

# GOVERNOR'S MESSAGE

JOHNSON'S SECOND INAUGURAL ADDRESS TO MEMBERS OF THE LEGISLATURE.

MANY SUBJECTS DISCUSSED

DECLARES QUESTION OF TAXATION OF VAST IMPORTANCE AT PRESENT TIME.

WOULD ABOLISH ALL PASSES

ALSO FAVORS A TWO-CENT PASSENGER FARE AND LOWER FREIGHT RATES.

St. Paul, Jan. 9.—Governor Johnson's second inaugural message to the legislature opens with a word of congratulation on our general prosperity and the condition of the state's finances, but advises prudence and wisdom in voting appropriations. Taking up the subject of taxation he says:

One of the greatest questions with which you will be called upon to deal is that of solving the problem of providing, at least in some measure, a wise and just method of distributing the tax burdens of the people you represent.

From the birth of our state government we have had an unchanged system of taxation in the form of a direct tax upon real and personal property. The history of taxation in our state has taught us that taxes have not been equal and that the method has not been efficient. The cause has been in part the law and in part the application.

### New Constitutional Amendment.

Up to this time the legislature has never been able to modify in any material degree the system of taxation which, as we all know, is very largely one of direct ad valorem taxation upon personal and real property. At the recent general election the people of Minnesota voted to modify the constitution and adopted an amendment giving to the legislature wider latitude; and it now falls to you to justify, in some small measure at least, the opinion of the people that this action, both by the legislature and by themselves, was a wise one. The constitution as amended provides:

"The power of taxation shall never be surrendered, suspended or contracted away. Taxes shall be uniform upon the same class of subjects and shall be levied and collected for public purposes."

The provision that "taxes shall be uniform upon the same class of subjects" supercedes the former provision that "all property on which taxes are to be levied shall have a cash valuation and be equalized and uniform throughout the state."

This amendment places in the hands of the state legislature of Minnesota, for the first time in its history, the complete and sole power and responsibility of taxation, with no constitutional restriction as regards the method or system of taxation provided, save that the taxes shall be uniform upon the same class of subjects and shall be levied and collected for public purposes.

### Taxation of Mortgages.

Inasmuch as all classes of property should bear a just proportion of the taxes for raising the public revenue efforts should be made by you to increase the taxable property valuations upon those classes of property which hitherto have escaped payment of taxes either entirely or in large measure. One of the difficulties heretofore experienced has been the failure of the provision for the taxation of mortgages and other credits.

It occurs to me that under the latitude offered by the new constitutional amendment it will be possible for you to devise a registry and income tax on the credit, which will not be a hardship to either the lender or the borrower of money and yet will bring into the revenues of the state and counties a much larger sum of money than is realized under our present system. I would suggest a registry tax of, say, one-half of 1 per cent, to be paid into the treasury of the county at the time the mortgage is recorded, and a percentage tax not exceeding 10 per cent on the income of the mortgage, to be paid annually. If the mortgage ran to a non-resident of the state let the tax go into the county treasury of the county in which the mortgage is recorded; if a resident of another county in the state the tax to be remitted to that county by the county treasurer in which the mortgage is recorded; if the mortgage is between parties in the same county the tax to be paid into that county.

### Permanent Tax Commission.

I would most urgently recommend legislation providing for the establishment of a permanent tax commission, which shall be empowered to make a careful and scientific study of this question and report from time to time both to the executive officers and to the legislature. The commission should visit the several counties of the state annually, or at least biennially, and should be empowered to supervise the work of

local assessors and boards and provide rules to facilitate the performance of the duties of assessors and otherwise aid them in the work of securing equal and uniform assessments. Specially important service can be rendered by the proposed state commission in seeing that the tax laws made by this legislature are enforced strictly, uniformly and impartially and that assessments are free from discrimination as between counties, local assessment districts and different parcels of property in the same district.

