

# Inaugural Message

*of*

Governor J. A. O. Preus

*to the*

Legislature of Minnesota

January 5, 1921





*Gentlemen of the Senate and House of Representatives:*



THE constitution of the State of Minnesota provides that: "The governor shall communicate by message to each session of the legislature such information touching the state and condition of the country as he may deem expedient."

The people of Minnesota have just emerged from a notable political contest, a contest not for party honors but one determining the ideals and proclaiming the aspirations of a majority of our people. In the interest of all the people of the state, I deem it most expedient to call your attention primarily to those issues settled on November second, to the exclusion of other subjects concerning which there is little or no controversy, in the hope that the will of the majority, as reflected at the polls, may have your particular attention.

## ELECTION REFORM

That the laws relating to primary elections are defective is universally conceded. Any law which permits a party candidate who is defeated at the primary election of his party to become a candidate of another party for the same office at the ensuing general election is not only absurd and politically dishonest, but it makes a mockery of the oaths of party allegiance voluntarily taken by all candidates who file at the primary.

The Republican platforms of March 20th and May 8th, 1920, each specifically declares in favor of legislation providing for the nomination of party candi-

dates by the convention system and prohibiting the misuse of the party name. Legislation covering these points should be promptly passed. The convention system can be easily safeguarded at its source by requiring delegates to be elected by the primary method, and by having the returns of the election of the delegates officially canvassed and declared, contests can be eliminated and honest conventions fully representing the people assured.

Under our law the members of the legislature are elected without party designation. This is a paradox. Political parties are a necessity in representative government, and will exist whether recognized by law or not.

To illustrate, an organization exists in Minnesota the foundation of which is political. Not only has it avoided recognition as a political party, thus evading the legal obligation of every political organization to give due publicity to its expenditures, but it has deliberately disregarded and ignored the will of the majority of a great political party as expressed at the primary election. At the last primary election, it undertook to nominate its candidates on the Republican ticket and failing to do so caused its candidates' names to be printed upon the election ballot as nominated by petition.

I call attention to this fact to show that whether the law provides for the recognition of political parties or not, they will exist just the same. Political parties exist so far as the legislature of the State of Minnesota is concerned notwithstanding the fact that the members thereof are elected without party designation. But whether members of the legislature should be elected upon party tickets and party platforms is peculiarly a question for the legislature itself to determine, and I refer the question to the legislature believing that in its wisdom, it will find the correct answer.

## CO-OPERATIVE MARKETING

The overshadowing issue in the recent political contest was the economic problem relating to the marketing of farm products. The disparity between the sums paid the farmer for his raw products and the prices paid by the consumer for the finished article is too great. In order that the farmer may receive greater reward for his toil, it is urged that the state buy from him his raw products, manufacture them into finished products and distribute the finished article to the consumers.

The Republican party, to which I owe allegiance, placed in its platform the following plank:

“We believe that the practical solution of all farm production and marketing problems is along the line of continued development of co-operation, and we are unalterably opposed to the socialist scheme of discarding co-operation and substituting the dangerous plan of state ownership.”

Which of these plans should be followed in order to aid the farmer and the consumer was the principal issue in the recent campaign. By a very substantial majority, the co-operative plan was endorsed.

Agricultural development is marked by three periods: Production, Distribution, Manufacture. Minnesota farmers have entered upon the second stage. They desire not only to remain producers, but to become themselves a part of the marketing machinery.

The American Farm Bureau Federation embraces a membership of approximately one and a half million farmers, while the Minnesota Farm Bureau Federation has at present an approximate farmer membership of forty-five thousand. Before these two organizations there are three proposals intended to enable the farmers

to definitely enter the second period and become distributors of their own products:

First: That the farmers, through a system of collective sale of their produce, establish their own distributing exchanges and thereby bring their produce directly to the manufacturer.

Second: That the farmers organize stock corporations, stock to be held by the farmers themselves, or by their own local co-operative units, the distribution of profits to be made upon the basis of stock held by an individual or a local co-operative unit; the co-operative unit however to distribute its profits upon a patronage basis, if desired, such a stock company to have a seat in the exchanges of the terminal markets.

Third: That the farmers organize purely co-operative or mutual selling agencies to have memberships in the terminal exchanges, such agencies to make their distribution of profits according to the patronage of the farmer member of such a co-operative selling agency.

