers it in March, or after the end of the month, to the retailer, then the retailer has to report and pay on the same thing. You've got three taxes levied on the same item.

Now, I wouldn't be here talking this way if I was talking about peanuts or nonsense. This is vital because it's a threat to our industry. Regardless of how people think, we are a legal industry and we pay a great deal of taxes to the State of New Jersey. In 1959 - I don't have the 1960-1961 figures - this industry paid over $5,000,000 in taxes to municipalities for license fees, and over $17,000,000 to the State, and that's net after the cost of operating the Alcoholic Beverage Control Division has been deducted.

The industry is an industry based on small profit, very small profit, before taxes. The operating costs are such in this heavy Union market that we have - and we are not complaining about Unions; we are glad to pay whatever we have to pay, and we want to pay it - that an increase in a tax at the wholesale level of $12,000 to $15,000 per wholesaler, which would occur, can make the difference between red and black, despite the fact that there are in many instances millions of dollars of volume transacted.

Now, that's hard to believe. A lot of people don't believe that. They figure that if you've got a business that involves that much money, you've got to make a big profit. The facts are available. We have submitted them in the past in the form of operation surveys which were prepared not by us but independently by St. Louis University on figures presented to us.

Now, we have another point which has been raised, and we raise it because we think it's not only a question of going to courts for relief; it's not only a question of paying a tax under protest. We feel in all fairness that when something is presented to the legislature on the basis of its legality, if the legislature feels that it is illegal, it shouldn't just pass a law and say, "Well, you've got your relief. We rely on the courts." We don't think that's proper. Thirty-five per cent of our inventory is represented in original imports which comes directly from foreign countries to importers in this State and it rests in the warehouses of the importers in this State for the purpose of re-sale to a retailer.

There happen to be two cases in this country - the Parrott case in California and the Morton case which was finally decided by the Wisconsin Supreme Court in 1961, which specifically hold that original imports of that nature still in the hands of the original importer for the purpose of resale may not be subject to an ad valorem tax by the State or any sub-division thereof, because it is in violation of Article I of the United States Constitution, which prohibits the various states from levying ad valorem taxes upon imports.

We have in this State a case - the Penny Drug case. While it is not on all fours a liquor case, the holdings jibe with the liquor cases. We are going to contest any taxation on original imports just as soon as we have the problem. We can't go to the courts on a moot question, and we now have a delay until January 1, 1964 - the effectiveness of Chapter 51 of the Laws of 1960. I bring it up at this time because it is something else that we offer. You may say it is - and it is - of special interest to our group, but we feel that it is vital and we feel that we are entitled to consideration because we are such a heavily-taxed industry and we are so highly regulated. Now, I haven't prepared any memoranda. I imagine that the members of the Commission will probably receive some written data from individual members of our group which will relate and tell the story. I would like, when the time comes, if the Commission feels that it may have to consider recommending a continuance and no further postponement after January 1, 1964, of Chapter 51 of the Laws of 1960, to have the opportunity to sit down and become even more specific, because the story is a very graphic one when you look at prices and you look at taxes.

Under the inventory section of Chapter 51, every businessman - and I am sure there are many other businesses in the same position we are in, and undoubtedly they will raise their objections - must report on a form which is set up by the State to the local assessors his inventory over a 12-month period, based on a monthly, last day of the month, valuation.

It is very easy, when you are considering taxation of that type just to think of what you know in the form of inventory values. There is an article that costs so much, but when you stop to realize that any article you pick up in any wholesaler's warehouse represents a minimum of 50 per cent already paid in federal taxes, I think we've got a little different position and deserve different consideration.

Thank you.

MR. ALEXANDER: Thank you, Mr. Cooper. Before you leave, I take it that you are opposed to personal property taxes on inventory in any event?

MR. COOPER: I'm glad you asked that question, Mr. Alexander. That specifically is my position. We are not stating any opposition to a broad based tax or any other type of tax.

MR. ALEXANDER: But if there does have to be, in the wisdom of the Legislature, a tax on inventory, then you feel that no one bottle should be taxed to more than one person in any one year?

MR. COOPER: I feel that we should have an exemption at least to the extent of the laid-in cost, which is represented by already-paid federal taxes, and I feel we should have an exemption from the assessment of all original imports, and I feel in any event, as you have very well put it, that no item, no commodity, whether it is whisky or anything else, should be taxed more than once by any inventory tax.

MR. ALEXANDER: Are there any other questions of Mr. Cooper? Dr. Watson?

DR. WATSON: I believe I heard you correctly in stating that the cost to each wholesaler would be

$12,000 to $15,000. Did you say that?

MR. COOPER: It would run generally that, yes.

DR. WATSON: On what basis do you base these figures?

MR. COOPER: On the formula set forth in Chapter 51, Laws of 1960, and with the knowledge of what their inventories are.

DR. WATSON: On the basis of their inventories -

MR. COOPER: On their inventories and the formula set forth, under which they would be taxed.

MR. ALEXANDER: Any other questions? [No response) Thank you, Mr. Cooper.

Now the representative of the New Jersey Pharmaceutical Association, Mr. Alvin Geser.

A L V I N G E S E R: My name is Alvin Geser. I am the Executive Officer of the New Jersey Pharmaceutical Association.

The New Jersey Pharmaceutical Association was organized in 1870 and at present has approximately 2400 members and three affiliated organizations, with an additional 600 members. Most of our members are vitally concerned with the matter of taxation at both the state and local levels. We are especially interested because most of our members are in community pharmacies which carry a significant tax load. The 1962 Resolution by the Legislature stresses that a study be made of the tax resources of the State and its political sub-divisions to insure a fair and equitable distribution of the costs of government among the residents of the State, and the businesses, the industrial and commercial enterprises carried on therein. In many instances the heaviest portion of taxation is borne by business entities either through licensing fees or directly or indirectly through realty taxes. I would like to take this opportunity to point out one glaring inequity in the present tax structure. Although stationary businesses are paying a significant amount of money for local taxes and will probably bear even a heavier load as a result of the business personal property tax on finished inventory goods, the door-to-door selling firms pay very little or no tax.

At the national level, door-to-door selling firms gross at least several billion dollars yearly and probably more. These figures are not generally available. This produces in New Jersey a peculiar situation and one of obvious inequity. Any business, whether retail or manufacturing, pays a fair share of taxes, but the door-to-door selling firms pay very little or nothing. At present, the state law permits municipalities to tax door-to-door selling people for regulatory purposes only and not for revenue. Even if the business personal property tax is ultimately assessed, most stationary businesses have heavy inventories and will pay even more, but the door-to-door selling firms will probably completely avoid this tax, since there are no inventory requirements on this type of business. These firms operate exclusively through sales people and the only inventory is generally a case of sample goods.

Many municipalities do not permit door-to-door selling at all, but many do. We would recommend that the

State Tax Policy Commission consider a law permitting the taxation of door-to-door salesmen through licensing for revenue purposes. In this way, each municipality could decide on a fair tax program if they desire or wish to allow door-to-door selling. There is no way of estimating the total revenue which could be derived by this tax change, since each municipality may arrive at a separate licensing fee or may not desire to have any licensing fee at all. Furthermore, many municipalities may wish to continue an absolute sanction on such method of sale. However, in order to insure a fair and equitable distribution of the costs of government, it is incumbent on the government to tax all businesses as equitably as possible so as not to create any obvious inequity. The change which we are recommending certainly seems to be in order. Other states have a system similar to the one I am recommending.

In conclusion, may I thank you for this opportunity to express these opinions.

MR. ALEXANDER: Thank you, sir. May I ask you a question? If the tax on business inventory remains, you suggest that there be equalization of the burden between those with fixed places of business, stationary stores, and door-to-door. Does your organization take any position with respect to the inventory tax itself?

MR. GESER: I wouldn't like to express an opinion at this time. We have not as yet taken any position. It is our position generally that all businesses should pay a fair share and that we should encourage good government, and whatever has to be paid should be paid, but it should be spread on a fair basis.

MR. ALEXANDER: I asked you the question because the Manufacturers Association representative this morning suggested the abolition of this particular tax and substitution for it of a particular corporate net income and unincorporated business net income tax. It seems to be that we would be interested if your Association does study the question and reaches a conclusion, because what you say here is - don't lighten the tax burden on us but give a little bit of it to the other fellow.

MR. GESER: Well, all we are asking for is equitable distribution. We have no position on the other. We have a peculiar problem with the personal property tax which deals with the differentiation between finished inventory goods and raw materials, which we could probably straighten out with the tax assessors, and I don't believe it merits real legislative study, sir.

MR. ALEXANDER: Well, if you do reach a view on the broader question, will you let us know?

MR. GESER: Positively.

MR. ALEXANDER: Thank you.

Next is the Tobacco Distributors Association of New Jersey.

M O N R O E A. L E W I S: Mr. Chairman and members of the Commission, my name is Monroe A. Lewis. I represent the Tobacco Distributors Association of New Jersey, a trade association consisting of tobacco wholesalers and approximate twenty-four or twenty-five thousand retail dealers who handle cigarettes and kindred tobacco products.

I guess the cigarette business is one that been more adversely affected by our present tax policy of meeting emergency with make-shift contingencies in that in the last 14 years the tax on a pack of cigarettes has more than doubled. The first cigarette tax was instituted in this State in 1948 for the ostensible purpose of financing a program of school aid. The tax rate was 3¢ on a pack of cigarettes. At that time there was a 7¢ tax rate on the federal level. Since then the federal tax has been increased to 8¢ per pack. In 1956, in order to finance a school construction program, the cigarette tax in this State was increased from 3¢ to 5¢ per pack. In 1961, a year ago, another penny tax per pack of cigarettes was put on by the Legislature in order to balance the 1961 budget, and a few months later in 1961 a problem arose concerning financing of some buildings for Institutions and Agencies. And, after a long drawn-out legislative battle, it was decided that a cigarette tax should be placed on temporarily and the voters of the State should be permitted to determine whether or not they wished to finance this program through a continued cigarette tax or through a bond issue, and the voters of this State, by a preponderant number of votes, decided that the bond issue was the proper way of financing the institutional program and the cigarette tax from 6¢ to 7¢ per pack was supposed to have ended on June 30th of this year.

A little over a week ago in this very chamber, the members of this Assembly, or 37 members of this Assembly, voted to continue the cigarette tax on a permament level.

Now, we know that a direct promise was made, a direct commitment was made, to the people of this State, not only to our industry but to the citizens of this State, that if they elected to finance an institutional aid program by means of a bond issue that the cigarette tax would be eliminated, but despite this direct promise, this Assembly last week voted to retain the penny tax as a permanent feature.

Now, there is no doubt in my mind that the members of the Assembly who voted for the tax are good legislators, but I think that they are trapped by the type of tax policy that has been prevalent in this State for the last decade. The Legislature and the Executive Branch of this State have closed their eyes to realities and have refused to recognize that the expenses of running the State increase each year in the same proportion as the expenses of running any business increase each year and that it is absolutely necessary to adopt some type of taxation which will be met by all the citizens of the State and not by some selective groups, such as cigarette smokers, gasoline users, etc.

Now, I don't have, Mr. Alexander, a prepared memorandum, but I did submit to you some statistics showing the adverse effect on the cigarette business in this State since the inception of the 7¢ rate, or since the 5¢ rate was increased to 7¢. You will notice that in the year 1959, the number of packs of cigarettes stamped in New Jersey, as compared to the same period in 1958, during which period of time we had a 5¢ tax, increased 7.7%; in other words, we did 7.7% more business in 1959 than we did in 1958 - not in dollars but in packs of cigarettes. The national average during that period of time increased 4.2%. Our competitors in the State of New York increased 1%, and our competitors in the State of Pennsylvania increased 3.1%. We, therefore, ran over 3-1/2% above the national average, about 6-1/2% over the New York increase, and about 4-6/10% over Pennsylvania.

In the next year of 1960, comparing the figures with the year 1959, the New Jersey cigarette business advanced 6% in comparison to the 4-1/2% national level, 2-8/10% Pennsylvania, and 3-7/10% New York.

Now, since the tax was raised from 5¢ to 7¢ and put us in a position where we are not competitive with our adjoining states, the figures show, in the period of July to February - we don't have the March figures, but I don't think they are any better than they have been for the first six months of this period - that New Jersey has increased 2/10ths of 1%, New York has increased 3-3/10%, Pennsylvania has increased 2-7/10%, and the national average is up 2%. So here in the State of New Jersey, where we have a greater population increase than any of our sister states - as a matter of fact, the census of 1960 showed that the increase in population in New Jersey was 24% over 1950 as against an

18% increase on the national level - so that the increase in the cigarette business in this State should certainly follow the population increase as it has done for the last preceding 13 years, but since the cigarette tax was increased from 5¢ to 7¢ we are now running 2% behind the national average, where previously we ran 2-1/2% above the national average.

In terms of dollars and cents, since we do $230,000,000 worth of cigarette business a year on the retail level, a loss of 4-1/2% of business amounts to $10,350,000 a year, which is the loss on the retail level and the wholesale level to the industry in this State since we adopted this 7¢ tax as against a 5¢ tax that prevailed before.

Now, if this loss was a general loss throughout the country, there is nothing we could do about it, but when we find, during this period of time, that we are running way behind New York, way behind Pennsylvania, and behind the national average, there is no doubt that the loss of business is occasioned by the fact that people are buying their cigarettes in Pennsylvania, in New York, or in Delaware, where the tax is lower and they can save a penny or two on a pack, or 10, 20 or 30¢ on a carton.

Now, this is unfair legislation that discriminates against an industry and does not allow us to compete with our neighbors in the adjoining states. This condition prevails in every state where a 7¢ tax rate applies, and I think there are six more states in this country that have that high 7¢ tax rate and all of them, except in the State of Nevada, where they probably don't care how much they spend because they are throwing it away on the crap tables anyway, where they have the 7¢ tax it shows a diminution all along the line on cigarettes.

