INAUGURAL MESSAGE

OF

GOV. JOHN A. JOHNSON

TO THE

LEGISLATURE OF MINNESOTA

1907

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HARRISON & SMITH CO,
MINNEAPOLIS

INAUGURAL MESSAGE

Gentlemen of the Senate and House of Representatives:

The first paragraph of our constitution states that government is instituted for the security, benefit, and protection of the people, in whom all political power is inherent, together with the right to alter, modify, or reform such government when the public good may require. It is not instituted for the protection of interests deriving their privileges from the sovereign power of the people; neither is it instituted to deprive any individual or any interest of any right which may obtain under the constitution. You are elected as representatives of all the people of the state to make such alterations and modifications in our laws as will inure to the domestic welfare, and I believe that at this session of the legislature you are given opportunities that seldom come to a law-making body. I hope and believe you will approach the office committed to your care with zeal and activity, and with the sole purpose and motive of doing that which is best for the commonwealth.

"Public office is a public trust," and while some who aspire to office are prompted by other than patriotic motives, the majority desire to do that only which is right and just. I am sure that in the deliberations of this body you will be prompted by efforts which will win the appreciation and approval of the people.

There is much cause for congratulation in the general condition of our prosperity. We have particular reason for felicitation in the financial condition of the state. According to the report of the state auditor there has been much improvement during the past biennial period. Economy by the legislature, followed by economical administration on the part of the executive departments, will bring a further improved condition in the near future.

Prudence and wisdom should mark your every action, and local demands should, as far as possible, be subordinated to the good of the whole state. The state auditor in his report to you has given his estimates of the receipts and expenditures for the ensuing three years. His estimate of the total receipts for the year 1907 is $6,300,936.09, with estimated expenditures for the same

period of $6,376,876.03. For 1908 the income is estimated at $5,370,000, with estimated expenditures of $4,766,000. For 1909, the estimated receipts of the revenue fund are $5,440,000, with estimated expenditures of $5,061,000. In his estimate for the years 1908-1909, it will be necessary to raise about $500,000 a year by direct taxation, and to produce that sum a levy of approximately a one-half mill will be sufficient; and that, reckoning upon this basis, and taking into consideration the various extraordinary appropriations which are now in force, some $900,000 will be available during these two years for new buildings and other extraordinary appropriations. While this is not a very large sum, it is hoped that the legislature will be able to practice that rigid economy which will bring the appropriations within the estimate made by the state auditor, because his estimate is carefully made and based upon experience. I recognize the fact that there are many temptations to increase the general appropriations, but every effort should be made in the direction of careful finance with a view to reducing the burden of taxation as much as possible.

TAXATION.

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.

The state constitution provided that laws should be passed taxing all property according to its true value in money. Laws have been enacted with this idea in view, and yet we know that the taxation of all forms of property, while based in some measure upon valuation, has seldom or never approximated full value. Real property has been generally assessed at anywhere from twenty-five to fifty per cent of actual value; and tangible personal property at much the same ratio; while millions of dollars of invisible and intangible property has escaped taxation entirely because of the ability of the owner to evade his lawful tax burden.

It is not to be presumed that this or any other legislative body will be able to devise a system of taxation or enact a tax law which is going to bring about in complete form the results com-

monly hoped for by all people compelled to pay taxes. The best that this body can do is to equalize as nearly as may be the burden of taxation and so adjust it that its weight will not fall too heavily upon those unable to bear it, and distribute the responsibilities in accordance with the privileges enjoyed under our government. We cannot escape taxation. Taxes are and must be levied for the purpose of government. During the year 1905, the total taxes levied in our state for all purposes amounted to $22,355,326.25, distributed in various ways for the carrying on of state, county, city, town and school governments. No law can be enacted by you which will in a very large measure reduce this burden of taxation, which was even greater in 1906 than in 1905; the total taxable valuation of the property of the state for 1906 being $914,000,000, in round numbers, as against $853,000,000 in 1905.

THE NEW CONSTITUTIONAL TAX 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. There has been much complaint, and that too, very justly, by the people. This limitation has been due to constitutional restrictions, and for years there has been a clamor and much attempt to modify our constitution, removing the restrictions which have hedged about legislative bodies, and giving to them a wider and more general latitude in regulating, or in legislating upon this question of taxation.

At the recent general election the people of Minnesota voted to modify the constitution, and adopted an amendment, giving to the legislature this 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," supersedes 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 re-

striction 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.

I appreciate that there can be no great and sudden change from an unnatural and unjust taxation to a natural and just condition. The burden of taxation will continue to fall largely upon the tangible and visible property of the state. It occurs to me that, while there is much temptation to indulge in many changes from our present condition, it would be wise to make haste slowly, and that it would be far better to take one short step in the right direction than to proceed any distance in the wrong direction, and later on be compelled to retrace our steps. Prudence, rather than haste, should mark the state's action along the line of taxation reform. It would be much more unfortunate, indeed, to take any action or presume to take any action that would tend to make the people of our state dissatisfied with the important change so recently effected by them, and create a desire to return to the previous conditions.

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 has been patent for many years that mortgages have not generally been listed for taxes, despite the fact that stringent legislation has been enacted giving to the tax-collecting authority almost arbitrary and despotic power. The chief result has been fruitless effort and easy evasion of the law. Money has been loaned under fictitious names and power of attorney given exclusively for the purpose of tax evasion. Perjury, fraud and misrepresentations have been cultivated, all to the end of relieving the interested party from sharing in the honest payment of his taxes. Moreover, fear of the mortgage tax drives Minnesota capital to other states for mortgage investment, and gives the local market to outside capital which pays no Minnesota taxes. The result is, first, that the state loses revenue, and second, that Minnesota borrowers pay a higher rate of interest than they would were competition free and equal as between local and outside capital.

It occurs to me that under the latitude afforded 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 loaner 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 one per cent, to be paid into the treasury of the county at the time the mortgage is recorded, and a percentage tax not exceeding ten 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. Objection might be raised to this system on the ground that the mortgage might not be recorded at all. This can be obviated by imposing the condition that the failure to comply with the law in both the matter of the registry tax and the payment annually of the income tax on this credit would deny and prohibit process in the court to enforce the collection of either the principal or interest of said mortgage. I believe that under such a system this particular form of credits could be effectually reached and taxed; and, while our general theory of taxation assumes that all property shall be taxed equally and alike, experience has taught us that this class of property has not been taxed as other property has been taxed for the reason that the property could not all be reached under our present system.

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 brings 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. Human mind can scarcely calculate the value of these properties, and it is not fair to assume that even at this time these properties have been listed at anywhere near a fair valuation.

TAXATION OF IRON MINES.

Prior to 1896, the owners of iron mines in Minnesota paid a nominal tax of one 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 hold 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, Chas. 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. Since 1902 the exploration and acquisition of iron ore properties in Minnesota have proceeded on a large scale, until the present estimates of mining, financial and government authorities, as regards the explored merchantable ore deposits in Minnesota are upwards of one and one-half billions of tons. It is, therefore, apparent that even the $75,000,000 valuation placed upon the iron mines of Minnesota by the state board of equalization in 1906 represents only a small fraction of something like five to ten per cent of the actual value placed upon the properties by the companies themselves for practical commercial purposes. In this connection it is interesting to note that the tax receipts in the office of the county treasurer of St. Louis county indicate that the total taxes paid by the United States Steel Corporation in 1906 on its mines, its inactive and leased properties, and likewise its town lots and timber, and all other property on the Minnesota iron ranges, approximate $550,000, which would be equivalent to a 20-mill tax rate applied to a total assessed valuation of only $27,500,000.

The problem which confronts the state in the taxation of its vast iron ore properties is the practical impossibility of applying to these mines a valuation and tax rate which would cause them to pay a just proportion of taxes on a basis of equality with other property throughout the state. Suppose the state board, ignoring all the returns of local assessors and the county board of equalization, should arbitrarily increase the present assessed valuation of the iron properties four to ten-fold, and such valuation after due litigation were sustained by the courts. The taxes paid by the mining companies under the present system would not be very materially raised after all, for the great bulk of taxation is for local township, village, school district, city and county purposes, and as these local taxes are a given and definite quantity measured by the actual cost of local government, the act of raising the valuation of the properties of a given township simply reduces the tax rate without materially affecting the total volume of taxes paid, except the slight levy which goes to the state. Thus even under the present taxation of the iron ranges, the township of Stuntz, which is estimated to hold over one-third of the total iron ore of the Lake Superior region, has a tax rate of only eleven mills on a dollar of low valuation; while in the township of Nichols, another of the rich iron ore locations, the 1906 tax rate is only eight mills on the present nominal valuation as compared with a tax rate of about twenty-five mills as the average for the state at large on a valuation basis several times higher. It is plain that if the iron mines of St. Louis

county paid all the taxes levied for all purposes in that county, outside of the taxes paid by city property, they would still pay only a comparatively small proportion of their fair and just tax burden as compared with other property in the state.

As showing how ineffective may be the action of the state board of equalization in compelling the iron mines to pay their just share of taxes, the raise made by the board two years ago will serve as a good illustration. The valuation of $30,000,000 on St. Louis county iron mines for the years 1902 and 1903 was raised by the state board over one-third, to $42,000,000 for 1904-5. But the records of the county auditor of St. Louis county show that the 1904-5 taxes on St. Louis iron mines, instead of showing the increase indicated by a 35 per cent raise in valuation, were actually lower for 1904-5 than for 1902-3. The present state board has recently made an increase of about 70 per cent in the valuation of St. Louis county iron properties. What the increase in actual taxes will be remains to be seen. Present indications are, however, that the revenue yield from iron mines for 1907 will show an increase of possibly 30 per cent over 1906, bringing the total up to about $1,200,000 for the year, of which perhaps $150,000 will go to the state treasury.

STATE VERSUS PRIVATE REVENUE FROM IRON MINES.

The state of Minnesota has received one of the greatest heritages of mineral wealth ever bequeathed by mother nature to a commonwealth. The iron ore thus far surveyed and tested measures approximately one-half of the reserve deposits of the continent. The 1906 shipments of 25,483,000 tons from the Minnesota mines is over one-half of the American total and one-fourth of the world total. But the state itself is receiving a very meager share of the net revenue and general benefits.