Our condition is different from that of many other states and laws which might obtain in other states might not be wise in Minnesota. While we are largely agricultural, and like industrial conditions obtain more or less uniformly throughout a large portion of our domain, we have in Northern Minnesota the exceptional condition of a vast and rapidly developed mining industry, which bring into the question of taxation conditions which were entirely foreign a quarter of a century ago. On the iron ranges in the northeastern portion of our state we have developed great mining enterprises which probably do not now bear their just proportion of the taxes of the state.

### Taxation of Iron Mines.

Prior to 1896 the owners of iron mines in Minnesota paid a nominal tax of 1 cent per ton on ore mined and shipped in lieu of all other taxes. The law, that of 1881, was clearly unconstitutional at that time and was repealed in 1897. Under this act, during the five years ending with 1895, the tonnage taxes on Minnesota iron mines netted a total of only \$73,845.

Beginning with 1896 the mines have been assessed as other real property for direct taxation; the totals for St. Louis county, as equalized by the state board of equalization, being, for the past ten years, approximately as follows: \$3,900,000 in 1896; \$6,000,000 in 1898; \$16,000,000 in 1900; \$30,000,000 in 1902; \$42,000,000 in 1904 and \$70,000,000 in 1906.

How inadequate even the assessment of 1906 may be is apparent from the estimates of the companies themselves who held the mining properties as assets for capitalization. In 1902, when the United States Steel corporation had much smaller iron ore holdings than at present, the officers testified in a chancery suit, as appears in a government report, that the corporation had in reserve in deposits of tested ore upwards of 700,000,000 tons, upon which the officials placed a value of \$1 per ton as the worth of the ore to the company as material for conversion into merchantable products. Subsequent reports of the corporation and public statements of its recent president, Charles M. Schwab, confirm this valuation and show, moreover, that the great bulk of this iron ore asset of the United States Steel corporation is located in Minnesota.

### Iron Ore Royalty Tax.

Under the new constitutional amendment it is within your power, as it is your duty, to provide some system of taxation which will give the state at least an approximately fair share of its just revenue income from this great iron ore wealth. One step in the right direction, it occurs to me, would be an income tax on the royalties or mineral rights, which are not now listed for taxation.

An income tax of 5 per cent on the \$6,500,000 of royalties estimated to have been received by feeholders of Minnesota iron lands during the year 1906 would net the state treasury \$325,000, or a 10 per cent tax would net \$650,000.

This tax on mine royalties, however, would not reach the large feeholders, like the United States Steel corporation, who operate their own fee properties. The royalty enjoyed from the use of such properties operated by the holding company is as great as from the leased properties and the tax should reach if possible such royalty values as well as the royalties based on lease.

The problem in such case would be to devise a method of arriving at or discovering a fair and just measure of such royalty values. Inasmuch as the tonnage of ore shipped is the basis for computing the royalties on leased properties it is possible that you may be able to devise a practicable and lawful method of computing royalty taxes, using tonnage as the basis of computation.

### Royalty Taxes to Go to State.

A royalty tax were the total thereof equivalent to 5 cents per ton on the present tonnage of 25,000,000 tons shipped from Minnesota mines in 1906, would net \$1,250,000, or somewhat exceed the present tax revenue derived from direct taxation of tangible property. This royalty tax should go to the state treasury and represent the total taxation of the intangible property or rights of mining companies and feeholders; leaving the direct realty tax, as now, for the support of local government.

The fact that we are now a great mining, as well as a great agricultural state, is an argument, it seems to me, for the necessity of a permanent tax commission, the members of which would visit this region and every other region of the state during the year with a view of studying conditions in order that there might be a most perfect conclusion reached to the interest of all the people.

As much of the inequality arising from the application of the tax laws is due to inefficient machinery for assessment you may find the following change worth your consideration, namely, the abolition of the office of assessor in cities, villages and towns and in their place establish either a tax commissioner for the county, or, in the larger counties, a tax commission of three to five persons, to be employed annually with a view of the

proper listing of property and the better equalization of existing values.

The governor then declares that sleeping car companies, telephone companies and express companies do not pay their just proportion of taxes and suggests some different system of taxation and he also recommends semi-annual payment of railroad taxes.