I would also like, while I'm up here, to direct a few remarks to Chapter 51. As Mr. Matthews knows, I testified at great length against Chapter 51 in the various public hearings and I think that any tax based upon value of inventory or gross receipts is an eminently unfair tax per se. A tax on business, in order to be an honest tax, must be based upon net profits, not gross profits or gross value of inventory. We have an industry where a small wholesaler, who barely makes a living and has a little store on a side street, does about three million dollars worth of business a year. He handles an inventory every day of approximately $150,000 or $200,000. He no more owns that inventory than I do. It is owned by the cigarette manufacturers and we just receive it one day and ship it the next day, but the inventory is constantly on the floor - not the same inventory but there is a constant amount of inventory. To make an industry such as ours subject to the same tax rate as an industry that has an inventory that shows a mark-up of 20% or 25% is eminently unfair.

According to Dun and Bradstreet, the net profit enjoyed by a wholesale tobaccnist is less than 1/2 of 1%. It was 39/100ths of 1% actually at the last study made by Dun and Bradstreet about two years ago. So here we are, working on 4/10ths of 1% net profit, subject to an inventory tax which in some cases might be equivalent to the net profit enjoyed by the wholesaler. I think the same thing applies in Chapter 51 to the tax on equipment and machinery. I think the Legislature, in setting up this type of taxation, has built a little wall around the State of New Jersey and said, "Industry keep out," because I can't conceive of anybody investing large sums of money in new equipment and new machinery subject to a tax levied on 50% - well, let's say 50% is the average - of the value of the property in its first year and then subject to its local rate which might be as high as 10%.

So we seriously advocate not only that a study be made of Chapter 51 to eliminate the inequities but that serious consideration be given to completely repeal any tax on inventory or upon the value of equipment, and that it should be replaced by a tax, if necessary, on net profits, net proceeds - not gross profits and gross proceeds.

Now, we fully realize that we are now talking about an income tax, regardless of what we call it, and we fully realize that I guess the citizens of this State and the rest of the country are about up to their ears in federal income taxes, and I guess we do come to a point where income taxes also become prohibitive, and income taxes, when they become too high, kill the incentive to build. And then we must come, of course, to consideration of a general sales tax, and regardless of the fact that I represent 24,000 retailers who would be saddled with the burden of collecting a general sales tax, we must recommend as an association and as an industry that if it is necessary, to raise money year by year to meet the budget and to eliminate this pyramiding of taxes upon particular industries, regardless of what damage is done to the industry, the State must adopt a general sales tax.

We have this very year had a small emergency - well, maybe it was a big emergency.--I was caught in it and I thought it was pretty big - where the ocean overran our seashore, and as a result we have no balance in the budget, we have no surplus, and the Legislature had to adopt two taxes, an inheritance tax and an extension of racing for 30 days so that the poor people of Camden can't get home and can't conduct their business. This, in my opinion, along with the tax on cigarettes, tax on gasoline, and other specialized sort of taxes, should be eliminated and can only be eliminated by the adoption of a broad-based tax.

MR. ALEXANDER: Thank you, Mr. Lewis. May I ask you two questions?

MR. LEWIS: Surely.

MR. ALEXANDER: You have objection to the cigarette tax, at the present rate at least, because you think it is discriminatory against the people who sell cigarettes and also because it has reached a point of diminishing returns, the tax having gone up and the sales have not gone up as compared to sales in states where the tax hasn't gone up. Have I understood that correctly?

MR. LEWIS: That's right.

MR. ALEXANDER: The second thing is that you did say that you thought one would not object to paying a tax on net income, and then you subsequently said that you thought a sales tax was appropriate. Do you have any position in your organization as between a corporate and unincorporated business net income tax such as Mr. Brown suggested this morning, in lieu of the inventory tax?

MR. LEWIS: Well, we believe, as businessmen, that the tax on net profits or income would be more justifiable than a tax on inventory or a tax on gross profits. Inventory, as far as we are concerned, would be a tax on something which doesn't even exist, and we would certainly prefer a tax based upon net profits than a tax based upon physical inventory. In going back to the cigarette tax for a moment, I do not stand here to advocate, Mr. Alexander, the complete rescission of the cigarette tax, but I do think it should be put back to the level of 5¢ a pack which would put us in a position to compete with New York, Pennsylvania and Delaware.

MR. ALEXANDER: Are there any questions of Mr. Lewis? Yes, Mr. Yunich.

MR. YUNICH: Mr. Lewis, you are advocating a sales tax, as I understand it.

MR. LEWIS: Yes, in preference to an income tax, which I think has already reached such a high level on the national level that it would be an imposition to place another one on the state level. I think the fairest type of tax to raise the revenues necessary in this State would be a sales tax.

MR. YUNICH: Well, does your recommendation for a sales tax include a sales tax on cigarettes?

MR. LEWIS: No, sir. Cigarettes are now taxed at the rate of 7¢ per pack, and even if that should be reduced some day it still carries a very, very large sales tax. The tax on cigarettes is a sales tax. And every State that I know of, where a sales tax was adopted, they have always excluded those products which are now specifically taxed by the State, such as gasoline and cigarettes.

MR. LEUCHTER: What is the tax on cigarettes in New York and Pennsylvania? Is it still 5¢?

MR. LEWIS: The cigarette tax in New York State is 5¢ and the cigarette tax in Pennsylvania is 6¢.

MR. LEUCHTER: Another question, Mr. Chairman.

Mr. Lewis, could you tell us why the tobacco dealers prefer a sales tax instead of an income tax? I know some tobacco dealers as individuals; they live in New Jersey - a fellow like Tommy Angelo - he lives here; he is going to have to pay a sales tax if there is one. Why would he prefer to pay a sales tax instead of an income tax?

MR. LEWIS: Well, we feel that we are paying high income taxes now. We are paying a high federal income tax, and to put the load again on the same people who are paying a high federal income tax and just increase it by adding a state income tax to it would not be a better means of spreading the tax load among all the people than a general sales tax where everybody would pay a small part of the tax burden.

MR. LEUCHTER: Would I be wrong in suggesting that the average tobacco retailer or wholesaler would pay more - or hisprofit is such, his business profit or income is such that an income tax would cost him more than it would the average person in New Jersey? Is that why he is opposed to it?

MR. MONROE: Well, that's hard to say. We have all types of tobacco wholesalers and retailers. We have some that make a lot of money, and we have some who struggle along. But I again say that with the type of federal tax that we have today, we don't feel that it would be good business to impose a further tax along the same lines, another income tax upon the federal tax which now exists. I think what we should do is to find some other means of taxation in this State, some way of taxing according to capacity to pay, which is inherent in the sales tax.

MR. LEUCHTER: If I may continue, Mr. Chairman - wouldn't a state income tax hit all the residents of the State the same way; in other words, it is not just going to hit the tobacco dealers but all the residents, the same as a sales tax would.

MR. LEWIS: That's right, and we don't know, standing here right now, what effect a sales tax or an income tax would have upon the average person in the State. We can only conjecture from what happens in other states, but again I must repeat that we already have an income tax, although it might be federal, and if we have to choose between the two, our people would prefer a sales tax.

MR. ALEXANDER: Any other questions.

Thank you very much.

Next, the Superintendent of Schools, Jamesburg Borough School District. Will you please come forward, Mr. Griffith and Mrs. Chiara.

T H O M A S G R I F F I T H S: Mr. Chairman and members of the Tax Policy Commission, I am Thomas Griffiths, Superintendent of Schools of Jamesburg in Middlesex County and, with my Board President, Mrs. James Chiara, am here today to give you more or less a short overview of the educational financial status of our school district in Jamesburg.

We are a community of less than one square mile in area and a population of approximately 2900 persons. We have local industry employing about 40 people in two small factories. Such briefly is the geographic and I suppose we could say economic stability picture of the borough of Jamesburg, at least as far as the school district is concerned.

We feel that schools in a way are in a rather unique position at the present time. No other tax dollar perhaps is so directly and immediately responsive to voter control. I don't believe that ever before has the average tax-paying citizen been so largely concerned about tax money, as far as schools are concerned, as at the present time. I think perhaps that he is literally driven there because of the heavy tax burden and also partially because of the fact that he does have some opportunity over the control of the expenditure.

I believe that when we talk about a district's financial effort educationwise, what we are really discussing is the district's willingness and ability to pay for its educational program. Obviously, practically all of the school district's income comes from the taxpayer. It is quite evident in the case of Jamesburg, because of the lack of industry, that by far the greatest part of this tax rests with the homeowner.

In comparison with most of the school districts in Middlesex County, Jamesburg actually presents a picture of overexpending itself, perhaps, in its ability and its willingness to provide educational opportunities for its youth. We have the lowest equalized value per pupil in the county, in the amount of, roughly, $13,800. In fact, that is actually less than one-half of the county average of $29,000 equalized value per pupil. Also it is 50 per cent less in turn than the next lowest town within the county. In spite of the fact that our equalized value is so low, we stand second highest in the county in effort to provide good educational opportunities for the children and the youth of the community, based of course on the full value tax rate, using the market value rather than an assessed value, a replacement value. It also stands third highest in percentage of ratio of assessed to true value; in other words, our assessed value, the ratio of our assesed value to our true value in Jamesburg is approximately 33.7%, and in that case we stand third. But out of 25 districts within the county, we are next to the lowest in relation to the net taxable value.

Even though we have one of the lowest starting salaries for teachers in the county, we do extend quite a great effort toward the expenditure for salaries in that particular area, due to the fact that because of the longevity of service of the majority of the members of our staff - I would say approximately between 68 and 70 per cent - most of them are near maximum or are on maximum as far as the salary scale is concerned. In the event that Assembly Bill 140 should become law, it would mean that in Jamesburg our instructional costs would increase approximately 1.5 per cent over our current instructional expenditures as compared with .3% increase total-wise. As you can see, that again, I feel, would place a heavy burden upon the people who are responsible for trying to get the taxes to operate a school system within that particular town.

During the past February, the High School was visited by an evaluating committee from the Middle States Accrediting Association. The purpose, of course, was to find out about the improvement of the individual high school with regard to the services that it renders or offers to the youth of the community. The committee in this case, as in all cases, was entirely objective in its conclusions and I would like to quote just a sentence from their conclusions: "The visiting committee approves the school's philosophy and statement of objectives and commends the establishment of worthy goals of the educational program." We feel very happy and very pleased with that type of statement, but nevertheless the committee has definite statements of recommendations which should be incorporated into the system in order to provide a well-balanced program of studies. We lack entirely or need greater impetus in the following principal and critical areas of the school curriculum. This, of course, is according to the recommendations of the evaluating committee:

1. The institution of an art course at the earliest possible time.

In other words, currently and for a number of years we do not have any art course as such in the Jamesburg School District.

2. The music program should be enlarged and strengthened.

3. A third year of existing foreign languages should be added.

4. Science laboratory facilities be modernized and used to greater extent and to better advantage.

5. The Industrial Arts program be strengthened.

6. The possibility of a broader program for the terminal student be explored.

7. Consideration be given for a possible addition to the physical facilities in order to expand the program of studies.

The additional facilities outlined above must of necessity add to the present tax burden of the people of the community. Under the present tax setup, it becomes practically an impossibility to follow through with the recommendations outlined, placing a burden upon the people that is entirely out of line.

We feel the educational opportunities should be expanded to include those areas which in many instances may be terminal for many of our high school graduates. I believe that we also take no issue with the fact that Assembly Bill 140 should not become law, but we are cognizant of the fact that unless a broad base tax of some sort is instituted in the immediate future, to comply with the aforementioned areas would be an impractical and impossible situation in our own school district.

Now, I must say this to you, gentlemen and members of the Commission, that Jamesburg does not represent an area in which there is going to be an excessive amount of growth as far as the district itself is concerned. We are and will be confronted with a growth perhaps in our surrounding township from which we receive high school pupils, but we felt that it possibly would possibly present a different impact and overview to you folks if we were to come to you and say that we are expending a good amount of money, we are giving to education a maximum amount, but yet we are not coming here and saying to you necessarily that we need more money because, first of increased growth, or because of being in dire straits, as far as excessive growth in population is concerned. We do feel, though, that the State should provide more financial aid and support to the local school districts and we feel that a broad-base tax of some sort may be the answer to that question.

MR. ALEXANDER: Thank you very much. Could you tell us the number of your teaching staff and how many of them are not fully certificated?

MR. GRIFFITHS: Yes. We have on our teaching staff 48, and one of them is not certificated; one is working on emergency certification, and 47 are properly certificated.

MR. ALEXANDER: Are there any further questions to be put to Mr. Griffiths?

Mrs. Chiara, are you going to speak to us?

M R S. C H I A R A: I have only one or two sentences to add to Mr. Griffiths' presentation before the Tax Policy Commission, and that is that at the present time we are spending per pupil $438 per year, which is above the county average. Secondly, while we do not presume a very large increase in pupil population, the indication that Mr. Griffiths gave you concerning the Evaluation Committee Report indicates that we must of necessity add to our present building and our present staff to incorporate these recommendations. We have reached almost the limit of our bonded indebtedness because 2 years ago we built a new elementary school, so this puts us in a rather dire situation. We felt it was only fair to present to you the type of community in which there was no large pupil population increase but again a community which is, based on the amount of valuation behind each pupil, doing an exceptionally good job in terms of tax effort to provide a good educational program for its children. We ask you to seriously consider a broad-base tax for state school aid.

MR. ALEXANDER: Thank you.

The remaining witness, if he is here, is Mr. Mark M. Jones of Princeton.

M A R K M. JONES: Mr. Chairman and gentlemen of the Commission, my name is Mark M. Jones; my address is Carter Road, R D 2, Princeton, and I appear here to give you a little diversion. I thought it might perhaps be in order to try to say a few things in the public interest, and I do so by concentrating on the subject of what I call "New Jersey's Overhead Expense." The paramount economic problem to which thoughtful persons of New Jersey should address themselves is not taxation. It is not digging up more money up through government for spenders to spend. If this proceeding is based on any such assumption, it is badly biased and prejudiced against the public interest. The principal challenge to this Commission is to prove that it is something more than a brainwashing device, the purpose of which is to prepare the public for more spending.