The great iron ore beds are being yearly depleted for the benefit of a few, and these chiefly non-resident corporations.

There have been taken from the mines of Minnesota and shipped out of the state from the opening of the first mine in 1884 down to the last shipment for the season just ended on December 15, a total of 148,131,306 tons of iron ore, which, valued at the low average of $170 per ton, was worth to the shippers $251,823,220. The total revenue derived by the state during this period of 22 years has been $315,280 from mineral leases and contracts, $685,301 from royalties on iron ore, and less than $4,500,000 all told from taxes, including both state and local revenue, or a total of about $5,500,000, which amounts to the trifle of a little over two per cent as the

aggregate share of the state from all sources and for all purposes from its great iron ore production and resources.

The aggregate gross earnings of the three iron range ore carriers in hauling the total of 148,131,000 tons of iron ore from the mines to the lake, at 80 cents per ton, is $118,000,000 of which approximately $60,000,000 as shown by the official reports, represent net earnings.

The royalty profits from iron ore tonnage to the United States Steel Corporation, which holds the fee simple to the majority of the properties which it operates, and on the remainder pays royalties on contracts made at one-half to one-fourth the present royalty values, are beyond computation.

From a portion of these iron properties, which are operated under lease, private fee-holders during the past year have realized royalties exceeding $6,500,000, on the single year's output.

During the seven years, 1900-1906 inclusive, the two iron range roads, namely, the Duluth & Iron Range and the Duluth Missabe & Northern, have declared dividends aggregating $21,000,000 on a total $7,112,000 of capital stock, and had on hand on June 30, 1906, after the payment of $6,453,000 of dividends during the past fiscal year, an accumulated surplus of $9,122,000.

Thus, the state of Minnesota, which holds the resources and has yielded these magnificent incomes to a few private and corporate interests, is the one party that receives only a beggarly income.

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 fee-holders 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 fee-holders, like the United States Steel Corporation, who operate their own fee properties. The royalty value enjoyed from the use of such properties operated by the holding company is as great as from the leased properties, and the tax should, if possible, reach 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. At the same time, great legal ability and care will be required to avoid the dangers of double taxation, which is repugnant to the constitution and to the spirit of American institutions.

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 fee-holders; leaving the direct realty tax, as now, for the support of local government. The proposition which some have suggested, that the direct tax should be abolished and a tonnage tax substituted to provide for all revenue both state and local, is objectionable because of the jeopardy of revenue for local government during a period of industrial depression or in a year of possible lockouts and strikes. I wish it to be understood that I clearly oppose any system of taxation which will deprive local township, village, school district and county government and improvements of a liberal, reliable and continuous source of revenue.

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. I know that there is a general objection to the creation of commissions, but the experience of some of the older states which have adopted this plan encourages me in the belief that it would be a wise departure for us to undertake.

Another feature of this problem occurs to me to be worthy of your most careful consideration. At the present time the state finances are in a healthy condition. Railroad and franchise taxes provide for a large portion of the state revenue. I believe that at this session of the legislature changes can be made in our tax laws which will substantially provide for the expenses of state govern-

ment by this form of taxation; and when this can be done, taxation would be entirely left, as it ought to be, to the local governments for their self control.

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 or five persons, to be employed annually with a view of the proper listing of property and the better equalization of existing values.

TAXATION OF SLEEPING CAR COMPANIES.

I desire to call your attention especially to the necessity of changing the present law with regard to the taxation of sleeping car companies. Our statute now provides that annually on or before May 1, every sleeping car company shall make to the state auditor a report on its gross receipts during the preceding calendar year, for fares between points within this state. That is, beginning at a point within this state, and terminating at another point within this state, which report shall be verified by some proper agent or officer of such company having official knowledge of the facts, and that upon such report the company shall pay to the state treasurer a tax of three per cent upon such gross earnings which shall be in lieu of all other taxes. Under this statute, the company has paid a very small tax, wholly out of proportion to its earnings within the state, and not in the same proportion as other corporations paying on a gross earnings basis. It is a well known fact that sleeping car companies evade the spirit of this law. For instance, buying a sleeper ticket from St. Paul to Crookston, the passenger is supplied with a ticket to Grand Forks, N. D. If the destination is Moorhead, within our own state, the ticket is sold to Fargo, without the state. This same rule has applied to all points near the border of any other state, so that the business of the company has been very slight locally and very largely an inter-state business. Upon all business to remote points, such as Portland, Seattle, Chicago, and elsewhere, the state has received no tax. The present statute covering this question is an absurdity and should be changed at once. The sleeping car companies should be required and compelled to report all of their business, local and inter-state, and be compelled to pay in proportion on the same general basis applied to railroad companies, and the tax should be increased to four per cent, at least; or, we should adopt the excise tax plan now in use in

the state of Ohio, which in substance requires the sleeping car companies to file a complete statement of the conditions of their company, giving the par and market value of their stocks and bonds, and all other information designed to determine the actual value of the property and franchises of the corporation, and to levy a tax in proportion to the volume of business and earning within the state.

TAXATION OF TELEPHONE COMPANIES.

I desire also to call your attention to the necessity of amending the tax laws so far as they relate to telephone companies. Under our present statute telephone companies are taxed on their gross earnings derived from business within this state, which shall be in lieu of all other taxes and assessments upon such company and its capital, the same to be paid into the state treasury on or before January 1 in each year. The law, however, imposes no penalty for the failure to pay said tax, the state being required to bring suit to recover the same. There certainly is no reason why an exception should be made of any public service corporation, and this class of property should be treated in the same manner as all other property, and the imposition of a penalty in the failure to pay taxes, as required by law, would relieve the state of unnecessary litigation and would not deprive the state of the use of the money.

Then, too, these, and all other public service corporations which now pay taxes on earnings wholly within the state, should be required to pay pro rata on all inter-state business as well. The law at the present time on this particular feature of the question is somewhat ambiguous, and the term "gross earnings" does not explicitly state that inter-state revenue shall be included as a basis of arriving at the taxable value of the property.

TAXATION OF EXPRESS COMPANIES.

Your attention is directed to the feasibility and propriety of making a change in the matter of the taxation of express companies. Our statute now provides for the taxation of express companies, based on six per cent of the receipts on business done between points in the state, after deducting the amounts paid to railroads for the transportation of freight within the state. This practically makes the rate of taxation of express companies three per cent, as the railroads are paid about fifty per cent of the revenue. Express companies do not include any proportion of the earnings or receipts on inter-state business; that is, business which originates in and terminates outside of Minnesota, and vice versa, and business

passing through the state. Railroads doing business in this state pay four per cent on a proportion of all inter-state and also on intra-state earnings, and I believe Minnesota is the only state where the statute provides for the collection of taxes on an earnings basis, to pay on the balance, after deducting the amount paid to railroads. Express companies should not be treated differently from other companies, and I believe it would be more practical to take the total earnings of the express companies and ascertain Minnesota's proportion of such revenue for taxation purposes based on the ratio of mileage in Minnesota of such express companies, which the mileage bears to the total operated mileage; or, in lieu of some such provision, adopt the excise plan obtaining in the state of Ohio with relation to sleeping car companies, to which reference has already been made.

SEMI-ANNUAL PAYMENT OF RAILROAD TAXES.

I would also suggest a change in the present law so far as it relates to the payment of railway taxes. Our law now provides for the payment of aid to high schools, graded, semi-graded and rural schools to the extent of $530,000 annually, and provides that this should be paid to the various districts in October of each year. This payment is in advance of the appropriation reaching the treasury department, and compels overdrafts, or the borrowing of money for this purpose, and thus creates a deficit in the state revenue fund each year. This deficit could be avoided in a large measure, if not altogether, by an amendment to the gross earnings act, so as to provide for the payment of railroad taxes semi-annually, requiring railroads to pay a fixed portion of their gross earnings tax on or before September 30 of each year, and the remainder on or before February 28, following.

INTEREST ON PAST DUE CORPORATE TAXES.

By statute and common practice, the general taxpayer who is delinquent in the payment of his taxes is compelled to pay the state 12 per cent interest in addition to other penalties. But in the case of corporations that pay taxes on gross earnings or otherwise, the supreme court of Minnesota has held (62 Minn. 518) that in the absence of express statutory provisions delinquent taxes are not considered in law a debt on which interest is due, and therefore that the state is not entitled to collect interest on corporate back taxes. The legislature should act on the suggestion contained in this decision of the supreme court and provide the express statutory

provision required, authorizing collection by the state of interest on back taxes of all corporate companies. Such interest penalties, moreover, will have a beneficial effect in causing such corporations to be cautious in the matter of allowing their taxes to become delinquent.

While on this subject of taxation, I would call your attention to the inefficiency of the present personal tax system and the necessity of 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, 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.

LICENSE TAX ON CORPORATIONS.

Your attention is likewise respectfully called to the following resolution of the state board of equalization, adopted October 4, 1906, in favor of levying an annual license tax on corporations, with the spirit of which I heartily concur:

"RESOLVED, By the state board of equalization that the governor is respectfully requested to ask for the passage of a law by the next legislature fixing an annual license fee of say $10 for each and every corporation, whether local or foreign, doing business in the state of Minnesota, with a proviso that in the case of failure

to pay said annual fee, the offending corporation be barred from the courts of this state, and their charter be considered annulled, said license fee when paid to be accompanied by the address of the principal office, the name of the officers and the amount of capital paid in of said corporation. The fees arising to be paid to the state treasurer and be covered into the state general fund."

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 ore 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.