### Evasion of Personal Taxes.

While on this subject of taxation I would call your attention to the inefficiency of the present personal tax system and the necessity of a consideration of providing for some reasonable method of the taxation of credits generally, including stocks and bonds and moneys, all of which are presumed under our present law to bear a proportion of the burden of taxation, but which have almost entirely escaped this burden. The total value of all personal property in the state of Minnesota, as returned by the assessors in 1906, was approximately \$170,000,000. During this same time there was on deposit in the banks of Minnesota over \$265,000,000 in money alone. It is clear that there has been a general failure to make proper return of the personal property schedules. It is a recognized fact that the man who does not pay into the treasury that which belongs in the public treasury is in the same class as the man who would take out of the public treasury that which does not belong to him. Various suggestions have been made as to the best method of reaching this class of property and some students of taxation have recommended a graduated income tax. If this is attempted it should be approached very cautiously because of the fact that under any system of taxing incomes reliance would have to be largely upon the statement of the person taxed and even under the most rigid and honest administration of the law there would be the usual evasion by false returns and thus be a fruitful source of perjury and result finally in a system that would be unequal in its operation and bear more heavily upon the honest than the dishonest. However, the subject of a graduated income tax is worthy of your most careful and honest consideration.

### State Department of Mines.

By reason of the vast interests of the state in mines and mineral properties I herewith submit to you the advisability of organizing a new state department devoted to that subject and the creation of the position of state commissioner of mines, giving such official powers and duties similar to those of the commissioners of insurance, labor, railroads and warehouses, dairy and food, game and fish, or the superintendent of banks. To this department might be entrusted the enforcement of the state mine inspection and regulation laws, the examination of the mineral resources of the state school and other public lands, the protection of the state's interests in iron and royalties and mineral contracts and leases, as well as the maintenance of a bureau of statistics and general information in regard to the mining industries and mineral resources of the state for the aid and use of the state legislative and various executive departments.

The state has a large area of land containing iron ore and in the past has leased on terms wholly out of proportion to just and proper conditions. The statute now provides that from all iron ore taken from state lands the state shall receive a fixed royalty of 25 cents per ton, each ton to be reckoned at 2,240 pounds. In the light of the leases made between private parties this fixed sum is an absurdity and should be changed without further delay. I would suggest that the provisions of the law be changed, fixing a minimum royalty on state leases of not less than 50 cents per ton, and authorizing a board consisting of the governor, attorney general and the state auditor to dispose of mineral leases at public auction to the highest bidder without fixing a maximum price by law.

### Railroad Legislation.

No problem with which you have to deal is of more vital concern to you and the people you represent than that of railway transportation and a proper adjustment of transportation rates. Some idea of the importance of this question to the people of the state may be gathered from the fact that the total gross earnings of railroads within the state of Minnesota, as reported by the companies to the railroad and warehouse commission for the year ending July 31, 1906, was \$81,619,640.35. The relative importance of this matter may be more clearly understood when we realize that the total gross earnings in Minnesota is over 60 per cent of the estimated farm productions of 1906. The basis of our wealth is agriculture and the total estimated agricultural products of Minnesota during the past year, including wheat, oats, corn, rye, barley, flax, potatoes, hay, butter, cheese, live stock, poultry, market garden, fruit and nursery products, is approximately \$160,000,000. In other words, it required more than one-half of the agricultural products enumerated to satisfy the transportation demands of railroad corporations within the state of Minnesota.

The vast earnings of railway companies have been swollen by excessive rates of transportation, which have been much higher in our own state than in the state south of us, or in Canada, to the north of us. There is a general and just demand that the people be relieved from the extortion and the abuse of high and unfair railroad rates of transportation. In my biennial message to the last legislature, and in discussing this same question, I said that I believed there was a remedy in the establishment of a maximum freight rate that would be paid to the shipper and not be a hardship to the transportation company;

that the railroad and warehouse commission was clothed with proper legal authority to establish fair and equitable rates and that this failure to establish fair and equitable rates was because of lack of aggressive administration rather than a lack of legal authority.