The paramount economic problem of New Jersey is excessive overhead expense. This occurs in the form of government expenditures. The total of these expenditures now requires financing approaching $6 billion a year - six thousand million - four billion federal, two billion state and local. It means there is too much nonproductive expense to be carried by production and the income of the people of the State. It results from too much spending by 1,217 governmental units within the State, which are spending almost two billion dollars a year. It results from too much spending by the state government, which requires revenues of over five hundred million dollars a year to finance expenditures considerably greater. There are too many kinds of taxes. The taxes are too high. The key problem is the same almost everywhere in the world - overspending by government and overtaxing. This has come to represent the biggest racket in the world.

The New Jersey part of the problem is but one part of a nation-wide degenerative trend. It is the same kind of trend that was a primary feature in the decline and fall of 19 of the 21 civilizations which long ago disappeared into history. In each case the pyramiding of nonproductive expenditures through government was piled up so high that it shackled and strangled everything productive. Overhead smothered production and initiative. The same thing is going on all around us today.

Political excess in the form of overspending is a form of cancer that has been developing for a generation. It has been camouflaged somewhat by the word "inflation." Notwithstanding the fact that the primary causes of inflation are all in government, the word "inflation" is used as the alibi of government for continuing to throw spending gasoline on the spreading flames of inflation. In effect, we are being told that we must have more inflation because we have inflation!

The first and foremost cause of inflation is government expenditures. 102,000 agencies of government in the United States are now spending at an annual rate of $173 billion. This does not represent the entire overhead expense of our muddled and wobbling economy. However, it does approximate 40 per cent of the national income. Against this, there is no reason for believing it possible to have a going-concern economy and maintain the scale of living of the American people for long if the overhead is even 25% of the national income. An economy is automatically in liquidation as soon as the overhead approaches 25% of the national income. Of course, the economics professors don't know this, but that is not all that they don't know.

The second cause of inflation is government intervention and control of economic activity. In the case of the federal government, the Hoover Commission in 1954 reported there were 2,133 boards, bureaus, commissions, committees, etc. Many have been added since. Proposals recently were pending to add 69 more. What must be stated along with the Hoover Report is that most of these artificial instruments interfere with the market system, mess up the price system, increase the cost of doing business without justification, and, in all but a very few cases, each completely loses any reason for being in terms of the public interest a short time after it is created. Keeping artificial instruments beyond the point where they have a reason for being is the principal reason why they degenerate and take on the characteristics of Socialism.

The third cause of inflation is the federal income tax. It ought to be called the Communist income tax. It is an idea that was put forward by Marx and there is no reason to believe that the scale of living of the American people can be maintained or advanced on the basis of an income tax. Even the Russians know this. There is no reason for believing that a going-concern economy can be maintained on the basis of a graduated income tax - a device of automatic degeneration.

The fourth cause of inflation is the unbalancing of the division of the product of industry. It arises mainly from political vote-buying attempted by means of legislation which grants subsidies of privilege to labor monopolies. One result is that a disproportionate amount of the product of industry goes to labor and an insufficient proportion goes into the process of capital formation. The national economy therefore tends increasingly toward economic anemia. It suffers from effects similar to economic bloodletting. To say that this is due to economic illiteracy on the part of politicians and labor leaders is of no help. The degeneration continues just the same and, regardless of intentions, good or bad.

The fifth cause of inflation is monetary policy. The control and manipulation of the money supply is in the hands of the federal government. This control has been exercised in a manner which has contributed much toward the creation of the present position. Manipulation of the money supply during this generation has not been in the national interest and plays a leading part in inflation.

The last primary cause of inflation is the thought-control system. By this means, the syste m of communication of the country is used by politicians to exercise the initiative for the purpose of brainwashing the people. Merely by repetition and blacking out the real truth, delusions are produced and an artificial and synthetic public opinion is established. This has been a leading factor in establishing and maintaing the general program of demoralization which has been operative not only in politics but in all of the other principal categories of life.

It is time the people realize that what they confront is really a system of political sabotage or betrayal. All of the noteworthy causes of social, economic, and political degeneration arise in government. The effects, however, are something different. They come to rest on the people. They hit you in a place so fundamental and important as to determine your future. This is because the political chicanery undermines and destroys the value of the money. It has happened over and over again.

Governmental policies imposed upon the people of the United States by politicians within one generation (since 1932) have destroyed most of the value of our money. As of a recent report of the U.S. Department of Commerce, the purchasing power of the dollar at consumer prices was down to 44.6 cents, considered on a 1939 basis. In other words, the politicians, politics, and political maneuvering has destroyed 55 cents out of each dollar of value in the money of the people of the United States just since 1939. If you go back to 1933 when one of the greatest political steals in all history was perpetrated - the devaluation of the dollar in terms of gold - the value destroyed probably approximates 75 cents. Thus the dollar of 1962 is probably worth less than 25 cents.

Although much more should be said with respect to what should be the economic policy of New Jersey henceforth, time will permit reference to but a few aspects of that subject. First, New Jersey does not exist in vacuo. It has competition. Its competition has not been doing very well. Before thinking about following in the footsteps of our competition, we ought to see what the competition has done to itself. I therefore propose that, before any conclusions are attempted, a study be made as to just what has happened in Pennsylvania, Michigan, New York, and a few other states, and of the effect in their experience which might be pertinent to New Jersey. In other words, what caused Pennsylvania to drop from one of the leading states in the number of gainfully employed to a position way down the list? What are the causes of Michigan's tottering on the verge of bankruptcy? Where is the mad squandering of billions by the State of New York taking it? Certainly we should not just blindly repeat the mistakes of our competitors.

Second, I think it should be established with impartial minds that the present scale of expenditures of the State government in New Jersey can be justified. The opinions of politicians and officeholders on this question do not reflect an ability on their part to interpret the public interest. With 153,000 local government employees, 35,000 state employees, and about 55,000 federal employees in New Jersey, there are enough spenders (243,000) to make a lot of noise. The kind of study needed should be made by non-professors and non-politicians and should be directed toward ascertaining whether at least $50,000,000 per year can be cut from the present scheme of spending of the state government, without wrecking anything or destroying the future.

Third, it would be timely for responsible persons who do not have an ax to grind to point out to the people the nonsense implicit in that propaganda shibboleth with which the spenders are spraying us - the need for a "broad-based tax." There is no such need.

Fourth, the time has come to do something intelligent about public school education. For years we have submitted to typhoons of propaganda and brainwashing by the spenders. Public school education no longer can be taken for granted. There is plenty of evidence to indicate that it does not serve public purposes which justify the present coercive financing through taxation. There is plenty to indicate that public school education is not worth what it costs. There is some evidence to indicate that it could be made much more effective, but I am sure that this will not occur if change is left to the educationists. In the meantime, this new racket called State Aid to Education should be checked, and the amounts being thrown away in that direction should be reduced at least fifty million dollars a year.

Fifth, another very important sector in which the chickens of political mismanagement are coming home to roost is transportation. First, politics regulated and taxed the railroads to death. Now they tax the people to offset the financial consequences to the railroads which were caused by them in the first place. The situation is ridiculous and an insult to intelligence.

Sixth, the highway situation probably represents the most backward area of political management in New Jersey. This does not mean the Highway Department. It refers to the totally inadequate policy of the State in ignoring the actuarial necessities of such a service. The threading of highways is not a problem of government; it's a problem of managing a service. Thinking in this area is most archaic because it is mostly political and unrealistic. It has its bearing on the unnecessarily high expenditure total of the State.

Seventh, in these matters we must sooner or later face up to a history which shows that the people we have been relying upon as tax experts cannot be taken seriously. What they have been giving us has at best been little more than half-baked. They have ignored half of the subject - the tax base. In other words, there are two fundamental sets of factors involved in sound thinking about taxation. One has to do with the revenue side, including the kinds of taxes and the rates. The other has to do with the tax base, or what is to be taxed. Rational attention to the problem involved calls for a careful balancing of one against the other and the maintenance of some sense of proportion. For a generation at least, this has not been done. In order to keep an economy going, you have to keep the tax base growing. The so-called experts don't seem to have found out how to do this yet.

Finally, I submit that a question which should be given consideration before any question of expenditures or taxation is: What should be the chief features of economic policy of the State of New Jersey? This would include how to define and measure the overhead expense of the economy and how to regulate it in the interests of maintaining a going-concern economy. Fundamentally, gentlemen, we have an economy in liquidation.

Merely because the federal government and other states have been careening recklessly down the crooked path of political degeneration is no reason why New Jersey should do the same. Why should New Jersey spend six billion dollars a year on nonproductive overhead? There is an unparalled opportunity for it to be different and to make some contribution toward stopping the mad flight toward the destruction of the value of the money of the United States and putting the entire country into the hands of political receivers.

If the people having the initiative in political affairs in New Jersey show that they are sensitive to such considerations, they will in part justify the faith represented by the enormous investments of those who have put their capital to work in New Jersey during the past generation. If they don't, they will start a movement which first will slow down investment in New Jersey and then start an exodus of capital to places where there appears to be a better prospect of political responsibility.

Gentlemen, the remedy for too much of something is not more of the same thing. Thank you.

MR. TOOLAN: Mr. Chairman -

MR. ALEXANDER: Mr. Toolan.

MR. TOOLAN: Mr. Jones, are you speaking on your own behalf or on behalf of anybody else?

MR. JONES: Not on behalf of anybody but myself.

MR. TOOLAN: And would you mind stating for the record what your profession or calling is?

MR. JONES: I have been a professional economist for 50 years and have worked for the larger corporations, the government, and for various interests, the Rockefellers and people like that. I have been in an unusual position in that I have been perhaps called upon to spend more of other people's money and time on studying how to organize and manage the national economy than anyone else that I know of - not that I have found out too much about it, except that I have found out a great deal about what is wrong. I wish I knew how to repair it. I don't. I can only come along and hope to sound this kind of note of warning, because this substantially is what I am going to say whenever I get a chance from now on in the State of New Jersey. I think the time has come when we have to face the fact that we left entirely too much to politics and politicians and, while I have great respect for many of them as individuals, I think as a profession they have not made a very good record, and I think we ought to do something about it.

MR. TOOLAN: Whom do you think we can turn it over to?

MR. JONES: I don't know. I don't see anybody who would be satisfactory right now, so I think the main thing we should do is to try and get the men we have to use better ideas.

MR. TOOLAN: Do you have a copy of your statement?

MR. JONES: Yes, I have.

MR. TOOLAN: I wonder if you would send to the Commission a little historical statement with respect to your background, training -

MR. JONES: Well, it's in Who's Who. I can send you a more elaborate description if you wish.

MR. TOOLAN: I beg your pardon.

MR. JONES: I say, it's in Who's Who in America. I can send you a more elaborate one if you wish. It can be made as elaborate as necessary.

MR. ALEXANDER: Are there other questions of Mr. Jones?

DR. ASHBY: I have one. Would you say, Mr. Jones, that the State University is non-productive?

MR. JONES: I would say from an economy standpoint and the standpoint of maintaining the actuarial basis of the economy, you would have to consider it so. I don't say so in a sentimental sense; that is, I think it has value within limits, although I happen to have spent a great deal of time and money on x-raying universities and I would have a great deal by way of reservation about them. I don't say that they are worth what they cost either.

MR. TOOLAN: What standards are you using when you state that they are not worth what they cost, meaning , for instance, the State University?

MR. JONES: Well, the elementary standards of economy, and that is, first, results. You take what results you expect or what results they project and you measure them on the basis of what they have achieved. They don't even set up criteria by which they can be judged in public school education. I might say that I have had to battle this subject philosophically behind the scenes for 30 years with the great gods who turn loose most of this hooey that is put out in justification of present public school education. I know them personally, and they are all united on one propaganda shibboleth; namely, there is nothing the matter with public school education that more money won't cure. And that is not so and never was. But you can go down the line and make a regular scientific assessment of public school education if you want to and they will not pass on very many of the criteria that you would use.

The thing that is needed is for someone, who is not an educator or a group who are not educators, to sit down and design a program of education for the public schools that would be in the public interest. I don't mean to say that the educators should be ignored. I think that they should be considered. Most of them are well-meaning and well-intentioned. But the whole setup is in a degenerative trend and it seems impssible to get it out of it, and I don't think we should go on pouring more money into it until we find a way to fit it to what is needed, and you have got to arrive at a conclusion publicly as to what you need, what you want for public school education; you cannot leave it to the experts and the National Education Association or a Teachers College, or to the U.S. Bureau of Education.

MR. ALEXANDER: Could I ask you, Mr. Jones, is there a public school system anywhere in this country that you think measures up to the standards that you believe in?

MR. JONES: I don't know. I haven't made a special effort to look into it. I have had to do with several thousands of projects and organizations so that I seldom have a chance to go back and see whether this has happened. So I couldn't say whether there is or not. I have no doubt there might be. I once was Director of Personnel for Thomas Edison at Orange many years ago. He said one thing that always impressed me, and that was that he had found at one time at seven or eight places in the world different people had about the same idea; in other words, an invention was seldom entirely original and exclusive to that one person - the same thing happened somewhere else in the world without the knowledge of any of the parties. So I would say that there are many other people who would have these same ideas, because what I am talking about is just elementary organization engineering and, of course, education is the last bulwark and they have resisted it for 40 years that I know of. I personally had to X-ray universities and colleges and many schools myself, so I can tell you that this kind of elementary thinking has not yet been taken up and has not penetrated education. They have dug in behind academic freedom and a lot of other devices designed to really conceal or keep them from the necessity of really thinking.

MR. ALEXANDER: Thank you very much.

Are there any other questions of Mr. Jones?

[No question]

Well, I believe, then, that this will conclude the hearing this afternoon. I want to thank everybody for remaining within the time. I also want to say that we will convene again tomorrow morning at 10 o'clock, same place.

(HEARING ADJOURNED)

Steps to cope with these conditions will greatly increase the cost of public education, but unless there is state assistance only the taxpayers of the core cities will have to pay the bill. Finally, increased aid should be given those cities that furnish free library services to suburbanites. In the case of Newark, the city's excellent museum is open to all and should certainly receive broad financial support from its entire service area. In summary, whereas a half century ago the rural areas needed special State assistance and participation, the need is now in the core cities. The only effective method of ending the vicious cycle in which cities are enmeshed is for the State to pay its fair proportion of the costs of these services.