For the protection of the state's direct mineral interests in public lands alone, an efficient and properly equipped department of mines would pay for its cost many times over. This is shown by bitter experience in regard to a number of state properties. It is a matter of legislative record as shown by your archives, that the famous Mountain Iron mine, the greatest in the world, from which have already been taken nearly 15,000,000 tons of iron ore valued at perhaps $20,000,000, was once the property of the Minnesota state schools and was lost to the state, irreparably and without a dollar of compensation, through inadvertence or otherwise, but mainly because of the failure of the state to properly and efficiently provide for the management and protection of its mineral properties. Still more recently in the case of the royalties due from the state mine, variously known as the "Missabe Mountain," the "Oliver" or the "Virginia," the report and claim of the state's engineer that 340,000 tons of iron ore had been mined and shipped from this state property, more than were accounted for by the operating company was ultimately abandoned because the investigation by the state was made too late and without sufficient original data. It was admitted, however, that in the waste or stock-pile of this state mine there are

269,000 tons of low-grade ore in which the state has an ultimate royalty interest of 25 cents per ton, if properly protected and provided for.

The state at this time has a divided supervision over its mineral interests, in part vested in the state auditor, in part in the inspection department of the state labor commissioner, and in part through the office of county inspector of mines. These divided functions, were they consolidated and made mutually co-operative in a single state department under a proper executive head, would be vastly multiplied in executive efficiency and influence, and give the state and the people of Minnesota the authority in the protection of its mineral rights and regulation of mines that it has achieved in the regulation of insurance companies, banks, mills and factories, railroads and elevators.

The fact that Minnesota today holds over one-half of the estimated iron ore reserve of the United States, and that our state school and other public institutions have greater mineral holdings than those of any other state in the Union, show the propriety and public value of such a department to the state, even if our past experience did not prove the necessity of additional state executive authority and machinery in the regulation and protection of its mineral interests.

For the regulation of its coal mines, the state of Pennsylvania in 1897 established a state bureau of mines, which by the act of 1903 was enlarged into a state department of mines with a total force of thirty inspectors.

The Canadian provinces across the border have found the department of mines one of the most efficient and indispensable government departments; and Minnesota, which has suddenly developed greater mineral resources and interests than almost any other state or province in the world, may profit by their experience and example.

MINERAL LEASES.

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. The average royalty paid by the United States Steel Company to the owners of land on the Mesabi range is more than 27 cents per ton,

and upon the Vermillion range, almost 37 cents per ton. Recently this corporation has negotiated a lease with private parties at 85 cents per ton, with a contract to mine not less than 750,000 tons per year. In important lease still more recently has been made on the basis of $1.00 per ton royalty, and this is likely to be the Mesabi range basis for the future. In view of this condition, the state cannot longer afford to pursue the policy of disposing of its iron ore wealth at prices less than that paid to private individuals. 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. Certainly the state ought to have the right to go into the markets of the world and dispose of its product under the same favorable conditions enjoyed by private owners. Rather than to continue issuing mineral leases at the price now fixed by law, it would be better far to withdraw all state mineral lands from the market, and hold them for the future with a view of securing to successive generations a fair share of this rich heritage with which by nature we have been endowed.

While I have no desire to criticise the record of the past, the amount received by the state in royalties now by no means truly represents the great wealth which should have meant so much to the permanent school fund of the state of Minnesota; and while we cannot correct the mistakes of the past by abrogating lease contracts already made, we can safeguard the future by proper legislation, and provide for the future sale of state property at a fair valuation.

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 gross earnings per mile of the railroads within this state were $10,283.28, and the net earnings per mile $5,100.90. The relative importance of this matter may be more clearly understood when we realize that the total gross earnings in Minnesota, being $81,619,640.35, is over fifty 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, livestock, 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.

REDUCTION OF FREIGHT RATES.

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 fair 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. 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 commission 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.

For example, to 181 stations on the Chicago, Milwaukee & St. Paul railway, with an average distance of 104½ miles, I found the average rate on merchandise in less than carload lots to be forty-two per cent higher than would obtain under the Iowa distance tariff law; forty-six per cent higher on carload lots of merchandise; on wheat, the discrimination against our own state was 24 per cent; on flax and millet, thirty-seven per cent; mill stuffs, forty-four per cent; coarse grains, forty-two per cent; lumber, thirty-three per cent; salt, sixty-four per cent; cattle and hogs, ten and fourteen per cent respectively.

Rates over other Minnesota roads showed more or less similar discriminations against Minnesota producers and shippers, as compared with Iowa distance tariff rates fixed by the Iowa state railroad commissioners. The principal exceptions were wheat rates over the Great Northern and competing lines in northern, western and central Minnesota, and through business plying between Duluth-Superior and the Twin Cities. Although high net earnings per mile of road are not always and necessarily evidences of high transportation rates, it is fair to presume that when high net earnings are accompanied by high tariff rates the two bear some relation of cause and effect. So, when we find the net earnings per mile of roads twice as great in Minnesota as in Iowa, and this, hand-in-hand with freight tariffs which in the main average twenty to fifty per cent higher, it is a fair presumption that the high net earnings of Minnesota roads are due in part to unjust and extortionate rates.

Since the above rate comparisons were instituted, there have been some reductions by recent tariffs. Effective Nov. 15, 1906, the new class merchandise tariff ordered by the railroad and warehouse commission reduced merchandise rates about 20 per cent. The northern Minnesota roads also made voluntary reductions averaging about 10 per cent in grain rates. Effective Jan. 25, 1907, the commission has ordered new commodity tariffs, reducing rates on grain, coal, and live stock 12 to 28 per cent; an important effect of the new tariffs being to equalize rates throughout the state, the principal reductions being at country points which formerly were charged high rates as compared with those for large terminals.

The recent rate reductions are in the right direction. Compared, however, with grain rates in the Canadian provinces to the north of us and with Iowa merchandise rates to the south, it is apparent that Minnesota freight rates are still at too high a level, and especially in view of the enormously heavy tonnage passing over Minnesota roads from the several northwestern states tributary to Minnesota distributing points.

Minnesota roads carry the greatest wheat tonnage in the world, the greatest iron ore tonnage, a vast lumber tonnage, a large livestock and general agricultural tonnage, and the coal and merchandise tonnage of all the northwestern states which secure their supplies through the ports of Duluth and Superior or from Chicago to points in Minnesota and northwesterly. This vast and exceptional tonnage volume, which yields Minnesota roads traffic earnings equal to one-half the total farm product income of the state, should produce in Minnesota lower rates than prevail in less favored states, and the rich dividends now being distributed by the corporations operating Minnesota roads point to this as the proper time to secure just and needed reduction in transportation charges.

Under the present statute the board of railroad and warehouse commissioners has authority by proper legal proceedings to reduce the rate of transportation to a point in harmony with conditions prevailing north and south of us; but from past experience it must be obvious to everyone that efforts to secure just and equitable rates based on a thorough-going and scientific tariff through this agency will be more or less tedious and accompanied with a great deal of delay. The work of the appraisement of the value of railroad property has been undertaken, and is now in progress, but will not be completed for some time. In view of these various perplexing conditions, 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. The people should not longer be compelled to pay great dividends, on money that the people themselves have put into railroads, by reason of excessive rates of transportation. They ought not to be compelled to pay a sum greater than that required to pay a legitimate and reasonable rate of interest and profit upon the actual value of railroad properties of the state of Minnesota. In addition to reduction of rates, stringent laws should be passed at this session of the legislature, in harmony with those of the general government pertaining to interstate commerce, which would

serve to make impossible the granting of rebates and special privileges to classes in the handling of state business.

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 three cents per mile. It is recognized that the average fare per mile paid by persons who travel on railroads does not exceed 2.03 cents per mile. A maximum rate of 2 cents per mile should be fixed by law and fixed now. The public has demanded it; the public is right in making that demand, and the legislature should not defer action.

ABOLITION OF PASSES.

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 railways and their families. Our state enjoys the peculiar distinction of having deferred action upon this matter until other states have taken the initiative. So insistent have the people become in their demand for this reform that all of the several political organizations have been compelled to recognize the justice of the demand, and have incorporated planks in their various platforms looking toward the abolition of the pass system in the state of Minnesota. 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 hesitation 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. Notwithstanding the increased supply of cars at the command of Minnesota railroads now as compared with one year ago, and wheat growers everywhere clamoring for cars, the wheat receipts at Minneapolis during the present crop season, from August 1 to December 4, were only 28,000,000 bushels against 42,000,000 bushels for the same period last year, a reduction of 14,000,000 bushels, or thirty-three per cent. Under such conditions it is time that the state impressed upon public carriers the fact that a private corporation which seeks from the state a charter to exercise a quasi-public function is bound to perform that function to the best of its physical ability, and heed the public interest, and that its duty to the public is paramount to its duty to swell the already generous dividends to its stockholders by "ton-mileage" or other arbitrary economies.

ORDERS OF THE RAILROAD AND WAREHOUSE COMMISSION.

It is of the highest importance that an order made by the railroad and warehouse commission, with reference to rates or classification, should go into effect within a reasonabe time, not to exceed thirty days, after the order is made and should remain in effect until modified or reversed on appeal. Section 1972, Revised Laws 1905, provides for the taking effect of such orders unless the operation of the order is suspended by the court to which an appeal

is taken. The same principle should be made to apply to an appeal from the district to the supreme court.

It must be borne in mind that the railroad and warehouse commission is not a court and has not the power to enforce obedience to its own orders. The only way in which an order made by the commission can be enforced is by an application to the district court for a mandatory writ compelling the carrier to comply with the order. In view of this requirement a practice has grown up, and seems to be authorized by law, which allows the carrier, when application is made for such mandatory writ, to resist the application and in that manner try the case upon the merits.

By taking this course the provision of the law which requires that the order should be put into effect when appeal is taken is evaded, and the taking effect of the order is actually postponed until the end of the litigation. It would seem that the rights of the carrier are amply protected by his right to appeal to the courts and that the law should not permit evasion and postponement of the commission's orders by the method practiced.

When application is made to the district court for a mandatory writ, the law should provide that such writ should issue as a matter of course and without a trial of the question upon the merits, unless the order of the commission was for some reason void upon its face, or unless it appeared that the question involved was one over which the commission had no jurisdiction.

The orders of the Interstate Commerce commission pertaining to rates under the new government rate law, and of the Iowa Railroad commission under the distance tariff law, are prima facie legal rates after a given day, notwithstanding appeal, and stand as such until the proper court has adjudicated otherwise, and this should be the rule of law in Minnesota, if the orders of the state commission are to have the authority and effective influence which the general interests of the state demand.