### Reductions Secured Insufficient.

I recommended at that time the appointment of a joint legislative committee to make a complete and full investigation of prevailing rates of transportation within Minnesota with a view of establishing by law a maximum tariff rate for transportation which might bear a reasonable rate of interest and profit on the investment, be fair to all parts of the state and absolutely prohibit unjust discrimination between localities or individuals. Pursuant to that recommendation the legislature appointed a joint committee which made an investigation of the prevailing rate conditions and, as a result thereof, the legislature adopted a joint resolution directing the board of railroad and warehouse commissioners to proceed with a view to a reduction of merchandise rates within the state of Minnesota. During the past biennial period efforts have been made by the board of railroad and warehouse commissioners looking toward a reduction of the rates of transportation, resulting in a reduction on merchandise rates; a voluntary reduction by some of the railroads in the matter of coal and grain rates. I am satisfied, however, that absolute justice has not yet been done to the people of the state of Minnesota. During the past year I caused to be made a complete tabulation of the prevailing rates of transportation between points on the several lines of railway within the state of Minnesota. Applying the Iowa distance tariff law to these rates I find that the shipper in Minnesota is paying a rate of transportation wholly without the bounds of justice and fairness and to such an extent, in my estimation, as to retard the real progress of the people of our commonwealth. I would recommend the appointment of a joint legislative committee with a view of making a study of the prevailing conditions as to the various rates of transportation and establishing a distance tariff law, which will bring some measure of prompt relief.

### A Two-Cent Passenger Rate.

Hitherto we have dealt largely with the adjustment of the rates of transportation on freight. The time has come in our state when relief is also demanded in the matter of passenger rates. The current fare for the carrying of passengers now is 3 cents per mile. It is recognized that the average fare per mile paid by persons who travel on railroads does not exceed 2.3 cents per mile. A maximum rate of 2 cents per mile should be fixed by law and fixed now.

The time has also come for some specific action in the matter of the enactment of law forbidding the granting of pass privileges by railroad corporations to people other than bona fide employees of railroads and their families. Our state enjoys the peculiar distinction of having deferred action upon this matter until other states have taken the initiative. I recognize that action upon this matter has hitherto been deferred by reason of the fact that members of the legislature and public officers generally have been granted the courtesy of free transportation. There should be no hesitancy upon this important question. If public officers are not adequately compensated now for their services fix the compensation to such an extent as to make it reasonable compensation and do away with the possibility of any officer becoming a beneficiary of the favors of corporations and by reason of gratitude be placed under some obligation to the corporation which extends the courtesy. Public opinion has become settled as to what should be accomplished along this line and I urge most earnestly the early enactment of a law which will forever abolish the pass system in Minnesota.

### Reciprocal Demurrage Charges.

For many years the railroad companies of Minnesota have made demurrage charges upon shippers without reciprocity. A reciprocal demurrage law, which will be fair to all parties, is demanded by the public and should be enacted at this session of the legislature. If the members of this body need any further enlightenment as to the absolute necessity of prompt action in the passage of such a just and practicable measure you will find it in the conditions of so-called car shortage which have afflicted the agricultural districts of this and neighboring states in the Northwest during the past ninety days. Even so flagrant have been the conditions that the general government felt compelled to visit this state with its force of traffic experts, hold hearings of shippers and carriers and enter into an exhaustive investigation of our defective traffic facilities. As one of the chief remedies for the insufficient supply of cars, which has resulted in the loss of thousands of dollars to Minnesota wheat growers and in some localities produced temporary coal famine, I suggest a reciprocal demurrage law, subjecting carriers to the same penalties for delay in furnishing cars as the carriers impose upon shippers for delay in loading cars.

It is of the highest importance that an order made by the railroad and warehouse commission, with reference to rates or classifications, should go into effect within a reasonable time, not to exceed thirty days, after the order is made and should remain in effect until modified or reversed on appeal. Our laws should be changed to bring about this desired result.