Furthermore, the social functions of health, welfare, hospitals and special education as well as highways are truly State responsibilities. The State has recognized its responsibility by requiring municipalities and counties to assume these functions. Yet the State has not matched its concern for these problems with any adequate assumption of financial responsibility on its own part.

Recently the State has shown a very tangible concern for the devastation caused the New Jersey shore-line by the March storm. I agree that New Jersey should take steps to assist those unfortunate areas. Nevertheless, I contend that a State program to help urban areas overcome their physical and economic erosion should be of much more vital concern, since it would affect many times as many citizens, many of low income and unable to help themselves.

In addition to their inadequacy, present state aid programs have another serious defect. A few years ago State school aid was considerably increased.

This had the effect of holding down local school taxes for only two years. The reason -- the program was for a fixed dollar amount, which means an ever-decreasing percentage of state revenues in a growing economy. Another example -- State aid to municipal and county roads, fixed at actual dollar totals, amounted to 28% of the State's gasoline tax and license fee revenues in 1951. In 1961 it amounted to 9.5%. New Jersey should follow the example of most other states and provide that a certain percentage of State revenues shall go to its various aid programs. In this way the State will continue to pay its proper share of these ever more costly governmental services.

My final points are in the interest of the overtaxed homeowner. Taxes on residential properties in core cities, already too high, became even higher under the mandatory revaluation program, with the result that they are now almost unbearable. The most direct and effective method of providing relief would be through a homestead exemption law. This would be an important inducement to hold homeowners in the city and for our central cities to survive these people must be retained. Furthermore, lower taxes would provide a major stimulus to neighborhood rehabilitation and conservation, key factors in urban renewal. Another major reform would be the establishment of uniform, county-wide assessments by qualified assessors. The reasons for this move, equity and efficiency, are just as compelling today as they were when I brought them to the attention of the Commission in 1957. This would be a real step forward in bringing order out of the chaos that is now the New Jersey property tax system.

In conclusion, I wish to assure you of my support and of the support of the City of Newark as you carry on your deliberations. Yours is the most momentous task now being performed by any agency of the State of New Jersey. I wish you the greatest success.

MR. ALEXANDER: Thank you, Mr. Mayor. Are there any questions by members of the Commission or the Advisory Committee?

Thank you very much.

The next witness will be the representative of the New Jersey Congress of Parents and Teachers.

Would you come forward.

This is Mrs. Kenneth W. Lathrope.

MRS. KENNETH W. LATHROPE: I am Mrs. Kenneth W. Lathrope, President of the New Jersey Congress of Parents and Teachers which has a membership of 486,492.

This organization for many years has had a great concern for the manner in which public education is financially supported. It was among the first groups in the State to recognize the need for a change in the tax structure and to actively endorse and publicize the concept of a broadened base tax for school support in New Jersey.

The New Jersey Congress of Parents and Teachers is primarily interested in children and schools. It believes in and wants good schools, the kind that do something important to and for our children, and prepare them for a world which contains Laos, the Congo, Fidel Castro, Mr. Khrushchev, space travel and the hydrogen bomb.

New Jersey has, on the whole, good schools, many that are excellent. Unfortunately, however, it also has some that are not as good as they should be. Here are some of the very obvious reasons for this condition which concerns our membership:

Parents are greatly concerned to note that New Jersey schools are using far too many teachers who do not hold standard State certificates for their positions, and that this number is increasing every year. We know why, of course. There has been a shortage of qualified teachers just when our schools were growing fastest. Most communities would be able, however, to find fully certified and qualified teachers for their classrooms if they were able to pay high enough salaries.

Parents are concerned also at the number of pupils on part-time. Some part-time situations are, perhaps, inavoidable - the result of sudden growth. Most of them are not; they came from poor planning or the fact that communities did not have or would not vote the money to build needed schools in time. This is also true of the thousands of children going to school in what our State Department calls substandard classrooms.

There are many other school conditions which make parent-teacher members unhappy. Let me just enumerate a few without comment. Oversize classes, inadequate administrative supervision, insufficient libraries and library books, absence of student guidance departments, substandard health and recreation programs, elimination of cultural arts departments and many more.

We have seen these items reduced in school budgets even before they came to a vote; and cut still further after budgets were defeated. We know the reason, of course, was because the local property taxpayer could not afford to provide the necessary funds. We also know, because we have looked ahead, that even more pupils will be in our schools over the next few years. It is going to cost money just to keep our schools where they are. But this is not enough; we think they should be better yet.

School budgets and bond issues have been voted down largely because the taxpayers feel unable to pay the higher local property tax. We see no signs that they are unwilling to pay fair taxes for good schools. We are convinced that the biggest roadblock in correcting school conditions which need correction and to making funds available to meet inevitable increases in school costs is our present system of raising school money - inadequate state school aid and too great reliance on local property taxes. Therefore our organization believes there is a need and now is the time for major changes in our state tax system.

Because New Jersey already has almost the highest property taxes in the Nation, and such taxes now involve wide inequities among taxpayers and with this system, almost every increase in school costs forces these local property taxes even higher; and because cost of education will continue to rise and a substantial increase in state school aid is the only practical way to assist local districts to meet these rising costs; and because adequate state aid for education, as well as other areas of state responsibility cannot be forthcoming under the present tax structure we urge the recommendation of a broadened tax base.

Thank you.

MR. ALEXANDER: Thank you, Mrs. Lathrope.

Are there any questions?

I believe not. Thank you.

The next witness will be the representative of the New Jersey Manufacturers Association.

H. RUSSELL BROWN: My name is H. Russell Brown. I am Assistant Treasurer of John A. Roebling's Sons Division of the Colorado Fuel & Iron Corporation, and appear here in my capacity as Chairman and spokesman for the Committee on Taxation of the New Jersey Manufacturers Association, which currently enrolls 12,000 employer members in New Jersey.

The Commission on State Tax Policy has been directed by Joint Resolution 5 to "undertake a comprehensive re-examination of the entire State and local tax structure and of the tax resources of the State and its political sub-divisions to determine to what extent the existing tax structure should be modified." To insure equity between the needs of government at all levels and the financial resources of both business and private taxpayers, the Commission bears a heavy responsibility. Most everyone now recognizes that New Jersey faces major tax problems at both State and local levels, and that no sound solution can any longer be based upon a piecemeal or year-to-year approach.

In its Committee sessions held over the past several years, and in its expressed policy statements,N.J. Manufacturers

Association has sought to strike a balance between the interests of business and industry and the economic well-being of the State's citizens. Such interests are basically one and the same. As industry prospers in New Jersey, so do those whom it employs. Paychecks and salaries are spent, largely in New Jersey where these people live, and the grocer, the auto dealer and salesmen <u>all</u> prosper. If an industry or plant leaves New Jersey, we all suffer.

Our courts, our labor leaders, and our Governors have all spoken out in recent years about the hodge-podge structure and inequality of taxes in New Jersey. Every property owner knows that our local property taxes are close to the highest in the nation, and that any further substantial rise of costs in that direction cannot be tolerated. We know that our courts have time and time again hinted and directed that tax equalization must be achieved. Leaders of organized labor have indicated well-founded concern about the need for serious labor-business-government consultation to create a program which might retain and attract job opportunities. Governor Meyner stated in 1959 that 40,000 new jobs must be created and found in New Jersey each year to meet the needs of our expanding population. Chances to achieve the growth necessary to create new jobs are seriously impaired by heavy taxes now imposed upon the New Jersey business community, particularly upon business personal property. Governor Hughes is on record that he "doesn't care much" for the taxes imposed on business personalty, and recognized at a press conference held on March 13 of this year that the business personal property tax was "a general headache to small business."

We have all heard much recently about product competition from abroad, but have paid too little heed to the keen competition for industry and jobs New Jersey faces from its neighboring states.

Industrial development experts, while vigorously proclaiming all of New Jersey's advantages to industry, must concede two important deterrents to location here which send jobs that could easily have been New Jersey jobs to our neighboring states of New York and Pennsylvania. One is the fact that both states have publicly-financed industrial development authorities offering easy financing for new industry. The other is the fact that neither New York nor Pennsylvania taxes tangible personal property used in business. In other words, a company contemplating a major investment for a new plant in one of the three states would find in New Jersey very high property taxes on his machinery, equipment and inventories as compared with none assessed in the other two states. It takes a lot of other advantages to offset this local tax factor.

No better demonstration is needed of the inequities that exist in the assessment and taxation of business personal property--machinery, equipment and inventories--than the recent experience under Chapter 51 of the Laws of 1960. For two successive years, this ill-fated effort to reform property taxation has been delayed because of taxpayer resistance. Despite efforts to make Chapter 51 as palatable as possible, the complexities involved in equal assessment and taxation of business personal property are almost insurmountable. It is the belief of the Committee on Taxation of the New Jersey Manufacturers Association that the provisions of Chapter 51 that apply to business personalty cannot be <u>repaired</u>, but instead must be <u>replaced</u> through a completely new approach to the subject.

To the extent that the needs of government at all levels for additional revenue can be justified, and to make the chore of paying taxes less onerous, if possible, for <u>all</u> of us, New Jersey Manufacturers Association recommends a fundamental reorganization, based upon preliminary study, of State and municipal tax structures and sources of receipts as follows:

1. Increase the State corporate net income tax rate from the current 1-3/4% to 5%, and at the same time consider a revision of the sales allocation formula so that it no longer penalizes New Jersey producers.

2. Tax the net income of unincorporated businesses operating in New Jersey at the same new rate -- 5%.

3. Legislate a limited sales and use tax, at a rate which may range from 1% to 3%, as may be found necessary, to produce revenues the need for which can be justified.

For the continued prosperity of all of us in New Jersey, these new taxes are advocated to be imposed only upon condition that the following deterrents to expansion in our State are eliminated:

1. The current local taxes on business and farm personal property (inventories, machinery and equipment).

2. The tax on net worth of corporations.

According to the best official figures available, the fiscal results of the changes we suggest would be as follows:

New revenue from		
a) Increase of corporate income tax from 1-3/4% to 5%		$ 49,500,000
b) 5% tax on income of unincorporated businesses, not now taxed		12,500,000
c) Limited sales and use tax at a 2% rate, if necessary		110,000,000
Total new revenues		$172,000,000
Loss in revenues from repealed taxes:		
Business and farm personal property taxes	$ 91,000,000	
Less recovered through substituted utility tax (see page 7)	19,000,000	
Net Local Property Tax Loss	$ 72,000,000	
Tax on net worth of business	34,000,000	
Total to be replaced		106,000,000
Net increased revenues from proposed changes		$ 66,000,000

In recommending this suggested program of basic tax reform we do not retreat from our long-recorded urgings of the need for all possible economies in State and local government. We continue to insist that every need for a dollar in tax revenue, derived from whatever source or for whatever purpose, be fully justified and documented. We recognize that demands for expenditures at the local level are pressing, but no more so than the need for relief of property taxes imposed at the municipal level. If any such program as we suggest is adopted, taxes now received for local use and eliminated must at least be replaced, and more, by the adoption of an appropriate formula for the return of new taxes, collected and paid to the State, for municipal use.

There will be advocates heard who favor a broad based tax, if needed, upon incomes rather than upon sales and use. They would have you adopt such substantial personal exemptions as to make the base of the new tax they advocate less than broad, and to so reduce its production of revenues as to make it less than a solution to any problem which may exist.

A sales tax, if needed, can and should be so fashioned as to make its impact general, but still least upon the citizen less in position to pay. Certainly necessities such as food purchases for home consumption and medicines and drugs should be exempt, and our income production figures are so calculated. The loss of revenues which would follow the exemption of other purchases would have a bearing upon the rate of tax which would be imposed. Rent payments, gasoline and cigarettes would be exempt from any such tax. The impact upon local business should be weighed against the imposition of any sales tax upon hotel occupancy and the considerable tourist revenue to be derived therefrom. Whatever the ultimate decision with respect to exemptions from any such tax might be, it should not provide for exemptions so different from those allowed from the sales taxes imposed by our neighboring states or cities as to drive business, and revenues, from New Jersey.

If needed as a new source of revenue, a sales tax is preferable to any exemption-laden, form-consuming State income tax because

a) The exemptions from a sales tax encompass many of the fundamental expenses of those in low imcome brackets;

b) Business interests would also be paying the sales tax; and

c) The burden of collection, record keeping and administration is less upon the individual and the State, and must be borne primarily by the businessman.

Taxes on business inventories held in New Jersey, and on business machinery and equipment are a major deterrent to our economic growth. Exemptions provided by recent laws for "raw material," for example, have caused the knowledgeable personnel of the State Division of Taxation and hard working advisory committees many headaches in attempting to draw lines, suggest definitions and draft regulations. On June 30, 1958, New Jersey Manufacturers Association went on record before the State Senate that the personal property tax on business inventories, not imposed by either New York or Pennsylvania, was "one of the most serious deterrents to industrial expansion in New Jersey," and recommended that it should be abolished. At that early date we suggested that the need for property tax relief was such that "a limited sales tax be imposed as a replacement tax". On February 11, 1959, we again recommended to the Legislature that the proposed tax on business inventories not be enacted. On February 17, 1960, we urged the need, under pressure of court decisions, to come to some conclusion promptly. While stating that "Assembly Bill 198 does not concede most of the objectives sought by our committee", we suggested that its enactment seemed to be "the most practical solution offered to date".

The replacement formula envisioned by the Ninth Annual Report of the Commission on State Tax Policy was not completely followed in the enactment of Chapter 51 of the Laws of 1960. The problems since discovered and still not fully solved convinced the Legislature that a second postponement of the effective date was necessary.

In suggesting that taxes on all tangible personal property used in business be repealed we have had in mind the necessity to maintain equity of the tax burden, and to preserve existing tax revenues, where proper. Although most public utilities are taxed on their gross receipts rather than personal property, a few -- primarily telephone and telegraph companies -- still pay approximately $19,000,000 each year in business personal property taxes. If such taxes were abolished, the Commission might wish to recommend that telephone and telegraph companies could be required to pay a replacement tax at a rate sufficient to produce tax revenue in line with that now derived from personal property.