INSURANCE.

Since the last session of the legislature the subject of insurance, and life insurance in particular, has occupied a conspicuous place in the public mind and will no doubt receive your particular attention.

Life insurance has grown to be of the highest importance. A large portion of the savings of the people are invested in it, and life insurance companies have under their control vast accumulations, the proper use and management of which is of grave concern and necessary to the public welfare.

The combined assets of the level premium life companies of this country almost equal those of the savings banks and constitute about one-fortieth of the total estimated wealth of the United States.

A business of this magnitude of a somewhat technical character, controlling such a large portion of the property and in millions of cases all of the savings of individuals, should be safeguarded in every possible manner and no hasty or illy considered legislation should be adopted which might impair its usefulness.

Upon the other hand we find those who have heretofore managed the large life companies the first to proclaim the almost sacred character of their calling. Policy contracts are urged upon citizens in the name of the highest instincts of humanity; the officers assume to act as trustees and guardians of this precious fund and if we take them at their own estimate of their duties it follows that they must be held to the strictest accountability for their actions.

Great evils have grown up in connection with this very important phase of our industrial life; extravagant salaries and commissions have been paid; ambiguous, deceptive and often fraudulent contracts have been sold; colossal accumulations have been secured by adroitly conceived plans and used for the benefit of favored individuals, or hazarded in the doubtful conflicts waged by captains of finance in the money centers of the country. That all this has not been followed by great disaster is due to the wonderful resources of our land and is not to the credit of those who have thus abused their trust.

During your deliberations upon this question you will be told that any legislation seeking to regulate life insurance is "paternalism;" that the companies are private corporations which should be left to manage their own affairs, and finally that the subject is so delicate and technical that if legislation is inevitable its construction should be left to those who by study and research have become expert upon the subject.

It is partly because of the more or less obscure nature of the subject that legislation is necessary; advantage has been taken of the technical nature of the policy contract to put off upon the public, policies entirely different from those sought. The duration of the contract, especially where no intermediate accounting was required, furnished the opportunity for extravagant estimates and promises which could not be fulfilled, and above all the large general interests and grave public questions involved to do away with all arguments against reasonable and well considered legislation.

I realize fully the benefits derived from life insurance; it is perhaps true that it is more necessary now than at any previous time, for the present is an extravagant age when most of us are inclined to live at least up to your incomes. To make some provision therefore for those whom our untimely death would find helpless and impoverished seems a plain duty.

You will have available a mass of information which should prove of great assistance to you in arriving at just conclusions. The legislation of the state of New York, adopted as the result of the extensive and fearless investigation of this subject by the Armstrong committee of that state, should be upheld by the various states as far as possible. Many other legislative investigations have been held, notably in our sister state of Wisconsin, the conclusions of which are entitled to your consideration.

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 surpluses 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.

If, as it would seem, these proposed bills are sufficient to secure the object sought, it needs no argument to show that this class of legislation is preferable to that which would attempt to regulate the details of management and practically make the public officers of the state the managers of the companies.

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 fail 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 policy holders 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 wofully abused.

The bill reported by the committee prohibiting political contributions will meet the approval if 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. The statutes of Minnesota should express the most enlightened thought upon this subject for here is a most fruitful field for life insurance companies. Our salubrious climate, the intelligence of our people and their orderly and moral habits have resulted in a very low rate of mortality. We are justified therefore in saying to the large foreign corporations who wish to secure some share of these benefits that they must do so upon terms which are just and equitable.

Chapter 229, Laws 1905, reorganizing the insurance department, has proved a very satisfactory and efficient measure. Under the provisions of that act the total fees received from January 1, 1906, to December 12, 1906, amounted to the sum of $50,946.73. The total expenses of the department for the same period amounted to $15,413.17. During the same time there have been collected from insurance companies, on account of examinations, $3,921.41. A portion of these charges consisted of the per diem earned by members of the department receiving a salary from the state. This per diem, as provided by the act of the legislature I have mentioned,

goes to the state and amounted, during the period referred to, to the sum of $1,040. The total net revenue of the state from fees and per diem earned by the department during the year 1906, up to and including December 12, was $36,573.56. This does not, of course, include the taxes paid by insurance companies, which this year amounted to $326,019.61.

The net revenue to the state from this department on account of fees during 1904 was $18,800.39, and during 1905, $21,807.49, as compared with over $36,000 in 1906; so that while the expenses of the department have been slightly increased, the net revenue has been almost doubled. This is largely due to the readjustment of the fees collected by the department, but also to the increased efficiency of the department by reason of the additional help afforded by the last legislature. If another examiner were added to the department force, still greater efficiency would be secured.

BANKS AND BANKING.

According to the report of the public examiner, the state banks of Minnesota show during the last biennial period the greatest volume of growth of any such period in the state's history.

The number of state banks in operation increased from 325 to 427, a net gain of 102. During the same period the aggregate capital stock, surplus, and undivided profits increased from $11,410,533.04 to $13,414,249.45. The gross deposits had reached the sum of $64,392,858.79, an increase of 43 per cent. The total resources show a net increase of 38 per cent. During this two-year period, there has been no state bank failure, and only one temporary suspension, which resulted in a re-organization and the strengthening of the bank without loss to the depositors or other creditors. The total banking resources of Minnesota in July, 1906, including state and national banks, savings banks and trust companies, but not including private banks, amounted to $266,490,032.83. The total deposit increase in Minnesota's financial institutions, not including private banks and building and loan associations, is approximately sixty millions of dollars, or 40 per cent; this being without doubt the greatest deposit growth in both volume and percentage for any equal period in the state's financial history. The examination of banks subject to inspection by the public examiner has developed the fact that the demand upon our banks for commercial loans is becoming limited in certain localities. Under favorable financial conditions, such as the state is enjoying at the present time, the banks have a considerable amount of surplus funds. Under our

present banking laws a state bank is not permitted to make a loan in excess of 15 per cent of its capital stock and surplus. First mortgage farm loans have proven to be a highly satisfactory class of investments, and probably no better or safer class of loans can be made by banks operating in farming communities. Under the circumstances I would concur with the recommendation of the public examiner that our banking laws be so amended as to permit of the making of first mortgage loans on improved farms located within our state, equal to 25 per cent of the capital stock and surplus of the bank, all such loans to be limited to and not to exceed 50 per cent of the cash value thereof; provided, that no bank shall invest in that class of loans in the aggregate more than 50 per cent of its deposits. There is no authoritative information available regarding private banks in Minnesota because they are not subject to law, nor is it the custom of private banks to give publicity to their conditions. In the partial reports and statistics of their business by bank registers and reporters, as a rule the figures published are incomplete and generally approximate. The record of the past four years of private bank failures is made up from returns of banking and commercial agencies, and discloses that during this period there were eighteen failures of private banks, with deposits approximately something like $1,500,000. During the past biennial period there have been 43 conversions from private to state banks, which is significant as showing the growing conversion of private bankers themselves to favor banking under the state or national law. The public examiner, as a result of his experience, renews the recommendation made to the legislative committee of two years ago for the passage of an act compelling all private banks in Minnesota to incorporate and become subject to either state or national supervision. I commend his recommendation to the serious consideration of the legislature.

COUNTY OFFICES.

The public examiner having made careful and continuous examinations of the various county offices, reports a general high degree of efficiency in the conduct of the respective offices. Naturally the offices of treasurer and auditor have received the most attention. A few cases of illegal payments and irregularities have been found and corrected from time to time. The examination of the department has resulted in a few removals of derelict public officials; but it is gratifying to be able to state that the character and efficiency of the majority of the public officials holding the

county positions are above reproach. The department makes some recommendations with a view of even better and safer government than at the present time. Section 482, Revised Laws 1905, places the minimum bond of county auditors at the sum of $2,000, and in such larger amounts as the county board may require. In several counties of the state the bond furnished by the county auditor is in a sum entirely inadequate to the business going through his office. It is, therefore, considered advisable to increase the minimum of county auditors' bonds to a sum not less than $5,000. Our statute at the present time makes provision only for the bonding of county commissioners in counties having a population of more than 150,000. It seems to me that some provision should be made to bond all county commissioners and to base the amount of the bond on the assessed valuation of the county, the premium on such bond to be paid by the county. Inasmuch as it is the duty of the county board to pass upon the greater part of the county disbursements, it is obvious that the bonding of those officials would be a step in the right direction. The examinations made disclose the fact that there are several counties in the state that have overdrawn their revenue fund to a considerable extent. The amount varies from approximately $20,000 to $105,000. These overdrafts represent an accumulation of warrants that have been issued by the county auditor and not paid by the treasurer on account of the lack of funds. These warrants are largely held by banks which are holding them as a lien against the county. It appears that no provision can be made in the present tax levy to take up this floating indebtedness for the reason that the limit of taxation has been imposed in all the counties where this floating indebtedness exists. The fact that this floating indebtedness is so heavy depreciates the negotiability of the auditors' warrants in these counties, and it is safe to say that on account of the conditions existing, the county is obliged to suffer for it. It also operates to the disadvantage of the warrant holder even to the extent of obliging him to suffer liberal discount when negotiating the same. It appears that some legislative provision should be made authorizing the issuance of bonds to cover these floating debts, which will have the effect of placing those counties on a cash basis, and give them the benefit of a bond rate of interest which is very much lower than that which they would be obliged to pay on the floating warrants.

PUBLIC EXAMINER'S DEPARTMENT.

No department of public service has been marked with a greater degree of efficiency than that of the public examiner. Since Feb. 1, 1905, by reason of the research and work of this department, $41,085.02 have been covered into the public treasury from back and unpaid taxes of railroad, express, and telephone corporations, and a still larger amount has been reported to the state authorities with the view of covering the same into the state treasury. Examinations of county offices have resulted in the recovery into the various county treasuries of approximately $14,000.

Examinations in all of the various departments committed to the care of this department have been active, vigorous, and as continuous as could possibly be permitted with the working force provided by law. The last legislature created additional burdens to this department, but failed to make provision for an increased working force in the department; therefore, it has not been possible for the department to cover the entire field as completely as the exigencies of the situation require.