The first two plans need no legislation. I believe that the second plan is a practical one and that you will redeem the pledges made in the recent campaign if you will instruct the State Department of Agriculture to assist the farmers in organizing local and terminal co-operative selling agencies, and in addition thereto equip the Department with means and experts to make such assistance efficient and effective. A specific illustration of the achievement of the Department of Agriculture in such organization work is the Minnesota Potato Exchange. With the co-operation of other agricultural interests, it was organized by the State Department of Agriculture. Its membership includes over one hundred local co-operative potato associations, all marketing their produce through the state exchange.

In similar manner, the Department of Agriculture

in conjunction with the farmers' co-operative organizations might develop a grain selling agency. Minnesota has approximately four hundred co-operative elevators. If a group of these elevators should be organized, each elevator purchasing stock in a selling agency, such agency to have membership in the terminal grain markets at Minneapolis and Duluth, the farmers of Minnesota will have constituted themselves distributors. They will be distributors in the same manner as the grain growers of Canada who have organized the greatest grain selling agency in the world, namely: The United Grain Growers of Canada. Stock can be sold to the farmers in small amounts, or if the farmers should prefer, they can instruct their local co-operative elevators to purchase stock in the central selling agency. The central selling agency can make its distribution to its stockholders on a stock basis, but the local co-operative elevators might make their distributions not upon the amount of stock held by their members, but upon the patronage of the farmer members of the local elevator association. Such a plan could be carried out, not only in the marketing of grain, but as well in the marketing of live stock and other produce. I sincerely hope that you will provide for the organization of such companies holding memberships in the terminal exchanges and that the action taken will be sufficiently prompt to permit marketing of next year's crop in this manner by those individual farmers or farmer organizations who so desire.

If neither of the two first plans referred to is satisfactory, the third might be adopted. This would be accomplished if your body would pass a law compelling all terminal exchanges to admit to membership purely mutual concerns which would make their distributions on the so-called patronage basis, without taking into consideration the stock held by a patron.

At the present time, the various exchanges operating in Minnesota have a rule that there shall not be any rebating by members of exchanges to those who sell their produce through such members. If a farmers' co-operative concern were admitted on the basis just referred to, this rule would have to be modified. It is for you to determine whether such a rule is in the interest of all the people of the State of Minnesota, producer and consumer alike, or should by legislative act be abrogated or modified.

While in this message I have stressed the party pledge to establish marketing facilities for farmers, I urge you to give careful consideration to the legislative programs of the American Farm Bureau Federation and the Minnesota Farm Bureau Federation and especially to their recommendations relative to rural credits and future trading.

The problem of trading in futures is national in character. Prices of Minnesota farm products are frequently affected by sales or purchases by men of large resources dealing particularly in the Chicago Grain Exchange. For this reason you will doubtless acquaint the National Congress, which is now considering the question, with your views on this subject. Legislation by your body would avail little, if any.

Minnesota is an agricultural state. Its strength is in its farming population. Its ultimate welfare demands and must depend upon prosperous farms and happy farm homes. There is no class question involved and can be none. The interests of the public as a whole are inextricably interwoven with those of the men and women who farm. I deem a satisfactory solution of the farmer's problems the most vital question before you and hope to address you further upon the subject during this session.



## TONNAGE TAX

Less than a generation ago only a few thousand tons of iron ore were each year produced in Minnesota; now there are produced more than thirty million tons annually. Today mining is the second industry of the state.

While some states have had difficulty in the taxation of mineral properties, Minnesota has achieved marked success in the assessment of its iron ore resources. Taxing authorities agree that when ore bodies are definitely located and explored, under the system now in use, their values can be appraised for purposes of taxation with as much accuracy as farm and city realty.

While the matter of the taxation of iron ore on a tonnage basis should not be a party or political question, nevertheless the Republican party, the Democratic party, and the Nonpartisan League are committed thereto. The platform upon which I was elected declares for a fair and equitable tonnage tax.

The present administration pledges its co-operation in the enactment of such a law and as Governor I will give my approval thereto.