Lest it be said that we, as representatives of business, seek tax relief at the expense of others, may I revert to my initial recommendation that the tax on net profits of business operations be substantially increased and expanded. In urging that certain taxes on the business community be eliminated, and that other taxes at considerably higher rates be imposed, we express conviction in the theory that necessary revenues should be derived in the most equitable manner possible. Taxes which must be paid by both incorporated and unincorporated businesses alike should be attuned to economic activities indulged by each taxpayer in each year.

Our suggestions comprise a tax package. Higher taxes cannot properly be imposed on business net income without relief from heavy local taxes now imposed upon business personal property. If these suggestions, coming as they do from an employer organization, may seem revolutionary, it should be remembered that employers, too, are people, and that New Jersey Manufacturers Association speaks for a group of employers most of whom employ less than twenty-five persons. For a small employer, the substitution of a business income tax that could be filed simply by using his federal return as a guide in place of the still-complicated report form and unpopular tax required by Chapter 51, would provide a substantial relief.

The objective of our package proposals is two-fold:

First - To place the cost of government on a sounder and more equitable basis, and

Second - To give impetus to industrial development, and thereby create new job opportunities in New Jersey.

Any move to adopt only part of the proposal would do violence to the attainment of these objectives and serve to worsen the present situation.

In your conduct of this basic review of governmental needs for revenues and study of practical sources from which to raise them, New Jersey Manufacturers Association stands ready to render any service sought, and to cooperate in every way.

MR. ALEXANDER: Thank you very much, Mr. Brown.

I have one question that I would like to ask and I think Senator Dumont will have a question, and perhaps others.

I wonder if you would be a little more specific regarding the formula or method that you would use in case of elimination of the personal property tax in making the municipalities whole or better.

MR. BROWN: Well, as you might guess, Mr. Alexander, I do not know the answer. And the method of getting revenue from the State level down to the municipalities would be a difficult one but one which I know is solved in most other states.

Any state that has a sales tax or a personal income tax knows a lot about that. I must admit that we do not have an answer to that and I don't think the State does.

As an example, we are currently sending school aid down on a formula and I think one could be developed.

I don't want to attempt to say that in a change of taxes that some people won't get hurt because if you are going to create equity in taxes somebody has to get hurt and somebody has to benefit. The fact that some people get hurt in a readjustment of New Jersey taxes does not make that method anything improper.

So that I do not have any solution to that and I admit that is a major problem, but one which could be solved through, I think, the Division of Taxation. I expect they would come up with a solution and I am sure the Legislature would have some ideas.

MR. ALEXANDER: Speaking of that, Senator Dumont.

SENATOR DUMONT: Mr. Brown, on page 8 of your report you talk about the "unpopular tax" required by Chapter 51. And at this point I want to correct that right now.

There isn't anything about Chapter 51 that requires a new tax. Now some of its opponents misrepresent the Chapter to the effect that they said it did require a tax. It doesn't. We have had inventory taxes and machinery and equipment taxes in New Jersey for years. So that when you say an "unpopular tax required by Chapter 51", I think you ought to clarify it to be sure that the people understand that this doesn't require anything different from what we have had in New Jersey for many years.

MR. BROWN: Senator, I hope you didn't include me in the ones that indicated it. The word "unpopular" may very well be unpopular with a lot of people who are going to have to start to pay for the first time. I agree with you, 100 percent.

I will not retract that it wasn't unpopular because it apparently was unpopular. It was not a new tax. We have had a tax in New Jersey long before my career in the tax business started, and I think your's and a lot of others on personal property taxes, that has been administered very inequitably.

Chapter 51 was an attempt to administer it in equity. It was unpopular partially because of the difficulty in filling out the form, partially because a lot of people for the first time were going to be forced to pay a tax.

I don't know whether I have answered you or not. It was not a new tax. It was actually a method of assessing a tax that has been in existence for many years.

SENATOR DUMONT: Well is there anything wrong with trying to distribute over people who didn't pay the tax before but who should have paid it, and making them pay their fair share?

MR. BROWN: I must admit to you that if we are going to have a personal property tax in New Jersey I very much want it administered equitably and properly.

SENATOR DUMONT: Isn't it true that members of your Association were among the foremost in the group that wanted each year the postponement of Chapter 51 for another year?

MR. BROWN: I would say that our Association finally urged our first proposal this year -- by the way, last year our Association - I am talking now not about 1962 but 1961 - I knocked my brains out going around the State working with the Division of Taxation and with assessor groups to acquaint the populace, and I will be satisfied to defend what the New Jersey Manufacturers Association did. We did not have anything at all to do with the postponement of the tax last year.

This year, in desperation, we called on the Legislature to vote on the bills. The year before, the postponement took place after everybody had forms and we spent a great deal of effort trying to acquaint the population of the State with completing the forms.

This year we first urged consideration. We did not urge postponement. Finally, after an avalanche - we have 12,000 members -- after an avalanche from those people, some of whom may have had ulterior motives in not wanting to pay the tax, urging us to work for postponement, we said to our members, "If you believe in postponement, contact your legislators." We did never actively call for postponement.

SENATOR DUMONT: In the course of replacing the business personal property tax - and let me say that I agree with you so far as the inventory tax is concerned. I think it's a bad tax and ought to be eliminated and replaced. But when you replace that, as you propose, and the business machinery and equipment tax - most of this I note, or rather a portion of it would be replaced out of any change in the tax structure in regard to business. So obviously you would expect that a portion of a broadened tax base, if one were adopted, would be used to replace business personal property taxes. Is that right?

MR. BROWN: That's right.

SENATOR DUMONT: And you are asking here for the elimination of all business personal property tax, not just part of them but all of them. Is that correct?

MR. BROWN: That's right. I want to make that clear that in addition to inventory there is machinery and equipment. That's what New York and Pennsylvania do. They do not tax machinery and equipment.

If you don't mind, I would like to say one other thing on that machinery and equipment tax. The statistics are just not available in New Jersey as to the taxable value of machinery and equipment in New Jersey.

Now I have been working with this for a number of years and have been saying, without being able to prove it, and no one can disprove it, that under Chapter 51 there was going to be a major swing to business in personal property taxes because machinery and equipment was to be taxed at the same level as real estate.

I think that was wrong but you cannot prove it because we did not have the statistics and the State did not have them.

So that the elimination of machinery and equipment - principally what we thought of was to make it competitive with New York and Pennsylvania.

SENATOR DUMONT: Do New York and Pennsylvania not tax machinery and equipment in addition to not taxing inventories?

MR. BROWN: Neither one of them, neither New York nor Pennsylvania tax machinery and equipment. They do not have personal property taxes.

SENATOR DUMONT: Of any kind?

MR. BROWN: No. In Pennsylvania they have a 4 mill tax, or some such thing, which is on intangibles but they do not have a tax on machinery and equipment, as such. They tax real estate of business and they get into a debate, as you may read sometimes, whether an item is real estate or whether it's machinery and equipment. I would not suggest that anything that was part of real estate would not be exempt but you are in a very hairline area. It can definitely be said that neither state taxes machinery and equipment.

SENATOR DUMONT: These figures you have for the corporate net income tax, based on 5%, $49,500,000 - are they borne out by the present collection from the corporate net income tax?

MR. BROWN: Yes, they are. Those are figures which have been developed, I think partially in conjunction with the Division of Taxation and these various commissions which I have been working on over a period of years. Those are estimates but they are good solid estimates.

By the way, the 5% rate would compare - I think New York has a 5 1/2% rate on corporations. They also have in the State of New York - you work up your tax two ways, you take the net worth tax and you take the income tax and I think you take the higher of the two. In Pennsylvania the rate, I think, is 6% or 5 1/2. But in turn, in Pennsylvania they give you certain exemptions, I think Federal Income Tax.

I would like to get away from all of those fancy things and have a solid percent figure so that our percent in New Jersey would compare with the other states. That's why we went from 1 3/4 to 5.

SENATOR DUMONT: You said, in reply to Chairman Alexander's question, that - at least I think this is what you said - that in any change in the tax structure somebody has to be hurt or may be hurt.

It seems to me here, and I recognize that you are biased on behalf of business, naturally, that what you want to make sure of in this replacement plan or program is that business doesn't get hurt.

MR. BROWN: Well, I'm at quite a disadvantage arguing this with you. I don't think that's fair. I have been playing pretty fair for a number of years on this. I have tried to do the thing that is best for business and the State of New Jersey. If anyone has the idea that by hurting business you will benefit the State of New Jersey, they are wrong.

SENATOR DUMONT: I would be the last one to dispute that with you but at the same time it seems to me that your concern here, in the replacement program that you are advocating, is on behalf of business entirely rather than an over-all concern about some replacement or perhaps reduction to the property tax burden generally in the State.

MR. BROWN: Well I think we tried to say that we were presenting a tax package and I assumed that the Commission was trying to look at an over-all tax program. If it happens to benefit business, I assure you there are plenty of businesses, as soon as I get finished, who would like to get after me for proposing a 5% corporate net income tax.

I don't want you to think that a lot of people aren't going to be hurt by that because there are a lot of businesses in New Jersey, in many places, that haven't been paying much personal property tax and they would have to pay a lot of personal income tax. There are plenty of businesses that would be hurt by this proposition as well as some that would be benefited.

SENATOR DUMONT: Thank you, Mr. Brown.

MR. ALEXANDER: Are there other questions?

Would you please identify yourself for the record?

SAUL STETIN: I am Saul Stetin of the Textile Workers Union.

MR. ALEXANDER: I introduced you before you were here.

MR. STETIN: That's all right.

Did you take into consideration at all the problem of the really small businessmen when you proposed the 5% corporation tax, with regard to any kind of exemption for small businessmen? And, secondly, is there any consideration in the other states for exemption of any kind where there is such a corporation tax?

MR. BROWN: I have been filling out these returns in a lot of states. I do not recall any exemptions for small business. Actually, I think the imposition of a 5% tax on unincorporated business, as well as incorporated, could be defended.

One of the things, and these are words I guess they don't like to say, it's based on the ability to pay. I don't feel too sorry for somebody who has to pay the tax who has made a profit. I feel a little badly about the man who has had a loss.

Under our proposition you pay tax when you have the funds to pay it with. If you have a loss, you don't pay it. The 5% rate is a fair rate and what is used generally in the country. I don't see anything against that and I don't see any reason why unincorporated businesses shouldn't share the tax problem on income the same way as corporated businesses do.

MR. ALEXANDER: Does that answer your question, Mr. Stetin?

MR. STETIN: Well, I wasn't answered as to whether they gave it any consideration in your discussion and in the decision you made to recommend this.

MR. BROWN: Well, actually, we did not consider that. I would not propose -- as an example, on the Federal there is a lower rate for companies that make less than $30,000 or $25,000 in the federal tax. We did not discuss that.

The problem of providing exemptions produces less revenue and has a tendency to push up rates. I don't think of the 5% rate as being confiscatory and I would want to propose - this is personally and not our Committee because we did not discuss it - that there would not be exemptions.

MR. ALEXANDER: Thank you. Are there other questions? Yes, Mr. Margolin.

SYDNEY MARGOLIN: Isn't it a fact that there is no definite information available as to what the full impact of Chapter 51 would have been on industry and that the only way that could have been ascertained is if the forms had been filed, as provided for by law, and the reports would have been analyzed by the Local Property Tax Bureau.

MR. BROWN: What you are saying there is exactly right, that the information is not available, and that's why I tried to say that we think there would be a shift to business in many localities. In some localities - I can name you one as an example, in the City of Trenton they tax personal property very heavily. In many other communities they do not. In general, I thought the opinion was that there would be a shift to business. Many tax assessors thought there would be a shift to the homeowner, in all fairness on that, and in many communities it would be. It is an answer that I agree with you the information is not available, on machinery and equipment in particular.

MR. MARGOLIN: So that your opposition was based on a series of presumptions, wasn't it?

MR. BROWN: My best answer is that the assumptions were made by the assessor groups in the same way.

I think that many of the people on our Advisory Committee, who did not agree with me, found by discussion with taxpayers that the shift would be much more substantial to business than they ever anticipated.

If you think that I wouldn't like to see the answer, I would like to see the answer so that we could -- if we were going to have a personal property tax, which I am against, that we would go about it equitably instead of an approach which could be disastrous.

MR. ALEXANDER: Thank you very much, Mr. Brown.

I appreciate your getting all those questions and answers.

MR. BROWN: I didn't anticipate those.

MR. ALEXANDER: The next witness will be the representative of the Jersey City Chamber of Commerce.

GEORGE J. BAUMANN: Mr. Chairman and members of the Commission and the Advisory Committee, my name if George J. Baumann. I am Counsel for the Jersey City Chamber of Commerce and Chairman of that organization's State and Tax Legislation Committee.

The Jersey City Chamber of Commerce has watched in awe increasing demands for and upon the property taxes in our State. It has been equally disheartening to take note that the tax monies have not been returned in proportion to the sum collected in the communities paying the larger share and who need the greatest aid.

The personal property tax has long been recognized, and I am putting this mildly, as a harsh tax and that, as the law is presently constituted, tax lightning can strike at any time. Our organization has long been aware of these inequities, in fact we have constantly stressed that there be a broad review of the entire tax system.

I might interject at this point, in looking over the figures I saw that in 1951 the total tax against business personal property was about $42,500,000 and for 1961, according to the Division of Taxation Report, it is $89,920,000.

To answer my friend Mr. Margolin's question, we did conduct a survey in our Chamber to find out what the impact of Chapter 51 would be. The survey indicated that it was going to be quite disastrous to many firms.

It is true, and this Commission has recognized the fact in every one of your reports, that the personal property tax in New Jersey is probably the most vicious, the most obnoxious tax that one could have; that if it were enforced, it would drive industry out of the State. It is practically what you have said repeatedly in your reports.

So that the answer to that, and you have recognized it in your reports, is that personal property taxes have long been worked out by way of negotiation.

In my city, I think in 1961, well over $6 million in personal property tax was realized.

I think the impact on business and non-residential property taxwise is about 65% of the property tax load.

Just one example on this Chapter 51. One of our old concerns, manufacturing concerns, has a lot of machinery which is really obsolete but it is still on the premises and it is used on occasion. Under Chapter 51 you would have to carry that and return it at 20% of its book value, which original cost would be the factor and the book value would be very high, and they would be taxed on something which they tell us does not bear the market value today that they would have to return it at. Too, they are very heavy taxpayers even though it may be by negotiation. Many firms after applying the formula found that their taxes would run far in excess of what they are paying now.