The department ought to be given additional assistance in order that it may make more complete examinations of railway corporations and their books with a view of ascertainment whether or not they pay into the state treasury all of the taxes due the state of Minnesota under our gross earnings tax system. In this connection let me say that the department has been also very considerably handicapped when making investigations of these companies by the refusal of its officials to permit the department to have access to the general books, and to furnish documents and papers which might pertain to Minnesota business. All books and records of such companies should be open to inspection and review by a proper representative of the state. Provision should also be made in the statute whereby corporations or companies doing business in the state should preserve any and all books, documents, records, papers, etc., relating to their business in so far as they pertain to the state. The department has also been handicapped in its efforts to adjust back taxes due the state on account of errors and omissions in reporting gross earnings, due to the fact that the records which would be evidence of the violation or infringement of the law had been destroyed. As the Revised Laws of 1905 provide for the waiving of the statute of limitation on the collection of any taxes due the state, I believe a law should be enacted which would compel such companies or corporations to preserve their records for at least ten years. Under the national

banking laws, national banks in our state and elsewhere are subject to two examinations annually. The law of our state requires the examination by the public examiner of all state banks at least once in each year. This should be amplified and the same general rule applying to national banks should be made to apply to the examination of state banks, and this department be required to examine all state banks not less than twice in each year; and in order that this may be done ample provision should be made by the legislature to strengthen this department to make this and other reforms possible. The annual available appropriation for this department during the last biennial period was $18,900. In addition to this there have been fees paid by banks, trust companies, etc., in amount making the total receipts of the department $23,865 per year. The public examiner has made a very careful and conservative estimate of the amount needed annually to enable him to perform the services required under the law at $30,000, irrespective of the sums which are realized from fees paid by banks and from other sources. I therefore earnestly recommend that appropriations be made to this department, and that such appropriations be not less than $30,000 in addition to the fees now accruing to the contingent fund.

DEPARTMENT OF PUBLIC INSTRUCTION.

In the various departments of our state government none is of greater importance to the actual development and its civilization than the department of public instruction, and among the various departments none have more completely discharged their duties or been governed by greater wisdom than this department. The record of the department for the year ending July 31, 1906, discloses the fact that there are 432,009 pupils enrolled in the public schools. Of this number 22,106 are high school pupils; 159,004 are in the grades of the high schools. In the state graded schools, and in the semi-graded and rural schools there are 250,899 pupils. The state last year apportioned aid to the high, graded, semi-graded, and rural schools amounting to $449,229. The total value of our public schoolhouses is estimated to be $21,574,755, and the total disbursements for public school purposes during the year was $9,820,737. It is gratifying also to know that there is a larger percentage of the state population enrolled in the state university, and in our high and normal schools than ever before. Very decided improvements have been made during the last five years, and particularly during the two years just passed, in the sanitary construction of

rural school buildings; they are better lighted, and better equipped, and a very great improvement is noted in the methods of heating and ventilation, results which have been made possible by reason of authority granted the state superintendent in fixing rules respecting these matters for rural and semi-graded schools applying for state aid. The department has published and distributed through county superintendents for the use of school officers specific directions as to the requirements for earning the special state aid in semi-graded and rural schools, citing the requirements of the law and the rules made under the law by the department of public instruction. It is also gratifying to know that the standard of the educated and trained teaching force in the rural schools has been very materially raised; a condition very largely the result of uniform examination, and the increased number attending the summer training schools and the summer sessions of the normal schools; and from the fact also that better inducements are offered teachers in the rural schools for higher wages and improved conditions.

The state superintendent of schools reports that since March 1, 1906, meetings of school officers have been held in about one-half of the counties of the state, with an aggregate attendance of five thousand. At nearly all of these the state superintendent, or a representative of his department, has been present to participate in the proceedings of the various meetings. These should be encouraged; they foster a better school superintendence, as well as a better understanding and appreciation by school officers of their duties, and mean much in the development of the standard of our rural schools. The department has co-operated with the State Labor Bureau to secure a more general and regular attendance of pupils within the compulsory school age, the result being an improvement during the last biennial period over that of any previous period. The department makes some recommendations as to new legislation in which I heartily concur. Provision should be made for the appointment of at least two state inspectors of semi-graded and rural schools receiving special state aid, for the purpose of safeguarding and properly distributing and using the money granted by the state for the betterment of these schools. Legislation should be had looking to better educated and better paid county superintendents of schools, and provision for their election or appointment on a non-political basis. The labor laws and the compulsory attendance laws should be made to harmonize, and the age limit for attendance should be restored to sixteen years, as the experience of the past indicates that it is not practicable to compel the attendance of pupils after the sixteenth year. Provision should be made also for

the appointment of state truant officers, either under the labor bureau, department of public instruction, or the governor directly. The present provision with reference to the larger cities should remain undisturbed. In view of the constantly increasing work of this department, provision should be made for another assistant, the contingent fund should be increased, and there should be a more liberal allowance for clerk hire.

PERMANENT SCHOOL FUND.

I desire to call your attention to one peculiarity in the law relating to the investment of our permanent school funds. The law now provides that loans to school districts for the erection of school buildings shall be at a rate of four per cent per annum, and at the same time provides that this fund may be loaned for the construction of ditches for drainage at 3 per cent per annum. It is not fair that the institutions for which this fund is created should suffer by this discrimination. It is hardly fair to provide a higher rate of investment for the schools of the state than for other purposes. We should not discriminate against the educational interests of the commonwealth; and either the rate of interest in one case should be raised, or in the other lowered.

STATE UNIVERSITY.

No one institution within our state is of so much importance as our state university. Its growth in the past has been phenomenal, and with the aid and encouragement which should come to it from the legislature its future possibilities are unlimited. Requests for financial aid for the construction of new buildings are not as large as during other periods, and are submitted to you with the suggestion that they receive careful consideration. It is a recognized fact that this institution has been handicapped somewhat by reason of financial policies which have hitherto made it impossible to pay adequate salaries by which men of recognized ability could be employed and retained in the institution, and from time to time we suffer the loss of some of our best teachers by reason of the inability to properly and adequately compensate them. Certainly Minnesota can afford to pay reasonable compensation for this class of service, and to provide means by which we can compete with any educational institution in the country in bidding for talent which would permanently endow our university.

Since the last session of the legislature, the state university has fallen heir to a large sum of money known as the Elliott bequest,

providing for a memorial hospital in conjunction with the medical school. This bequest has not yet been secured, because its acceptance would involve a new policy and the board of regents decided that this could not properly be done without legislative sanction and approval, and the acceptance would necessarily be conditioned upon the legislature making provision for the future maintenance of the proposed hospital. Your attention will be officially called to this matter later. It is but right that you should know that the bequest, while urged for this specific purpose, will still be available for the use of erecting a memorial building of some other character. Inasmuch as it involves a large sum of money which can be used to splendid advantage at the university, I trust that the question will receive from you that consideration to which it is entitled.

LOGS AND LUMBER.

I am pleased to be able to convey to the legislature the information that during the past biennial period all settlements by the timber board of the state for timber trespass upon public lands have been in strict accordance with the law. Irregular settlements of preceding periods have likewise been considered, and a number of cases were placed in the hands of the attorney general with strict instructions to begin immediate and continuous prosecution of the cases with a view to the collection of all moneys to which the state is entitled under the law. The attorney general, in his prosecution of these cases, has secured from the supreme court an opinion sustaining the validity of the present timber trespass law and it requires no amendment so far as it relates to punishment of offenders under the law. It has, however, some features which should be changed. The timber board should be given a wider range of authority in settling controversies and making adjustments by which the necessity of some law suits might be dispensed with. A change should certainly be made in that section of the act providing for a re-scale of state timber. Under the present statute provision is made for a re-scale upon a demand by the state auditor, and in such case he is required to serve notice upon the surveyor general, giving a description of the tract upon which a re-scale is demanded. The surveyor general thereupon appoints one of his deputies to act in concert with a state estimator, appointed by the auditor for this purpose, the two to make a re-scale of the timber embraced in the permit, and make a report of the same for record with the auditor. It is provided that in case both the deputy and the estimator agree upon the scale, the same shall be final and

binding upon the state and the purchaser; and if it shall appear by the state re-scale that the first scale was practically correct, the state shall pay the surveyor general the sum of $5 for each day spent by his deputy in making such re-scale, in addition to all necessary expenses incurred by him in traveling to and from the land, and that in case of a material difference in the two scales, the surveyor general shall not be entitled to compensation for such re-scale.

This condition invites dishonesty upon the part of the surveyor general's office, inasmuch as to secure compensation for his service he must not make a report in contradiction to the report originally made by him. I would suggest that the law be amended to provide for a re-scale by cruisers appointed by the timber board, and that in the event of a discovery of a material difference, the surveyor general's office be required to remit the compensation received for the original scale on the tract so re-scaled.

The present timber law relating to the sale of stumpage in small parcels should also be amended. The law now requires that stumpage not exceeding 100,000 feet may be sold at public auction to the highest bidder for cash at the county seat of the county in which said tract is situated. Frequently the tract is removed many miles from the county seat where such sale is proposed to be held, necessitating the settler who may desire to be a bidder upon the tract to travel a long distance to attend the sale. Better results would be obtained, I think, if this were changed to provide that the sale take place at the county seat in the county, or at the county seat in closest proximity to the land upon which the timber is offered for sale, the choice of the place of sale to be determined by the state auditor.

MESSAGE FROM DEPARTMENT OF INTERIOR.

During the current year the following communication was received from the commissioner of the general land office at Washington, D. C., and is herewith communicated to the legislature for its consideration:

"The early completion of the surveying work by the Government in the State of Minnesota, and the further continuance of the office of the U. S. Surveyor General being unnecessary, it is proposed to request the President to formally order the closing and discontinuance of said office on June 30, 1907, under the provisions of Section 2218 of the Revised Statutes of the United States. Under this statute, when an office of United States Surveyor General shall be discontinued, the records and archives thereof are required to be

turned over to the respective secretaries of state, or to such officer as may be authorized to receive them, and under the provisions of Section 2221 of the statutes it is required that such records shall in no case be turned over to the authorities of any state, until such state has provided by law for the reception and safe keeping of the same as public records, etc.