The legislature of 1881 enacted a tonnage tax of one cent per gross ton on iron ore mined in the state. This tax was levied in lieu of all other taxes on such ore. That law was repealed in 1897, the attorney general of the state having rendered an opinion that the law was unconstitutional. Since 1897 iron mines have been assessed and taxed on an ad valorem basis, but meanwhile a number of tonnage tax measures have been introduced in various sessions of our legislature. The three bills appearing to have had the greatest consideration were measures endeavoring to levy:

First, a tax based on metallic content without regard to the cost of mining.

Second, a tax on gross production.

Third, a tax upon profits after making certain deductions.

All of these measures were based upon tonnage and all except the first mentioned were super-tax measures.

The first of these bills was House File No. 227, introduced in the session of 1909. Under this measure, mines which yielded less than 49 per cent iron ore content would pay a tax of two cents per ton; between 49 per cent and 54 per cent, three cents per ton; between 54 and 59 per cent, four cents per ton; and from 59 per cent up, five cents per ton.

This bill did not propose a fair method of taxing iron ore. The highest grade ores in Minnesota are found in mines on the Vermillion range. These are underground mines where, after shafts have at great expense been sunk to various depths, in some instances as deep as 1,200 feet, the ore is found. Lower grade ores are found on the Mesabi range where the ore may be removed after stripping operations at less cost of mining than on the Vermillion range. This measure favored the open pit mines and treated unfairly underground mines having iron ore high in metallic content, but where higher mining costs prevail. This bill was vetoed by Governor Johnson.

In the session of 1917, House File 253 was introduced. This bill proposed a tax of two per cent on the gross value at the mouth of the mine on all ores mined in the state. This measure is open to the same criticism as the previous one, for the reason that in ascertaining the gross value of a ton of iron ore at the mouth of the mine, no consideration was given to the fact that the cost of producing certain ores is far greater

than the cost of producing other ores. Such a tax is a direct tax on the overhead as well as upon the profits; a tax upon labor as well as a tax upon the iron ore produced.

The next form of tonnage tax that appeared was the so-called net profits tax. A bill for such a tax was first introduced at the general session of 1919 and failed of passage in the House.

A similar bill was again introduced at the special session of 1919. This bill did not propose a tax on actual net profits inasmuch as proper deductions were not allowed for in arriving at such net profits.

This bill did not meet the objections and criticisms made against the previous bills, mention of which I have heretofore made. The passage of the bill and its veto by Governor Burnquist are so recent and the attendant circumstances are so familiar to you all that further comment thereon seems unnecessary at this time.

There appear to be two reasons why the upright and earnest advocates of some sort of tonnage tax on iron ore adhere to their contentions. If more ore is mined from a property than that disclosed by the drill records and the estimates made therefrom for taxation purposes, such excess tonnage may be removed and escape taxation. This, however, does not appear to be the chief reason for the advocacy of a tonnage tax.

Argument is made that iron ore is a gift of Nature, a natural heritage of the state, a natural resource that is diminished by continued mining, leaving waste land in its wake, that it should therefore take a classification different from other forms of property which are the result of toil and that it should bear a heavier tax than other property in order to meet the depletion and disappearance of such natural wealth.

It has always seemed fair to me to place in a separate class for taxation purposes the gifts of Nature which the hand of man severs from the earth. Severance taxes, either entirely overlooked or avoided in Minnesota, have elsewhere been put into successful operation in order to rehabilitate Nature for its losses.

A severance tax would place a tax on iron ore as well as other materials taken from Mother Earth: as gravel, metals, sand, marl, clay, peat, timber, stone, gems, and so forth. I call your attention to this point by reason of the logic of the situation and not with the idea of confusing your minds or obscuring the issue of tonnage tax.

Within the last few days, the Minnesota Tax Commission, which is a bi-partisan body and one of the ablest and most important departments of our state government, in submitting its biennial report to this legislature discussed various questions involved in the taxation of iron ore and methods employed in such taxation throughout the United States. This authoritative and unprejudiced document deserves your very thoughtful consideration.

After studying this report I have come to the conclusion that any tonnage tax imposed upon iron ore under any new system established should be a net profits tax in lieu of all other state taxes upon the property, accompanied by a reduction in the percentage of the so-called ad valorem tax for other purposes. The ad valorem method of taxation should be retained for local purposes because if this is not done municipalities which have no income from industries other than mining, would be ruinously affected with regard to their schools, fire departments, police departments, and so forth, during periods when mines might be closed.