Now in so far as personal property on household goods, in Hudson County it has never been invoked and we did take advantage of the law which permitted us to do this lawfully by adopting an ordinance, I believe two or three years ago, on that subject.

To go on, the constant tax demands placed on real and personal property has put New Jersey in a poor competitive position in its effort to attract, as well as keep industry in the State. In Jersey City we have experienced the loss of six major industries in four years to other areas having a better tax climate. There have been many other smaller firms who followed the example set by the larger ones. The impact of an industrial relocation out of a community is obvious by its economic and morale implications.

The inconsistency of assessments, as well as unrealistic ratios, has caused business to shy away from our State. There have also been cases of persons acting in the capacity of assessors who are not trained or even qualified to perform the duties of their office. The latter situation may be rectified through the establishment of area or county assessors. And I believe that this Commission has in one of its reports made such a recommendation.

With this history in mind, the Jersey City Chamber of Commerce addresses itself to this hearing and the problem confronting this Commission. There will, no doubt, be a great clamor for a broad-base tax in one fashion or another. We cannot stress enough the fact that a new tax should not be considered until present taxes have been proven unequal to the creation of a tax-relief fund. A tax-relief fund, whether supplied by present taxes or a new tax, must effect a reduction of the property tax locally in an amount equivalent to the replacement money. The unrelieved addition of a new tax to present taxes will only result in the economic undermining of our State. Finally, the distribution of a tax-relief fund should be based on a per capita formula.

In closing I would like to emphasize that a comprehensive review of the existing tax structure is crucial to the purpose of the Commission. If it is decided that a new tax is necessary, based on the review, there must be a reduction in existing taxes and a fair-share redistribution of the taxes collected. Only then will our State be back on the road to tax rationality and will our State prosper.

Thank you.

MR. ALEXANDER: Thank you, Mr. Baumann.

Are there any questions? Senator Dumont.

SENATOR DUMONT: Mr. Baumann, you said that you conducted a survey among your business people and that the imposition of Chapter 51 would have been disastrous to some of your business people.

MR. BAUMANN: That's right.

SENATOR DUMONT: Was this because of the fact that they had not been paying or was this because of the fact that the local tax assessor had not caught up with them in the past on this personal property tax?

MR. BAUMANN: No, not at all. No, Senator, these are firms that are paying a very substantial tax in Jersey City today.

SENATOR DUMONT: All right. Now, this 20% floor that was written into Chapter 51, you are assuming it would have been 20% providing the percentage used by the Hudson County Board of Taxation was set at 100% under Chapter 51, is that correct?

MR. BAUMANN: It has already set that figure of 100%.

SENATOR DUMONT: Well that would only apply in the event that a county tax board however had used the 100% ratio other than --

MR. BAUMANN: In Hudson County it had fixed 100 and we knew that they were going to continue fixing 100%.

SENATOR DUMONT: Isn't it also true that before we passed Chapter 51 and the local municipalities have the option of passing ordinances to do away with the household goods tax - isn't it true that all the 12 municipalities in Hudson County for some time prior to that had not been collecting household goods tax?

MR. BAUMANN: That is right. And the question you put to me was put to me by Judge Glickenhaus many years ago when I appeared before this Commission when Dr. Sly was the Chairman.

SENATOR DUMONT: Thank you.

MR. ALEXANDER: Any other questions? Ben Leuchter of the Advisory Committee.

MR. LEUCHTER: I would like to ask the gentleman from Jersey City: If he first proposes a $1.00 reduction of existing taxes for any dollar increase in new taxes, this presupposes a constant level of expenditure, no increase in expenditures. If on the other hand the State faces any increase in expenditures, either on the State level or the local level, is there any suggestion from the Jersey City group then as to a source for new tax revenue?

MR. BAUMANN: Well at this point we are not prepared to say that we have a source for new tax revenue but we do say, and your question really is my answer, the State has certain needs and these needs must be solved. However, the municipalities, as Mayor Carlin pointed out, particularly the larger cities, have a desperate need today for more money. They cannot derive any more money out of the property tax. The property tax is just choking not only business but also home owners. Residential property owners are suffering tremendously. And this may also be true in some of the mushrooming communities in the suburbs that have had population explosions.

I think this Commission and the Committee has a real job ahead because you've got to come up with the answers and please everybody and it will be quite a job. As a matter of fact, on the income tax situation as far as business is concerned, quite a number of years ago I proposed a 3% business income tax - as a matter of fact this Commission did but the Governor - who was Governor then I don't remember - preempted it by putting in the net worth tax. But I plead with you, if possible, relief on personal property is necessary. I didn't say it but somebody else said it, we lost U. S. Steel to this State because of personal property and we don't want to lose any more industry.

MR. ALEXANDER: Thank you. Any other questions? Thank you very much, Mr. Baumann.

Is Dr. G. W. Esty of Princeton here? He will be the next witness.

While Dr. Esty is getting in place I would like to ask Mr. Nickerson if he would stand up. I see he has arrived. He is a member of the Advisory Committee. We are glad to see you.

Mr. Stetin you have already been identified, I think.

DR. G. W. ESTY: Mr. Chairman and members of the Commission, my name is Geoffrey W. Esty, M.D., of Princeton, New Jersey. Although I am appearing at this hearing as a property owner and a taxpayer, I would like to preface my remarks with a very brief biographical note which may help to explain my interest in problems of taxation.

After a private practice in pediatrics for eight years before the war, I joined the State Department of Health full time after the war, first with the Bureau of Maternal and Child Health, and thereafter for ten years as the Director of the Division of Constructive Health, and more recently as the District State Health Officer of the Central District of the Department. A little over a year and a half ago, I was placed on loan by the State Department of Health to the State Department of Education as its Special Consultant in School Health. My many affiliations include health, welfare and educational organizations, several foundations and more recently membership on the State Mental Health Commission.

My concern with children, families, ill health, poverty, slums, and delinquency has resulted over the many years in an active and continuous inquiry into the behavioral and social sciences for possible constructive and positive ways of promoting sound total health and social relationships. A particular interest has been directed to the psychology of taxation, for it is abundantly clear that our present forms of taxation tend to be arbitrary and penalizing, evoking a natural resistance and hostility to authority, resulting often in evasion and a flagrant disrespect for the law, and a double standard of values for our children to cope with.

The economists seldom give thought to the potentialities of incentive taxation, which would be in tune with instinctual human behavior. Take just one simple example of what I mean. If the owner of a slum housing unit, acting perhaps as a public spirited citizen, should paint his building or put in proper plumbing and repairs, he is penalized for this effort of improving his property for the benefit of his tenants by an increase of his property taxes. He, therefore, tends to resist such improvements except under the penalty of the law, and tends furthermore to crowd as many tenants into the building as possible, in order to realize a maximum rental income. It is readily apparent, therefore, that such penalizing taxation perpetuates and even promotes the slum.

The proposal I would call to your attention, then, concerns the <u>taxation of site values</u>. It is an incentive rather than a punitive form of taxation. It will promote rather than retard the economy. It would make slums unprofitable, and encourage their elimination with less dependence upon government subsidy. The taxation of site values constitutes a natural source of government revenue, for the values of sites are socially created. It is not only fiscally sound, but is equitable and just as well. It is simple, not complex in its determination and administration, and its collection and administrative costs are lower than current forms of property taxation. The machinery for its application and collection is already in operation. It would tend to lessen the tax burdens on home, farms and industries through the bringing in of new ratables, and through corresponding untaxing of improvements to property.

Examples of site value taxation abound over the world. This practical method has been in use for many years, for example, in Pittsburgh, Pennsylvania, a part of Canada, in Denmark, Australia and New Zealand.

Site value taxation should, of course, be collected on the local municipal level, and shared as at present with the county. It is not intended to be a source of direct State revenue. However, the resulting improvement in the economy under site value taxation, as repeatedly demonstrated in those areas where it has been adopted, would make less necessary for communities and counties to be dependent upon State matching funds or subsidies.

This proposal is not a temporary expedient. It is a basic and a permanent solution to most of our local problems of taxation. All that is required, after a determination of its merits, would be an act of the Legislature along the lines of Assembly Bill No. 26, introduced in January, 1940. Similar legislation is currently under consideration in the states of California, Michigan and Montana.

I would respectfully submit, Mr. Chairman, that New Jersey is indeed at an historical cross-road, and that your Commission has the power to recommend either a method of incentive taxation, which will enhance the future well-being of this State, or to suggest, instead, still other forms of penalizing taxation which may well hazard the future economic health of this State. Now is the crucial moment for the reevaluation and critical study of the entire tax structure along the lines here recommended for your consideration. Although abundant literature and educational facilities are available for a thoughtful understanding of site value taxation, this is not the time or place to consider details. I am, therefore, only submitting to you at this time a reprint of HOUSE & HOME magazine, published by Time, Inc., of August 1960. This entire issue of a recognized leading trade journal was devoted to the consideration of the critical problem of land price, and land use, its effect upon housing, urban renewal, and the general economy, and a solution to most of these problems through a system of land value taxation.

I would sincerely urge the Commission and its Advisory Committee carefully to study this issue of HOUSE & HOME. I would then be happy to advise where additional monographs, research studies and bibliography may be acquired.

May I add a postscript. By a very coincident, in my mail this morning, which I didn't have a chance to read until I came in here this morning, I brought it with me, I got a report from the Management Surveys Association in New York of a study of Taxation and Urban Blight by the Tax Study Advisory Committee of Dayton, Ohio. And of the six points recommended as a result of this long study and analysis of Dayton's problem, the 6th point was that the counties should request the legislature to enact legislation permitting the adoption of a greater tax plan by local option. A greater tax plan has reference, basically, to a greater tax on site values. It's another one of the studies being made over the country on various local municipalities in this respect.

Thank you very much.

MR. ALEXANDER: Dr. Esty, I can assure you we will study this with interest.

I have one question only, which is, in the case of a large city which has perhaps some slum areas, what would the effect be of the proposed plan that you are advocating? Would it be to decrease the revenue from those areas?

DR. ESTY: No. In most places where this has been adopted, as in Pittsburgh and in Scranton and in other countries, Sidney, Australia, etc., what they have done is they graded year by year untaxing of the improvements or the property and taxing equivalent amounts on site value. So that the result in any particular area of that type is likely to be equivalent to what is gotten in now but it would act as a stimulation for improvement of property and putting the vacant areas in cities into use because of the increasing site value taxation recovery.

MR. ALEXANDER: Perhaps I could put the question another way. I can see how not having an additional tax when you improve your site is an incentive to improve it, but what I don't quite see is where the revenues that might otherwise come in from improvements being taxed - where is that made up?

DR. ESTY: Well, as you increase the amount of tax on the site and you decrease the amount on the slums, buildings, and you separate the site from all of the improvements on the land, including some building, if you will, there will at first be an equivalent coming in.

However, because of the fact that such buildings as our gentleman from Jersey City is confronted with, it would be relieved from increasing taxation on the buildings. The owner would then tend to improve it, put more people to work, use more materials, increase the economy generally in that way. This is what has been done and has been experienced, oh, about a hundred years ago in Copenhagen, Denmark, the housing or slums were automatically eliminated by this method of exemption on tax on the improvement and in place a tax on this site. And without benefit of government subsidies or anything of that sort, the slums in Copenhagen, for example, disappeared. It increases the whole economy in this fashion.

MR. TOOLAN: Could I ask this question?

MR. ALEXANDER: Surely.

MR. TOOLAN: Assuming contiguous pieces of property and on one piece of property you have a relatively unimproved state, say some building, and on the adjoining property you erect a modern, high-priced structure, now are you going to get the same amount of dollar taxation from each of those pieces of land or not?

DR. ESTY: Yes, so far as the site is concerned if they are comparable and adjacent. This would force it into more adequate and proper use.

MR. TOOLAN: The point is, one site is substantially improved by an excellent structure.

DR. ESTY: That's right.

MR. TOOLAN: Do you then increase the value of that land because of the fact that it was improved?

DR. ESTY: No. The site value would remain the same of the unimproved lot and the improved lot. You would merely collect some of that site value on the unimproved lot which would then make the owner, whoever it would be, improve it by putting up added and adequate buildings, whatever it may be best used for.

MR. TOOLAN: Would the assessment upon the improved lot ever increase or would the level of his assessment at the time of the improvement stand even though the improvement was put on there?

DR. ESTY: Yes. As the improvements occur as a result of this incentive taxation, reevaluation about every five years has been customary on assessment of site value. This takes care of the gradual increases of site value as a result of improvement in property. This has been customary.

DR. WATSON: As a point of clarification here, you originally stated that contiguous lots, one improved and one unimproved would be taxed about the same, and then you said that as the property is improved then the tax rate would be reevaluated.

DR. ESTY: So far as site value as they go up generally with the increase in population and with the increase in improvements of the City, the value of the sites go up also, as at present.

DR. WATSON: Equally?

DR. ESTY: Yes, equally.

MR. ALEXANDER: Are there any other questions? Thank you very much.

DR. ESTY: Thank you.

MR. ALEXANDER: Is Mr. Leo Cohen here?

LEO COHEN: Yes, sir.

MR. ALEXANDER: Mr. Cohen is Chairman of the Oakland Tax Study Committee.

LEO COHEN: My name is Leo Cohen. I come from Oakland, New Jersey, which is the fastest growing town, percentagewise, in New Jersey in the past ten years.

MR. TOOLAN: What county is it in?

MR. COHEN: Bergen.

In 1950 we were a village of 1200 people. In 1962 we find ourselves as a town of 11,000, approximately, bursting at the seams, with all the problems and goods and bads, education problems, etc. at their worst perhaps.

I was appointed by the Mayor of Oakland with the blessing and approval of the Oakland Council, to study and examine and report on what might be done.

I am very happy to follow Dr. Esty because the findings of our Committee have been in the same mode of an ultimate solution that Dr. Esty has proposed . And perhaps as a competent assessor and being familiar with the manuals used by assessors I may be able to elucidate some of the questions in the minds of the Committee.