"I have, therefore, the honor to request that at the time when the legislature of your state shall be in session, that you will take proper measures to incur such legislation as is required by the statutes, precedent to the turning over of the records to the state official who may be designated to receive them.

"W. A. RICHARDS, Commissioner."

TRUSTS AND COMBINATIONS.

Section 5168 of the Revised Statutes 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 between the people of this or any other state, or country, 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, or which might in any wise prevent or limit competition in the purchase and sale thereof; 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, although 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 the industry. It is possible that no amendment to the statute is necessary other than to provide more specific provisions as to the boycott and to provide machinery by

which the attorney general may institute proceedings against offenders of this section of the statute. 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 which is now mandatory in that he is directed to begin and conduct actions and proceedings necessary to enforce provisions of the statute.

In this connection, I quote a portion of the report of the attorney general to the governor which relates to another subject which comes within the limit of this section of the statute. He says:

"Under the provisions of the present law, which is simply a continuation of the old statutes on the subject, the grain trade of the state has, in my opinion, fallen into the hands of two close monopolies, one situated in Minneapolis and the other at Duluth. These institutions have the absolute control of the grain market of the state and they assume to have, under the law, the power to exclude from membership in their organizations anyone considered undesirable and the person so excluded is absolutely barred from embarking in the grain trade by reason of its concentration within the organizations referred to. They also assume to have power to prescribe the commissions or rates of profit at which they and their associates shall do business, and to prohibit any member from doing business at a less rate than that prescribed. They also assume to prescribe the rates at which money shall be advanced by buyers to shippers, and, both as to such advances of money and rates of commission, all competition is absolutely prohibited under heavy penalties. I do not believe that it is a justifiable public policy to continue on the statute books laws which can in any way be construed to permit the formation or continuance of such associations. There undoubtedly should be central markets for great staples like grain and live stock, but the producers of the state are entitled to be protected against such monopolies as have been formed and assume to find their justification under the laws referred to.

"What has been said about the grain trade is equally true of the live stock business, and here again the producer is the one who must suffer from the lack of competition and the evil practices of the exchange having control of the business, in fixing prices and commissions."

In discussing the subject of corporations he says: "The provisions of the revised laws relating to the issuance of stocks by corporations, especially by railroad companies, ought to be amended so that the direct and important rights of the state would be more completely protected. The provisions also, which allow the unlimited and indiscriminate purchase by one railroad corporation of the stocks of another, without regard to the price which may be paid, should be changed so as to adequately protect the public. Nearly

all extensions and branch lines are now constructed by subsidiary corporations, the stocks and securities of which are purchased by the parent or holding company by a new issue of stock. The operation expenses and earnings of these new extensions and branch lines should be accounted for separately, if that is possible, and no dividends paid on the stock issued to cover them except from their own earnings. This should be made mandatory by express statutory enactments."

The recommendations of the attorney general on these two important subjects are submitted to you for your most careful and earnest consideration.

The attorney general advises me that the business of his office has increased many fold during the last two years. Suits now pending directly involve more than one million dollars, and upon the successful outcome of this litigation depends a revenue to the state of many millions of dollars more. During the past two years there have been collected through the attorney general's department upwards of $300,000. Because of the volume of the business of this department, the attorney general and his assistants have been constantly occupied and have been unable to keep up with the enormous press of business. Many matters have been delayed because of their inability to handle them with the present office force. Suits are now pending involving trespass upon state lands, the collection of corporations taxes and the collection of taxes upon foreign corporations, as well as many serious cases growing out of the inheritance tax law, which have been postponed from time to time because of the pressure of current business. The past two years have brought about an increased demand for the services of this department principally through questions growing out of investigations of railroad rates, and that this office may be in a position to give to the board of railroad and warehouse commissioners all of the counsel, advice and time required by them, I earnestly recommend the enlargement of the working force of the department, and provision by which this department may employ sufficient help from time to time which will insure the performance of every needed duty as it should be done, and I therefore concur in the request of the attorney general that the contingent fund of his department be increased to not less than $25,000 annually. The State of Minnesota, engaged in litigation with the greatest corporations within the state, cannot afford to have its own legal department inferior to that of corporations with which it comes in contact for the adjustment of conflicting interests in which the state is a party.

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. It is urged, and not without some degree of reason, that the present primary election system cultivates perjury, fraud, deceit, misrepresentation, and a total disregard for our entire election system. Citizens called upon to declare their political affiliations feel that election judges trespass upon the constitutional rights of the citizen and ignore to some extent the very purposes for which the law was created. Candidates for office, recognizing the possibility of victory through the assistance of political parties other than the one with which they affiliate, encourage fraudulent and deceitful voting. This, however, is no excuse for the demand that the present law be repealed. 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, and some radical changes should be made in the present law to overcome some of the difficulties in the way of its successful operation. 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 required should be sufficient to prevent frivolous candidacies but not so high as to bar worthy aspirants.

It has been suggested that improvement might be had by placing all of the names upon one ballot and permitting the voter to vote whichever ballot he chose; providing, that he must vote for the names upon one of the tickets exclusively, and that a man voting for any part of the democratic ticket could not vote for a part of the republican ticket. 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. The suggestion that the law should be repealed and that we return to the old convention system should not be entertained for a moment, because the theory of our primary election law is correct and experience from time to time will enable us to work out a proper solution of what appears at this time to be a vexatious question. I would suggest the advisability of the appointment of a joint committee of the house and senate at the earliest possible moment to frame a new law and report to the legislature before the close of the session.

LABOR LEGISLATION.

I desire to renew a previous suggestion to the legislature for legislation 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. In the operation of railroads the fellow-servant rule has been abolished in this state, and upon the theory largely that the industry should bear the risk, and not the unfortunate workman, who too frequently is deprived of means of earning his livelihood through the ever occurring and appalling accidents which happen with altogether too great frequency. The workman who is dependent upon his daily toil for the support of his family ought not to be called upon to assume the great risks of danger imposed by hazardous occupation, a risk which ought in all cases to be borne by the employer rather than the employe.

FREE STATE EMPLOYMENT BUREAU.

Your attention 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. A free employment agency was opened by the state labor department in June, 1905. During the 18 months of its operation applications for positions were filed by 9,203 male and 7,437 female laborers, and the department secured positions for 8,993 male and 7,098 female laborers, or a total of 15,091 positions secured.

Applications for help by employers were also filed and 9,824 male and 6,441 female workers, of which approximately 90 per cent were duly filled. The success of this experiment at Minneapolis would seem to warrant the opening of other free employment agencies, at least at such large industrial centers as St. Paul and Duluth; and I submit to you that the general industrial interests of the state and the success of the experiment justify such expansion.

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 truancy laws, to the end that there may be an inspector in each of the nine congressional districts of the state.

GOOD ROADS.

The subject of better highways and of making good roads is still prominent in the public mind, and much more interest is being taken along this line than heretofore. We have come to recognize that the improvement of our public highways means better and more economical transportation facilities. The amendment to the constitution proposed by the last legislature relating to this question failed of passage by reason of the failure of a large number of the people of the state to vote upon this question. There was some opposition to the amendment by reason of the fact that the proposed amendment imposed certain limitations upon the legislature. I trust that provision will be made for the submission to the people of another amendment to the constitution, and that restrictions heretofore contained in the constitution be removed. For instance, the legislature is now authorized to add to the state road and bridge fund by providing in its discretion an annual tax levy upon the property of the state not to exceed in any year one-twentieth of one mill on all the taxable property in the state. This limitation should be removed and the legislature should be permitted at its discretion to levy a tax sufficient to accomplish good results along the line of better highways. The provision now in the constitution that no county shall receive in any year more than three per cent, or less than one-half of one per cent of the total fund thus provided should also be changed by striking out that portion of it which provides that a county shall not receive not less than a certain amount. All of the legislative restrictions should be removed with the exception of a possible restriction providing maximum amounts.

I believe the legislature understands the importance of this subject, and that further comment is unnecessary.

DRAINAGE.

The subject of drainage is one proper for your consideration at this time. Approximately 2,368,000 acres of the state holdings of 2,750,000 acres of school and state institutional lands, which do not include 60,000 acres not yet patented to the state, are too wet for agricultural purposes. This large area is confined to thirty counties in northern Minnesota; 90 per cent of the land being in Roseau, Cass, Itasca, St. Louis, Aitkin, Lake and Cook counties. With this immense area of low lands which the state is able to reclaim at a comparatively small cost, it would seem to be an excellent public policy that the most advanced methods for their reclamation be adopted and that Minnesota co-operate with any satisfactory plan proposed by the federal government for drainage.

Under authority granted by Chapter 159, G. L. 1905, the state drainage commission has caused a topographical survey to be made of state swamp lands. The report of this work will be submitted to you, and will show the number of acres of wet lands belonging to the state, their location, the feasibility and the cost of their reclamation by systematic drainage. This report will show that the average cost per acre for their reclamation will be $1.40, that when drained the lands will become productive and their present value increased many times the cost of such drainage. It is a good business proposition, that these lands be drained. It is unjust to other business improvements in these counties, that the state's wet lands be allowed to stand as barriers in the way in progress. Increased activity along this line will compel the reclamation of thousands of acres of low lands now held by railroad and land companies, and the country will provide homes for those of our citizens now seeking homes elsewhere.

To expedite the work, I would recommend the enactment of a law authorizing the state drainage commission to institute proceedings whereby assessments for the cost of any proposed drain can be levied against all lands affected, in proportion to the benefits received. This plan would have the desired effect of expending state money in the reclamation of state lands only, and unnecessary delays now hampering the work of the commission would be obviated. During the past two years it has been the policy of the state drainage commission to devote funds entrusted to its control to the redemption of state lands only, and the work has been somewhat

hampered by failure of owners of lands to co-operate in the payment of their share of the benefits accruing to their property. The drainage commission should have the right to institute proceedings by which property could be made to bear the proportion of the cost of drainage in the same ratio in which it is benefited by the expenditure of state funds.