### Life Insurance.

Since the last session of the legislature the subject of insurance, and life insurance in particular, has occu-

pled a conspicuous place in the public mind and will no doubt receive your particular attention.

In February, 1906, a conference of governors, attorneys general and insurance commissioners was held at Chicago to consider and further the adoption of uniform insurance legislation. A committee appointed by that conference has given careful consideration to the subject since that date; its report will be before you and I bespeak for it your most earnest consideration.

The recommendations of the committee consist of seventeen proposed bills, which may be summarized as follows:

The adoption of standard policies, or at least standard provisions in all policies, so that for the future ambiguous and fraudulent policies will be unknown and open competition between the companies introduced; the abolition of the deferred dividend system, to which is traced many of the evils to which I have referred; a compulsory accounting for present surplus funds held by companies heretofore operating upon the deferred dividend plan; regulation of salaries and investments; preservation of vouchers for expenditures. Prohibition of discrimination in provisions to secure complete publicity through annual reports are proposed as measures which, while leaving the details of the management to the officers of each company, will result in fair competition, ample security and proper use of funds, while frequent accountings and full publicity will force honest and economical management.

### Problem of Expense Limit.

How to limit expenses is perhaps the most perplexing problem connected with this entire question; eminent actuaries radically disagree; the officers of many of the smaller companies scattered through the West and South claim that if the provisions of the New York law upon this subject were to be generally adopted it would result in their annihilation and a most powerful monopoly in the business of life insurance be established. Under these circumstances I believe the committee acted wisely in confining itself to the establishment of what may be termed great landmarks for the guidance of the companies and the public. If these fall the state must go further in its control of management.

Another bill of prime importance is that regulating the election of directors in mutual companies, providing for the introduction of a representative form of government and cumulative voting. If large mutual companies are to be managed solely in the interests of policyholders they must be afforded the means of expressing their desires; the blind trust heretofore reposed in the management of those companies has in some instances been woefully abused.

The bill reported by the committee prohibiting political contributions will meet the approval of all. This prohibition should extend to all corporations and if our law at present is not sufficient to prevent such contributions it should be amended so as to make it effective.

It is not necessary for me to refer further to the work of this committee than to say that each of its recommendations meets with my hearty approval.

### Alleged Lumber Trust.

Section 5168 of the Revised Laws provides that no person or association of persons shall enter into any pool, trust agreement, combination or understanding whatsoever with a view of restraining trade within this state, or which would tend in any way to limit, control, or maintain, or regulate the price of any article of trade, manufacture or use within the state and also provides a serious penalty for a violation of this section of the statute. Although this statute has been in force and effect for several years there have been no prosecutions or punishments for violation of the law, though it is generally understood and as a matter of fact positively known that combinations in violation of this statute have been effected and to such an extent as to menace the public welfare.

I call your attention to the fact that the price of lumber of all kinds has gradually risen to a point where the building of homes and the use of lumber are almost prohibited. This is not due in any great measure to tariff conditions, nor to the decreased product of lumber, but is the direct result of combinations between manufacturers, jobbers and even retailers; and while the statute provides that the attorney general and the several county attorneys shall begin and conduct actions and proceedings necessary to enforce the provisions of this section, or that any citizen may do so, no attempt has yet been made to destroy the monopolistic control of the lumber markets by those engaged in this industry. I believe that an appropriation should be made and placed in the hands of the attorney general to procure evidence upon which he could base a prosecution and enable him to carry out the provisions of the statute.