There is only one path that can lead to any ultimate solution of the complexities and intricacies of the tax structure. That path is the working out and application of a graded tax plan for real property; a plan that would place the greater percentage of tax on the land, the smaller percentage on the improvements.

In order that municipalities might apply different rates of taxation to the land and improvements, a proper amendment to the State Constitution would be necessary, and then permissive legislation, not mandatory legislation, must follow by the State Legislature.

Briefly, let me outline some facts to support the above allegation.

1. With higher rate on land value and lower on improvement value, the home owner would be encouraged to improve his property and create greater community value. He would not be as harshly penalized taxwise for improving, as he is at present. The home owner, if he is to be harnessed with runaway educational costs, at least could send his children to school from a better home, and pay about equal or even less taxes, on property possessed of greater market value.

This same principle applies to owners of business property and industrial property. Pittsburgh, Pennsylvania, which was mentioned here by Dr. Esty, and Scranton, Pennsylvania, now Erie, Pennsylvania, are a few examples. There are many others throughout the country. But these are nearby examples of the beneficial use of a graded tax plan.

Specifically, permissive legislation for a graded tax plan has existed in Pennsylvania for about 30 years.

It went through a maze of political intrigue, some years ago, and appeared in a watered-down fashion. I studied the application in Pennsylvania of it, which permits cities like Pittsburgh, which are classified as second-class cities, to apply it. Pittsburgh, of course, which was a dirty smokey city, used it to very good advantage to become what is known today as the golden triangle of Pittsburgh. They have been able to invite industry there, attract it there by telling anyone who wanted to put a factory in that the tax rate on the improvement would be 50% of that on the land.

Secondly, the municipalities would have larger powers of self-determination. Those that decided to adopt a graded tax plan, after due local consideration of adaptability, benefits and advisability could proceed without detriment to or encroachment upon the rights and determinations of neighboring municipalities having individual reasons not to adopt such a plan.

The point in brief, for example, a town like Oakland, which is a valley of homes located in mountainous terrain differs from Edgewater which primarily has railroad and industrial property and is located on the Hudson River close to New York City. Both Oakland and Edgewater differ from Cape May which is primarily a summer resort located on the ocean. To place these three communities under identical mandatory uniform tax structure application would be and is unjust and entirely impractical. But let me add so there is no misunderstanding, this appeal for enabling legislation should not be construed as an attempt to repeal Article VIII

Section 1 of the State Constitution - that is the Article, property shall be assessed for taxation under general laws and by uniform rules, etc. Only a partial amendment would be necessary.

Thirdly, property appraisal and assessing would be on a more realistic basis and better understanding and relations would result between property owners and assessors. The Real Property Appraisal Manuals for New Jersey Assessors are in two volumes. Volume I, pages 9 through 47 deals almost exclusively with land appraisal. The rest of Volume I and Volume II deal with appraisal of improvements.

In making his appraisal of land value the assessor, by referring to Volume I has at his fingertips well devised and accepted methods of ascertaining effective front feet, the value of lots in odd shapes and sizes, the value of acreage; he has ready-made depth tables, scaled empirically, and he can reliably relate and compare values of land below road level or above road level; in short, he can benefit from two of our more exact existing sciences - mathematics and surveying.

To make his appraisal of land he does not have to rely upon whims, fancies, personal likes and dislikes, and the standards and procedures of Volume II, which are both practically and economically unsound, more often than not have a low co-efficient of correlation with reality. Various materials used in construction, types of heating systems, whether or not there is a cellar to the house, or if the attic is finished off, or whether you plant attractive shrubs or do extensive landscaping. With a well devised graded tax plan these things become minor and secondary considerations. Functional obsolescence and over-improvement obsolescence would not longer be important factors. Economic obsolescence would be an important consideration. But even more important perhaps than all these aforementioned things, the property owner would be able to comprehend the assessor's appraisal a thousand times easier.

Alternatives to a graded tax plan are not attractive. A State Income Tax? Well, the income tax is frequently condemned by competent and informed critics, even by Mr. T. Coleman Andrews who was at one time the Collector of Internal Revenue. It is an outrageous, thievish, unjust, unintelligent punishment of those who perform service or invest their capital. It is properly the tool of communist leaders, aimed at mass effect, showing no consideration for the problems of the individual, and when the law loses respect for the individual, the individual loses respect for the law.

One of the extremely offensive features of the income tax is the fact that it is in the interest of the tax collector to be inquisitorial and dictatorial about the details of conducting business. More PPT-1 forms maybe?

All businessmen are subjected to the degrading assumption that they would cheat and misrepresent if given the opportunity, and as a matter of fact many of them are inclined to do so because they instinctively feel that the law is so arbitrary and unjust that any form of combating it is desirable.

Most of the nonsense we hear about taxation is just slogan-coining -"spreading the tax base," "a broad-based tax." A new tax does not create a new source. Basically, taxes can only be drawn from two available sources - earned income or production and, second, unearned income or speculation.

As to a State sales tax, it is a burdensome impropriety which, like the income tax, has developed a maze of rulings, annoyances, complications of bookkeeping, and petty meddling by government officials. The sales tax increases the cost of living most for those who can afford it least. It drives business from the area in which it is levied and is resented not only by those who must pay it but also by those upon whom the task of collecting it is arbitrarily imposed.
It allows the public to be cheated, many times innocently by shopkeepers who cannot take time to calculate the tax precisely when they are ringing up a sale, and because of its complexity opens the way for unscrupulous gouging. Anyone who believes merchants are reluctant to pocket the extra pennies, well ---

I have not come before you gentlemen today with a panacea or a cure-all. The graded tax plan does, however, have values that could be immediate and positive. It could operate to clean up current disorder and inequities in our tax structure. It should be thoroughly probed and studied and I offer my full cooperation, for what it is worth, to this end.

MR. ALEXANDER: Thank you very much, Mr. Cohen.

Are there any questions?

Thank you.

The next witness, if he is here, is Councilman John J.Halley of South Amboy.

Well he missed a good chance. Perhaps he will be back.

Dr. Miller, are there any other witnesses scheduled for this morning?

DR. MILLER: No but there may be some scheduled for this afternoon who would rather be heard this morning.

MR. ALEXANDER: Well, is there any person scheduled for this afternoon who would like to get it over with now?

If not, we will recess until 2 o'clock.

Thank you very much.

(Recess for lunch)

Following is the Press Release which Mr. Alexander requested be made part of the record, referred to on Page 1:

For Release: April 10, 1962

NOTICE is hereby given that the Commission on State Tax Policy will hold public hearings in the Assembly Chamber in the State House, Trenton, beginning at 10:00 a.m., Wednesday, April 25, 1962, and continuing with appropriate recesses for the balance of that week and on subsequent dates, if necessary.

The subject of the hearings will be the matters referred to the Commission by Joint Resolution 6 of 1961 and by Joint Resolution 5 (AJR 28, approved April 3, 1962), which state in part:

1961 - "The Commission on State Tax Policy is hereby directed to undertake a re-examination of the means of providing increased State financial assistance for the public schools of the State and a special study in depth of the adequacy of the existing program of State aid to school districts to meet the expanding needs of the public school system throughout the State."

1962 - "The Commission on State Tax Policy is hereby directed to undertake a comprehensive re-examination of the entire State and local tax structure and of the tax resources of the State and its political subdivisions to determine to what extent the existing tax structure should be modified or otherwise changed to insure a fair and equitable distribution of the costs of governmental services between the State and its political subdivisions and among the residents of the State and the business, industrial and commercial enterprises carried on therein."

Every person wishing to be heard by the Commission at such hearings will be asked to limit oral presentations to 15 minutes, and to file such additional data as desired. It is suggested that anyone wishing to be heard advise the staff director of the Commission, William Miller, Esq., 32 Nassau Street, Princeton, New Jersey (WAlnut 1-6094) to enable the Commission to schedule the hearing as conveniently as possible.

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AFTERNOON SESSION

MR. ALEXANDER: Ladies and gentlemen, you will please come to order. We will start on the heavy schedule that we have this afternoon.

Before we start, let me repeat one or two of the ground rules. In general, oral statements should be limited to fifteen minutes and any additional information may be filed now or subsequently in writing. After the statements have been made, opportunity for questioning either by members of the Tax Policy Commission or of the Advisory Committee who are sitting, all of them, around here, will be had.

Any of you who do have written statements - it will help a great deal if you will come forward and give them to one of us for distribution to the members of the Committee and the Commission before you start.

If we do not succeed in hearing everybody who wishes to be heard today, tomorrow or the next day, we will have further public hearings, the dates to be announced later.

The first witness this afternoon is appearing on behalf of the New Jersey League of Women Voters, Mrs. deVries.

MRS. JOHN K. deVRIES: Thank you, Mr. Chairman.

Members of the Commission on State Tax Policy and the Advisory Tax Committee: I am Mrs. John deVries, President of the League of Women Voters of New Jersey. The League welcomes the opportunity to participate in this most important public hearing on New Jersey's tax needs. We applaud the action by the Legislature in authorizing an expanded study of the State's needs and how to pay for them. We commend Governor Hughes for his leadership in making the original request and his prompt appointment of eleven well-qualified public-spirited citizens to serve as the Tax Advisory Committee. We have long admired the ability of the State Tax Policy Commission to cope with complex financial problems and we are confident they will expedite this study with as much speed as is consistent with sound judgment.

We anticipate that as a result of this fiscal review a decision will be made by the Commission to recommend to the New Jersey Legislature a broad base tax so that sufficient revenue may be obtained to enable the state to discharge its proper obligations to its citizens.

Since 1948 the League of Women Voters has been studying the state tax structure. That means active participation by our 9,000 members in 85 local Leagues located in 19 of the 21 counties.

We have reviewed with growing dismay the annual struggle to present a balanced state budget leaving smaller and smaller reserves and yet slipping further and further behind in providing services for the most highly urbanized state in the Union. We do not take pride in being one of the two states that exist without either a sales tax or a personal income tax.

In studying the need for various state services the League of Women Voters has been concerned with the necessity of providing equal opportunities of education for all children in elementary and secondary schools. We know that adequate state aid is essential if this is to be. With our population growing at the rate of 100,000 a year - with the influx of families from other states - with children pouring into the schools, the burden of meeting the increased costs cannot be hung on the property owners alone, who now pay almost 75 per cent of the cost of public education. More help from the state is needed. The League endorses the current legislation - S 71 and S 72 and A 91 and A 92, calling for $89,000,000 in state aid.

The League's four-year study of higher education convinced us that New Jersey has inadequate college facilities for its qualified high school graduates. We deplore the fact that Rutgers, the State University, has the highest tuition of any State University in the country. We believe the lack of opportunity for higher education in New Jersey is a disservice not only to the students, but to the industry in our state which needs highly-trained young men and women. We find it shocking that with this demonstrated need New Jersey is second from the lowest among all 50 states in its support of public higher education.

While many people give priority in their thinking to the needs of education, there are other vitally important state services in which New Jersey is way behind in meeting the demand.

The $40 million bond issue passed last fall for construction of state welfare and penal institutions is now declared inadequate by $40 million.

New Jersey enjoys - or should I say suffers - from the highest traffic density in the world - 5½ times the national average and 3 3/4 times greater than that on the state highways of New York. Moreover, it is estimated that New Jersey traffic will double by 1975. The Highway Department has a Master Plan for building sufficient roads by 1975, but they state that if Federal and State funds continue at the present level we will be about $1 billion short of the amount necessary to construct the required improvements. Briefly, this means that the state should spend $60 million a year more than the approximate $40 million that we are currently spending.

There are other urgent needs in the field of health, recreation and conservation which all point up the importance of finding a permanent cure for our ailing state revenues.

Our State Constitution calls for a balanced budget. Yet I submit to you that we are engaging in deficit financing when we pass bond issues which saddle future generations with millions of dollars of debt service. We grant that there are some occasions when a bond issue is desirable. But the slogan "spend now and pay later" is no better for a state than for a family. We are missing the economies that come with long-range planning for the foreseeable future.

As our dynamic state moves forward as indeed it must because of its strategic position in the metropolitan area and rapidly increasing population, we can no longer afford a horse-and-buggy state budget with a hodgepodge of excise taxes added on each year by a cent on cigarettes - a little more of a bite on racing - a dip into dwindling reserves, etc. This may suffice for a very rural state, but not an up-and-coming highly urbanized New Jersey.

We should not exult in the fact that our state ranks 50th in per capita state taxes. For the corollary to this is that New Jersey ranked 2nd in per capita property tax in the most recent figures and we know that property taxes in New Jersey are rising at the alarming rate of $65 million a year. This cannot continue. Only by tapping other broad base sources presently not taxed in this state can we stabilize the spiralling property tax and secure additional state funds so badly needed.

What is the solution? The League of Women Voters believes that the only two possibilities are either a general retail sales tax or the personal income tax. After prolonged study, we have reached consensus that the graduated personal net income tax is the most equitable - has practical advantages over the sales tax - will recapture many millions that New Jersey residents now pay to the Federal government - can be coordinated with the Federal tax for convenience of the taxpayer and low administration costs, and finally it is flexible in that it can be adjusted up and down by a small percentage to match revenue needs.

The League's decision, I might say, to favor the income tax was not dictated by self interest; indeed League families generally fall in the income bracket which would feel the burden of a sales tax less than that of an income tax. However, our stand is based on the clear facts which emerged from our study.

In a democracy we believe the principle of equity is the most important factor to consider when imposing taxes.

Point 1 - The net income of an individual is a direct measure of his ability to pay taxes - whereas purchases of consumer goods are not a good measure even with food exempt.

Now I would like to point out to you that these charts which we have blown up are in our statement on the back page, the Comparative Burden Chart. If those who are behind this chart and can't see will turn to the very back page of your statement, they will be able to follow. They are reproduced in black and white and we have more in the box if anyone doesn't have a copy.