I am glad to be able to say that there is in Minnesota but one sentiment on the question of the wisdom of some plan of drainage, and I would urge liberality in appropriations to this end. I would also at this time call your attention to the plan now in operation in many of the other states by which the geological survey of the federal government undertakes to make a complete survey of the state, with perfect maps, important data, etc. For each dollar expended by the state, the geological survey appropriates an equal amount, and the result is eventually to secure a survey made along the most approved lines at an expense which would be prohibitive were the state to undertake the work alone. This matter is at least worthy your thoughtful investigation.

FORESTRY.

The proper treatment of our forest resources is a matter of serious importance and merits your best thought.

Much of the land which has produced pine timber is available for agriculture, but some of it from being rocky, hilly, or very sandy is only fit for growing timber. Nature alone will restore a portion of this latter with pine if fires are kept out, but the greater part of it will need to be planted. On such land it requires on an average about 80 years for pine to grow to merchantable size and a businesslike beginning of reforestration should be made without further delay.

The state itself owns only 21,000 acres of forest reserves, all being under charge of the forestry board. Of this, 20,000 acres, being the so-called Burntside forest in St. Louis county, were granted by Congress in 1904. A working plan has been prepared for the same and a nursery should be started preparatory to planting the greater part of the land with pine and spruce. The other 1,000 acres comprise the Pillsbury donation in Cass county on which is a nursery of pine and spruce seedlings which if possible should be planted the coming spring.

In addition to these reserves is the Itasca Park of about 14,000 acres owned by the state, which I recommend be placed in charge of the forestry board with condition that no green and growing timber shall ever be cut.

An act passed four years ago authorized the forestry board to purchase land for forestry purposes at not exceeding $2.50 an acre, but no money has been appropriated to carry it into effect. I recommend a moderate appropriation to start work under that act.

UNIFORM DIVORCE LAW.

During the past year a divorce congress was held in the city of Philadelphia to which duly accredited representatives of the various states of the Union were gathered with a view of framing a uniform statute relating to the annulment of marriage and divorce for adoption by the several legislatures of the various states in the Union. The ease with which some states permit annulment of marriages and divorces has come to be an American scandal, and it is earnestly hoped that there will be a complete co-operation by all of the several states of the Union on this important question. At the congress named, Minnesota was represented by a duly accredited representative, who assisted in the preparation of a proposed uniform statute covering this question. Copies of this proposed statute will be submitted to this body, and your earnest consideration of the matter is desired. I trust that Minnesota will be among the first states of the Union to put herself right on this important question.

INDIAN WAR PENSIONS.

At the last session of the legislature, a law was enacted providing pensions for certain people who served in the Indian war of 1862. The law carried an appropriation to provide for the payment of the pensions, but it is found that because of certain restrictions, comparatively few are beneficiaries of the state's bounty. The law should either be repealed or so changed as to make all who are equally deserving able to share alike. As the old law did not carry a standing appropriation action must be taken at this session if the state is to assume a fixed pension policy. If it is determined to continue a state pension policy it should be at least along the lines of that intelligence which would not discriminate against some of the bravest and best defenders who participated in our Indian wars.

INITIATIVE AND REFERENDUM.

I would call your attention to the merits of the advisory initiative and referendum. This permits the people of a state, county, city, village or town to express their views upon questions affecting their organizations and is fast gaining ground upon the theory that the duly elected officers are the servants of the people who

elected them and will be guided by the expressed views of a majority.

The advisory initiative and referendum is but a step farther than the right of petition, and is not binding upon their officers. The enactment of a law providing for an advisory initiative and referendum can be accomplished without a constitutional amendment, and I am firmly of the opinion that such legislation is desirable. There can be, I am sure, no valid reason against the submission to the people of a proposed constitutional amendment providing for a direct initiative and referendum. This would give the people an opportunity to vote on the question whether or not they want the right to instruct their representatives and also the further right to pass upon the laws enacted by their legislature. But whether or not you would care to go so far in this direction, I would urge your consideration of a plan for an 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.

PUBLIC INSTITUTIONS.

Our state has been reasonably generous in the past in dealing with and caring for the unfortunate people committed to our public institutions. The legislatures of the past, however, have been satisfied with making financial provision for the care of unfortunate inmates of these institutions, and have largely shifted all other responsibility upon those chosen to manage the affairs of the several institutions. It is gratifying to note that in some of our institutions we have kept step with other states in the general progress and improvement over former conditions and methods. We have not yet attained that degree of perfection which would satisfy even ourselves, to say nothing of satisfying those who have made a scientific study of charities and corrections.

In the treatment and care of our insane population we have not paid that attention which we ought to the treatment of new cases, and have occupied ourselves rather with the matter of detention; and because of this policy our hospitals for insane have for many years had a congested population which made it impossible to devote the necessary and required attention toward the cure of the inmates. Every needed facility should be afforded and the various hospitals made to conform as largely as possible to the general hospital idea. At two of our insane hospitals nurses' dormitories are being erected, which when completed will to some extent relieve the congestion at those institutions. Provision should be made at this session of the legislature looking toward the construction of a companion building at the Rochester hospital. A large element of the population of our insane hospitals includes a class of patients who are perfectly harmless and incapable of any improvement through medical treatment. Many of these could be as well cared for in the various counties from which they come as at the hospitals for insane. Practically all that the state can do for them in their present locations is to supply food and raiment, and their presence retards the general scientific work of the caring for insane people. Then too, the hospitals include a certain population known as the dangerous and criminal insane. The board of control recommends the construction of a building for the detention of classes in question, with necessary legislation to make legal commitments and transfers thereto, and advocates a sufficient appropriation to maintain it. This recommendation should either be followed or provision should be made at the state prison for their detention there. The convict or criminal insane should certainly not be allowed to mingle with the non-crimi-

nal insane. Insanity is certainly not a crime. It is a disease, and should be treated as a disease; and there is no good excuse for the commingling of this class of patients with that other class of patients of whom there is hope of improvement by medical treatment.

I would especially call your attention to that portion of the report of the board of control dealing with proposed new buildings at the various hospitals for insane. All of these institutions at the present time are vastly overcrowded, and if we are to continue our policy of caring for all of the insane population at the present institutions, we must provide for the present population along more modern lines, and to take care as well of the natural increase of the coming years.

I also call your attention to the report of the superintendent of the school for the feeble minded and colony for epileptics. According to this report, it appears that at the present time the institution is incapable of receiving and caring for a large number of people who properly belong there. He states that there are now two hundred applicants upon the waiting list, and that if applications continue to be filed in the future as they have in the past, the number of applicants unable to be accommodated will reach at least four hundred during the coming biennial period. The welfare of these unfortunate people and society itself requires immediate action looking toward a solution of this condition.

I believe, also, that some statutory provision should be made providing for compulsory education of the deaf and dumb children of the state. It is estimated that there are at least 150 children in the state who have never attended the institution for the education of the deaf and dumb; and that upwards of forty children who have attended the school at times, and who probably belong there now, are not in attendance.

Since the creation by law of the board of control, the state has pursued the policy of divided authority in the management of the Minnesota school for the deaf and blind and the state public school. I believe that the management of these institutions ought to be exclusively under the board of control, and recommend that the boards of directors of the schools named be abolished. Public policy demands, it seems to me, that these institutions should be placed wholly under one board.

TRAINING SCHOOL.

For several years there has been a movement on the part of philanthropic citizens looking for a separation of the sexes in the industrial school at Red Wing. At the present time this institution is under one management, and it has been felt for some time that

the work of developing good citizenship has been retarded, and made almost impossible by the close contact of wayward and incorrigible boys and girls. While it is possible that there have been exaggerations in the criticisms made upon this institution, investigation reveals the fact that our state has not made the progress of other states in dealing with this problem.

For the purpose of making a somewhat extended study of the condition of this subject, during the past summer I visited a number of similar institutions located in the eastern states. One institution in particular made a very deep impression upon me, and the member of the board of control who accompanied me, and I am convinced absolutely that the legislature should not longer delay the permanent settlement of a policy with regard to this institution. I urge you to take action at this session of the legislature for the separation of the sexes, and the establishment of a new institution as a training school for girls. The close proximity of the girls' department now to that of the boys makes ideal correctional work absolutely impossible. The most ideal institution visited on a tour of inspection was that at Middletown, Connecticut, a school for girls exclusively. This institution is on the cottage plan; each cottage having its own kitchen, dining-room, laundry, and other facilities; the girls are taught those things which would be of value to them upon leaving the school. Because of their isolation there was not that necessity for restraint which is imperative in our own school at the present time. The tendency is to educate the girl rather than to compel seclusion and punishment through a lack of liberty. I understand the percentage of reformation is higher at this institution than in any other institution of the country; and the success of this institution, through the experience there, convinces me that our policy should be along the same lines.

DAIRY AND FOOD DEPARTMENT.

In the field of production our greatest dependence is upon agriculture. In its several branches none has made greater progress in this state during recent years than the dairy industry. Minnesota butter occupies in the markets of the United States a position in which it commands a decided premium over the product of any other state. This is due in no small measure to the progress made in elevating the standard of its butter by the department, and is shown in the fact that in six national contests Minnesota has four times been awarded highest honors. Not only along dairy lines, but in raising the standard and quality of food products manufactured

and sold in the state has the department excelled. The laws entrusted to this department for enforcement have been administered with the single purpose of accomplishing the ends sought by the legislature. The department has been governed by the policy, first, of rigidly enforcing the laws; and, second, to educate the dealer as well as the consumer to a realization of the necessity of complete co-operation in all efforts looking toward the sale and consumption of pure foods; and while our laws are recognized to be as fully advanced, and perhaps more so, than those of other states, there are some deficiencies and some necessity for amendment to existing laws in order to make the work of this department still more effective.