### Primary Election Law.

It is hardly necessary to call your attention to the need of some very important modifications of our primary election law. Much opposition to the law as it now stands exists and there is prejudice against a primary election at all because of the possibilities of abuse under our present system. I believe the present law works better results for the people as a whole than the old convention system, but it is not without its weaknesses. I believe the law would be improved by providing that political parties through conventions might be permitted to nominate two or more candidates to be placed upon the election ballot and to allow the people to choose between

these nominations. The present system of permitting any citizen to declare himself a candidate for nomination by the mere filing of a nomination fee suggests a possibility of having a totally unfit and unworthy man to become the nominee of the political party with which he affiliates. A suggestion worthy of consideration is that nomination for the primary election, or the right of a citizen to have his name placed upon the ballot, should be by petition only. The number of petitioners should be sufficient to prevent frivolous candidates, but not so high as to bar worthy aspirants. There are many who advocate the extension of the primary election law so as to include state officers. While this is correct in theory, and should ultimately be accomplished, I believe that its extension to state officers should be deferred until the law is corrected in its application to its present field of operation.

### Labor Legislation.

I desire to renew a previous suggestion to the legislature upon a subject which is of great interest to the working people of the state and which is generally described as the common law doctrine as to the non-liability of a master to a servant for injuries occurring through the negligence of a fellow servant.

Whatever may have been proper as to this common law doctrine in the past the present law is certainly not suited to the present time, when high geared and dangerous machinery performs such a large part in the production of manufactured articles and in the construction of buildings.

Your intention is invited to the success that has attended the opening of a free public labor employment agency under the auspices of the state labor department and to the wisdom of an expansion of such free employment agencies.

In connection with the subject of labor legislation I also wish to submit to you the desirability of increasing the number of labor inspectors, not only for inspection of shops and factories, but for prevention of child labor and enforcement of the truncky laws, to the end that there may be an inspector in each of the nine congressional districts of the state.

Governor Johnson here devotes considerable space to the various state departments and to the subjects of good roads, drainage and forestry and suggests what he believes would be improvements in existing laws. He also recommends the adoption of a uniform divorce law and calls attention to the merits of the advisory initiative and referendum.

### Public Ownership.

Public ownership of public utilities is fast becoming an accomplished fact in many of the cities and villages of the state. If a city, village or town desires to conduct its public utilities by and for the public, after having so decided by a majority vote, there can be no objection to allowing the municipality to raise the money necessary to purchase and operate in any way it sees fit. Under our present laws it is permitted to bond all the property of the community for this purpose. If, on the other hand, it can find persons who are willing to loan the money upon the property of the public utility desired to operate, pledging only the property of the public utility loaned on, there can be no objection on the part of owners of other and general property. This plan would remove the objection sometimes urged against municipal ownership, that it injures the credit of a city or village and that it is not fair to tax non-users of these utilities for the benefit of the users. This expression of an advanced public opinion is found in our neighboring state of Illinois in the enactment of the so-called Mueller law, which has been sustained in the courts, and applies in that state to the acquisition by municipalities of street railway properties. The idea is just and correct and its enactment in this state would undoubtedly have the effect of regulating in no small measure our privately owned public utilities, if not in acquiring them for the public use.

### Fight on Harvester Trust.

During the past two years the state prison twine plant has been materially enlarged; the output amounting during this period to 24,500,000 pounds, which was sold at a price amounting to \$2,360,000. It is conservatively estimated that the farmers of this state have been benefited to the extent of at least 3 cents per pound, amounting to approximately \$750,000, while the state at the same time has made a net profit of \$410,000, thus yielding during the two years a net profit to the state and the citizens thereof of more than \$1,100,000. The National Cordage company, a subsidiary corporation of the International Harvester company, has commenced making twine from flax fibre in this state for the evident purpose of competing with the state product. To meet this situation and to protect the state interests the law should most certainly be amended to permit the sale of the prison made twine outside of the state in order that we may meet any effort made by the twine trust to throttle our plant inside of state lines. Further, there seems to be a feeling upon the part of our citizens in favor of making farm machinery at the state prison to compete with the trust; that is, the manufacture of such machinery as is now not made in the state. I believe a departure could be made along this line which would prove of great advantage to the agricultural interests and I would suggest that the management at least be authorized to investigate the feasibility with power to act.

In conclusion Governor Johnson recommends an anti-lobby law compelling those interested in legislation to register and submit all arguments to committees instead of to individuals.