This chart shows the comparative net burden per $100 of income. The red is the indication of the amount of sales tax, at 3 per cent sales tax with food exempt, which in the aggregate would yield about $170,000,000. This corresponds with Assembly Bill 21 now currently before the Legislature. At $1,000 income level, per $100 of income, the sales tax would be $2.03 per $100 of income. So you can follow down - $1,000, $3,000 down to $25,000. It seems to us very persuasive that the sales tax is a heavier burden on those families of smaller income and less of a burden on families with a larger income. I should tell you in figuring this tax we assume a family of four individuals who take 10 per cent deductibility from their Federal tax. Very easily it shows then that the sales tax lies at the lower level, very small, down to $.37 at the $25,000 level. This is the burden of the sales tax.

On the other hand, the income tax - and here the League advocates a graduated personal net income tax of from 1 per cent to 6 per cent and the yield on this is slightly larger, about $180,000,000. - at the thousand-dollar level the burden for $100, no tax at all; at the three-thousand level, it is $.08 per $100; and you can see at a glance that this is a progressive tax.

This is our position, that the sales tax is regressive, being more of a burden on the lower income group, less on the higher income group; whereas, the income tax progresses as people are more able to pay with larger incomes.

We would also like to point out on this that 64 per cent of the families living in the northeastern part of our country have incomes of under $7,000 a year. So the burden of a sales tax on 64 per cent of the people living in our area is greater than on 36 per cent of our families who have incomes up from $7,000.

New York has an income tax, as you know, that goes from 2 per cent to 10 per cent. We figure it would be from 1 per cent to 6 per cent up to $7,000 and then from there it is 6 per cent. It is stabilized at 6 per cent. It is not as progressive as some people would have you feel it was, but the great mass of people would benefit.

I would like to introduce the person behind the chart. This is Mrs. Paul Moffett. We are extremely fortunate in the League to have a person who is a statistician, who by training and experience has done a great deal of research work on statistics for Armour and Company and for the National Conservation Program. I have a list of things here that I would like to read to you if you are interested in asking where she got the figures and how she did them. She did these charts. At the conclusion of my testimony if you would like to ask her specific questions, I am sure she can answer them to your satisfaction. She is the author of this. Thank you, Mrs. Moffett.

Point 2 - A personal income tax adapts to the changing needs of the individual taxpayer. As dependents increase, the burden is lightened. A reduced income, losses, medical expenses, interest charges or retirement pay will decrease the tax whereas the sales tax actually penalizes large families and retired persons living on a reduced income.

Point 3 - The Property Tax is regressive. The lower the income, the larger the proportion which is spent on housing. To take one example, we all know that young couples with large families usually pay more of their income in property taxes than childless couples or retired couples who often live in small apartments. Actually young growing families more often are paying on what they owe rather than on what they own. The best balance to this regressive tax is a progressive tax; namely, the graduated personal income tax.

Point 4 - The personal income tax is the only feasible way of taxing wealth in the form of intangible personal property, that invested in stocks and bonds. This will help shift some of the increasingly heavy burden now borne by real property in New Jersey.

Point 5 - The state tax on corporations but not on partnerships or other unincorporated business is discriminatory and a personal income tax automatically taxes profits from such unincorporated business which would help remove this inequity.

The practical advantages as we see it of the personal income tax over the sales tax are as follows:

1. The ease of recapture from the Federal government reduces the burden on the taxpayer who pays higher Federal taxes

when he lives in New Jersey than when he lives in an income tax state. A state income tax will bring back some of his tax dollar from Washington to work in New Jersey. We believe there are many taxpayers paying considerable Federal income taxes who really understand the need in New Jersey for more state supplied services and who would welcome the opportunity to retain some of the Federal collected tax dollars for use in our own state.

The attached chart - now this too is reproduced the second page from the back - "Retention of Federal Tax Dollars in New Jersey Resulting from a State Income Tax" shows four individual income levels; $5,000, $10,000, $25,000 and $50,000. It shows the effect on the individual taxpayers at various income levels. The gross income - and here again we have used the $600 deductibility which is standard, a family of four, itemizing 10 per cent for deductions from their Federal tax - and this shows if we had an income tax in New Jersey on a gross income of $5,000 the state income tax would be $32 in order to raise the $182,000,000. That is how we arrived at this and this is based on from 1 to 6 per cent. The state income tax is figured at $32. The Federal income tax before the state tax is $420. Federal income tax after your credit of your sales tax is $414. Your Federal tax retained in New Jersey then is $6. The net burden then to the man with the gross income of $5,000 with deductions for a family of four would amount to $26. That is not a very significant difference. But you can see quickly at a glance that it goes up. The person then with an income of $25,000, who has a state income tax of $956 will retain actually from the Federal tax $329, about a third, meaning that the net burden of a state income tax to that taxpayer is only $627. We think this is significant. It is still true, of course, that a person with a larger income pays more. But it is also true that that person can keep a larger proportion back for use in New Jersey. In other words, we are paying more than our share from New Jersey now to the Federal government than states with income taxes.

Now the State-wide Effect, the bar at the bottom, to raise the whole $182,000,000, which is what we have estimated - this in the aggregate shows approximately one-fourth of the Federal tax is retained in New Jersey. In other words $44.3 million. And the net burden of the state tax then to the taxpayer is $137.7 million, which makes the total for use in New Jersey, $182 million.

2. A sales tax would be hard on commuters working in an income tax state. It would force them to pay an income tax where they work, a sales tax in New Jersey and a Federal income tax.

3. The income tax is efficient. Coordination with the Federal tax and withholding of wages and salaries simplify enforcement and facilitate payment by the taxpayer. On the contrary the sales tax is not easy to collect; it is a nuisance and it is costly to the retailers to administer.

4. The income tax is direct, visible and widely shared, thus making people well aware of the costs of government. By contrast the sales tax is psychologically a hidden tax.

While the sales tax may seem the lesser of two evils by casual observation, a study of the facts will show that for a large majority of New Jersey families the graduated personal income tax will cost less in dollars and cents than a sales tax.

To quote from a leading authority on the sales tax and one who sees definite advantages in it: Mr. John F. Due, author of Sales Taxation, University of Illinois Press, 1957, says: "On the whole, the sales tax must be regarded as a second best tax - one to be employed only if various circumstances make complete reliance on income and other more suitable taxes undesirable."

To sum up, the League of Women Voters is firmly convinced: One, that we need a broad base tax now; and, two, the graduated personal income tax is the right one.

Thank you very much.

(On the following pages can be found the charts referred to by Mrs. deVries.)

COMPARATIVE BURDEN

OF A

STATE PERSONAL INCOME TAX

AND A

STATE SALES TAX

About 64 per cent of New Jersey families would be more heavily burdened by a state sales tax than by a personal income tax. The impact of these two taxes, while not greatly different for incomes between $5000 and $8000, diverges widely at the lower and upper ends of the income scale. The sales tax is more burdensome than the income tax for low income families and less burdensome for high income families. The material on the following pages explains these conclusions.

LEAGUE OF WOMEN VOTERS OF NEW JERSEY
460 Bloomfield Avenue
Montclair, New Jersey

Explanation

THE PERSONAL INCOME TAX

A hypothetical tax with the following features:

Personal Exemptions—$600 per person, as in the federal income tax and in nine states including New York. A family of four is assumed.

Deductions—it is assumed that the taxpayer deducts ten per cent of his gross income. In most states, as in the federal law, a flat ten per cent deduction may be taken in lieu of itemizing business expenses, interest, taxes, charitable and other allowed deductions.

Rates—1% on the first $1000 of net taxable income; plus 2% on the next $2000; plus 3% on the next $2000; plus 4% on the next $2000; plus 5% on the next $2000; plus 6% on all over $9000. (These rates are lower than New York's, which graduate by $2000 brackets from 2% on the first $1000 up to 10% on all over $15,000.)

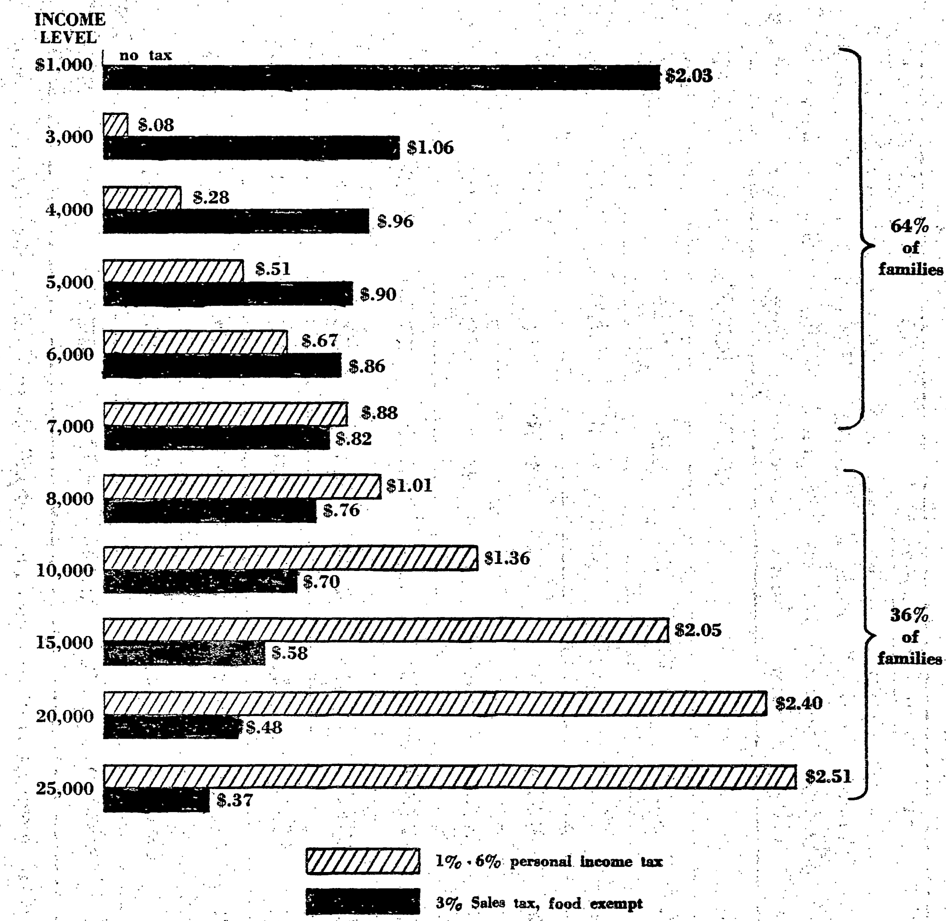
12 A (1)

Estimated Yield — $206,000,000 for 1961 in New Jersey. After deducting tax credits to residents paying income tax out of the State and adding taxes from commuters into the State, the estimate would be $182,000,000. This figure is calculated using data for New Jersey in *Statistics of Income, 1958*, Internal Revenue Service, U. S. Treasury Department.

FEDERAL DEDUCTIBILITY

It is assumed that the taxpayer, in preparing his *federal* income tax return, itemizes his deductions. The added deduction of his state sales or income tax reduces his federal tax, and consequently the net burden to him of his state tax. The burden of the two state taxes, both before and after federal deductibility, is shown in the table on the back page.

STATE PERSONAL INCOME AND SALES TAX
NET BURDEN PER $100 OF INCOME
After Federal Deductibility



See back page for complete figures.

Explanation

THE SALES TAX

As proposed in Assembly Bill 21

Rate—3%.

Covered Sales—Tangible personal property at retail. Also the following services: transient lodging; serving of food and drinks for consumption on the premises; parking, storage; repairs; rental of tangible personal property.

Exempted Sales—Food not for consumption on the premises; medicine on prescription; professional and personal services; utilities and fuel; artificial limbs, wheel chairs, etc.; magazines and newspapers; feed, seeds, fertilizer, etc. for farm use; rental of real property; sales by or to educational, charitable or religious organizations; commodities already subject to a New Jersey excise tax (cigarettes, gasoline and alcoholic beverages).

Estimated Yield — $172,000,000 for 1961 in New Jersey, exclusive of the yield for the accompanying use tax on the same goods purchased outside the state for use in New Jersey. Source: *Retail Trade, New Jersey* and *Selected Services, New Jersey*, 1958 Census of Business, Bureau of the Census, U. S. Department of Commerce.

Source of Figures in Chart—Basic data from Study of Consumer Expenditures, 1957, prepared for Life Magazine by Alfred Politz Research, Inc. This study gives expenditures for goods and services by households in various income ranges in the United States. The breakdown is such that items taxable under A. 21 can be separated from those non-taxable with a considerable degree of accuracy.

PER CENT OF FAMILIES

In the northeast region of the U. S. 2.7 per cent of families have incomes under $1000; 25.3% under $4000; 63.6% under $7000. In the same area, 36.4% of families have incomes over $7000; 15.1% over $10,000; .6% over $25,000. Source: *Consumer Income in the U. S. 1959*, Bureau of the Census.

This table shows additional detail not included in the chart on the preceding page. It reveals the effect of deductibility of an income or sales tax from federally taxable income. This deductibility results in a "recapture" of tax monies from the federal government which is much greater with a personal income tax than with a sales tax.

BURDEN OF PERSONAL INCOME AND SALES TAX BEFORE AND AFTER FEDERAL DEDUCTIBILITY

	Income Tax*			Sales Tax*			
	Tax	% of Gross Income			Tax	% of Gross Income	
Gross Income	Before Federal Deductibility	Before Federal Deductibility	After Federal Deductibility	Taxable Expenditures	Before Federal Deductibility	Before Federal Deductibility	After Federal Deductibility
$1,000				$675	$20.25	2.03	2.03
3,000	$3.00	.10	.08	1325	39.75	1.33	1.06
4,000	14.00	.35	.28	1600	48.00	1.20	.96
5,000	32.00	.64	.51	1875	56.25	1.13	.90
6,000	50.00	.83	.67	2150	64.50	1.08	.86
7,000	77.00	1.10	.88	2400	72.00	1.03	.82
8,000	104.00	1.30	1.01	2600	78.00	.98	.76
10,000	174.00	1.74	1.36	3000	90.00	.90	.70
15,000	416.00	2.77	2.05	3900	117.00	.78	.58
20,000	686.00	3.43	2.40	4575	137.25	.69	.48
25,000	956.00	3.82	2.51	4925	147.75	.59	.37

*Sources of material and assumptions behind these data are described on preceding page.

March, 1962.

Price: 5 cents