In a report which will later be laid before you, this department recommends that the liquor law be so amended as to fix a standard for purity and to inaugurate a system of labels that will inform the purchaser the character of the liquid that he purchases. The paint provision of the present law is absolutely inoperative and affords no protection to the purchaser. Standards for flavoring extracts ought to be established. The section of the law governing the manufacture and sale of maple syrup and maple sugar should be amended to prevent deceptive labelling; the law relating to labelling of substitutes of pure jellies, jams, and preserves should be repealed, and a new law should require simply the printing of the formula in legible type. An effective patent medicine law should be adopted, requiring the labelling of all packages giving the formula of the product when it contains dangerous ingredients. A standard for ice cream should be established. The department should be relieved of the burden of proof when dealing with food products in which the ingredients are generally recognized as deleterious to health. Owing to the growth of the canning industry, a special law should be enacted giving the department supervision as to sanitary conditions, and fixing a standard of purity in the output of the canneries; and the national pure food law will be more effective if the legislature will make the Minnesota law as nearly uniform as possible to the national law. These recommendations are based on the best experience of the officers of the dairy and food department for Minnesota, and in them I heartily concur, earnestly calling your attention to the suggestions in the hope that beneficent legislation will follow.

During the past two years there has been in so far as was practicable a division of the labors in this department. The creamery inspectors were not required to take food samples, and the food inspectors not being required to share in the duty of creamery in-

spection. The growth of the dairy industry has been such that the force of inspectors is inadequate, and I would urge upon your body the wisdom of a sufficient appropriation to employ at least three additional creamery inspectors, whose duty it shall be to attend dairy meetings, the dairy school, farmers' institutes, and the various other organizations created for the advancement of the industry in this state. There are frequent calls from these associations and individual creamery companies for assistance from the department, anad men free from regular inspection work should be available for this service. Present laws relating to the inspection of milk and cream should be so amended as to permit the use of measures in obtaining samples for the Babcock test, and should provide that cream samples be weighed.

STATE PRISON.

During the past two years the state prison twine plant has been materially enlarged; the output amounting during this period to twenty-four and a half million 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 three 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 past two years have been the most prosperous and beneficial since the twine plant was originated. The product has given general satisfaction, and the demand is still beyond the capacity of the plant. In my message to the legislature two years ago, I recommended that practically all of the labor of the prison should be devoted to this industry. I renew the suggestion that the plant should be still enlarged so as to increase the capacity at least five million pounds annually. This can easily be done without additional appropriation from the state, except for the necessary buildings on the new prison site to be used for that purpose. With this increase the output would be 18,000,000 pounds per annum, and would nearly meet the requirements of the total average crop year in the state. 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 the

state lines. I would also suggest that the law be changed so as to allow the sale of twine to dealers after March 1, reserving 500,000 pounds to fill small cash orders direct to farmers. With the large increase in the output, it will be necessary to dispose of a large amount of the product through the dealers of the state, as a prudent business man will not wait longer than February or March to secure his twine. He should be allowed to place his orders early enough to meet his requirements and that of his trade. The law now in force restricting the dealer to sell twine at one cent profit per pound is ample protection to the farmer, and fair and equitable to all concerned.

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. This does not necessarily require or need to carry with it an appropriation, as the necessary expense conservatively engaged could be met from the earnings of the state twine plant. The state now is a party to a contract under the terms of which a large portion of the prison population is engaged in the manufacture of certain products which brings the labor of the state prison into active competition with the free labor of the state. I do not urge the abrogation of existing contracts, but I most earnestly recommend that provision as largely as possible be made by which all of the labor which now comes in competition with the state be directed into other and non-competing channels. Our present contract system is generally criticised, and justly so, for the reason that the beneficiaries under its terms are enabled in their competition with legitimate business houses manufacturing like goods to produce them at a cost impossible of production by the free labor of the state.

STATE SOLDIERS' HOME.

I would call your attention to the requirments of additional appropriations for the State Soldiers' Home in order that Minnesota may continue to discharge her debt to the veterans who gave their early years to the cause of their country in the preservation of the Union. Increasing age, disability and dependence mean that the number of veterans at the home and throughout the state who receive state aid will grow instead of decrease for the next few years. A total of 2,513 cases in which relief was provided through

the agency of the relief fund were treated during the biennial period ending July 31, 1906, the average payment being $5.40. The last legislature appropriated $75,000 for a home for the mothers, wives and widows of soldiers. It was found that this sum would not build and equip the building contemplated, and $2,000 was borrowed from the soldiers' relief fund to assist in the work, while changes were made in the plans by which the cost was lessened. The board of trustees now ask for an additional appropriation of $60,000 to complete the woman's building according to the original plans and to install an electric elevator. The building has been so far completed as to admit of its occupancy and the first woman to be enrolled is the mother of two Minnesota soldiers. She has just passed the century mark and were it not for the beneficence of the state she would now be forced to become an object of charity. I cannot speak too highly of the policy which permits the state to care for the mothers, wives and widows of old soldiers and I trust that the legislature will show a generous spirit in dealing with the wants of this institution. The trustees of the home ask that the fund for its maintenance be increased from $40,000 to $60,000, also that $40,000 be appropriated with which to erect a substantial bridge across the glen formed by Minnehaha creek near the home; that the repair fund for the next two years be placed at $10,000, of which it is estimated $3,000 will be required for the institution of a modern ventilation plant, and $6,000 to purchase a tract of land in the Minneapolis city cemetery for a burial lot for deceased old soldiers. I believe that the trustees of the soldiers' home have asked for nothing more than is required for improvements and the thorough administration of the institution, and I trust that you will investigate carefully their demands. I am sure that you will be generous in providing means to this end.

LIVE STOCK SANITARY BOARD.

Laws governing treatment of contagious diseases in cattle, hogs and horses have been vigorously enforced, but there is, I regret to say, an alarming increase in diseases requiring special supervision. The executive officers of the live stock sanitary board report that there were killed for the year ending July 31, 1906, a total of 1,438 head of cattle because of tuberculosis and 606 head of horses for glanders. The law requires that the state shall pay three-fourths of the appraised value of animals killed under its terms, but limits the value of the animals to a reasonable maximum. Under the law creating a separate sanitary board there was a reduction to $19,000 of the amount given to the board for its maintenance an-

nually, this amount being intended also to cover the state's share of the value of animals slaughtered under its provisions. I do not hesitate to say that the sum is wholly inadequate. There are now on hand over 750 claims approved by the board, representing every county in the state, for slaughtered cows and horses, aggregating $55,000 and which the state is under a moral obligation to pay. The board asks for $55,000 to wipe out this debt and also asks for an appropriation of $50,000 annually with which to eradicate tuberculosis in cattle and glanders in horses.

Difficulty has been encountered in guarding against the importation into the state of diseased animals. It has been found that the penalty, which now is a fine ranging from $25 to $100, is not a sufficient deterrent and it is urged that this amount be increased to a point where transportation companies will not undertake the risk of having to pay in order to secure shipments of illegal stock.

A MONUMENT FOR COL. COLVILL.

Permit me to call your attention to a matter in which I think every patriotic citizen of Minnesota has an interest. At the annual department encampment of the Minnesota Grand Army Republic, held at Minneapolis March 21 and 22, 1906, a resolution was unanimously adopted, asking the governor of the state to recommend to the legislature a sufficient appropriation for the erection at Cannon Falls, Minnesota, of a monument to mark the resting place of Colonel and Brevet Brigadier General William Colvill. Col. Colvill led the historic charge of the First Minnesota at the battle of Gettysburg and his valor and the valor of those who followed him constitutes a brilliant page in the history of the Civil War. I heartily concur in the suggestion of the Grand Army Republic, that the state make a sufficient appropriation by which a suitable monument be erected to perpetuate the memory of his valorous deeds.

OLD STATE CAPITOL.

Your attention is called to the necessity of making needed repairs upon the old state capitol. The foundation is defective; the stone work supporting the steps to all of the entrances should be replaced; a new roof is required, and the building and the foundation would be relieved of much superfluous weight if the tower were removed. An architect should be consulted or employed to make an examination of the building and report upon its condition with an estimate as to the appropriation necessary to put it in proper repair.

Pursuant to instructions of the last legislature, a portion of the building has been given over to the Grand Army of the Republic and auxiliary associations. Several departments of the state

government occupy quarters in the building. The present condition of the building renders it unsafe and dangerous to occupants, and changes should be made as soon as possible to make it safely habitable.

By reason of the small appropriation made by the last legislature, the maintenance and the operation of the building has been attended with considerable difficulty. It has been almost impossible to pay the employes decent compensation, and a portion of the expenses has been paid out of the governor's contingent fund. If the building is to be maintained as a part of the state capitol, and to be kept up by the state, reasonable provision should be made for its care and maintenance.

THE LOBBYIST.

In several of the states steps have already been taken to exclude the lobbyist from the halls of legislation, and eliminate one of the greatest evils to political economy and to political decency. Provision should be made, it seems to me, by which the current of popular will could not be turned from its proper channel by representatives of private interest who desire to overcome the rights of the public. While it will be impossible, perhaps, to totally prevent the lobbyist from intrusion, it could be accomplished to some extent by compelling corporations and individuals interested in legislation to register, and be required to submit all arguments to committees instead of to individuals.

CONCLUSION.

By way of conclusion, permit me to add that I have every confidence that you will be guided and governed by a desire to do that which is best for the state. This commonwealth, with all of its moral, intellectual, and material advancement, is, I am sure, as dear to you as to me. We have been chosen by the same people; we serve the same cause; we may differ in our opinions, but if our differences are honest ones, they will find adjustment with little difficulty. Whatever our political convictions, our duty is the same. We may have our obligations to political parties, and these obligations it seems to me will be best met and redeemed in patriotic service regardless of the demands of partisan service; that we will serve our parties best by serving the state best.

We live in a time when purely party considerations are being made to yield to the principles of good government, and in any conflict between the two our first duty is to the state and nation, and allegiance to a party organization a secondary matter. Let us strive to attain the highest ideals and reward the people who have reposed special confidence in us by honest effort which will make us worthy of the honors conferred upon us. In your every effort to bring about a healthier and better state of governmental affairs I pledge you the hearty co-operation of my office, and assure you, as well, that I will be glad to welcome any suggestions calculated to promote the prosperity of our people and the general domestic welfare.