The gravest question for consideration in this con-

nection, however, is the constitutionality of a law providing for such a tax. The Tax Commission in its report has the following to say regarding the constitutionality of a net profits tax:

“The question of the constitutionality of a net profits tax on iron ore, especially if the tax is imposed as a super-tax and not as a lieu tax, is one that should be carefully considered by the legislature. In essence a net profit tax on iron ore is a tax on the net income derived from the mining of the ore, and while it is possible that the legislature, under its constitutional power to classify property, may make income a separate subject of taxation, there is serious doubt of its power to impose a tax on income derived from the mining of one kind of ore or from the development of one kind of natural wealth and exempt from its operation income derived from the mining of some other kind of ore, or from the development of some other kind of natural wealth, if indeed it can impose a tax on income at all unless the tax applies alike to all income regardless of its source. Attention is called to this phase of the question in order that it may be given such consideration as its importance seems to warrant.”

The question of the constitutionality of a net profits tax, I know, will have the serious consideration of your Judiciary Committees. If these committees are of the opinion that a reasonable doubt exists as to the constitutionality of the proposed bill and if it becomes apparent that the passage of such a law will lead to prolonged litigation and tax confusion then certainly some other means should be adopted to carry out the obligation of this administration and of those individual members who are pledged to support such a measure, even though it should become necessary to submit to

the people a constitutional amendment that would give validity to such a law.

Minnesota has a most enviable record for its unselfishness in the treatment of the gifts made by Congress to the people of this state. Unlike other states, Minnesota has not squandered the proceeds received from lands, mines and timber, but has placed them in permanent trust funds for the benefit of our own and future generations. The unselfishness in this respect evidenced by the first legislatures of the State of Minnesota has won the admiration of every Commonwealth in the United States. While I reiterate that I do not desire to confuse the mind and befog the eye by proposing legislation which would complicate tonnage tax legislation, nevertheless, if a higher tax on such property is justifiable on the ground that the people of the state have a heritage in the iron ore deposits to be found within its borders, then it would seem that at least a part of the proceeds should be regarded as a trust fund and not merely a heritage to those who happen to be living while the iron ore is being taken out of the ground. If it is a heritage, it is a heritage of future as well as present generations.

In considering any proposed change in the method of taxing mineral property, the present and future effect of such a change on the mining industry of the state should be given careful thought. It should not be the policy of the state to impose unreasonable or excessive tax burdens on any class of property, or on any industry of the state. Nothing should be done that will in any way retard or make doubtful the development of the hundreds of millions of tons of low grade ores known to exist within the state. If these low grade ores can be made merchantable by some process of beneficiation, the life of the mining industry in the state will be indefinitely prolonged. A few years ago

explorers for iron ore were numerous in Minnesota; today they are in Wisconsin, Michigan, New York, Pennsylvania and elsewhere, because they fear adverse legislation. In considering the future development of our enormous tonnages of low grade ores, it should be borne in mind that a net profits tonnage tax as recommended will always be taken into consideration by those developing these low grade ores and the heavier the tax burdens, the less development there will be.

No good citizen can object to a fair and equitable tax on his property, nor can the state afford to impose an unfair and inequitable tax on any class of property or on any industry within its borders.

## ROADS

Better roads for Minnesota is one of the great problems in the development of our agricultural resources. On four different occasions, the people of Minnesota have amended the state constitution to bring about better road conditions. At the last general election by a vote of 526,936 to 199,603, a trunk highway system was approved; this system to be built and maintained by the state. Perhaps no legislation in the history of Minnesota will have greater effect upon future development of the state than will the act which you will pass in response to the mandate of the people expressed at the last election by their vote on the road amendment.

Transportation of farm produce and the distribution of commodities by motor trucks is already an established system in many parts of the country. The inauguration of a state highway system in Minnesota will have the same effect here as it has had elsewhere in affording a new transportation basis for commodities and people. While this is doubtless the principal purpose of a road program, it should not be forgotten that

Minnesota with its ideal summer climate, its thousands of beautiful lakes and its glorious scenery is destined to be the summer resort of United States as California and Florida are the winter resorts. Millions of dollars can be brought into Minnesota annually if tourists are encouraged. For this reason some thought may well be given to the location of these roads with a view of opening the beauties and attractions of our state to the people of our country. While sites for state parks in Minnesota have not always been selected with the purpose of locating the most convenient and beautiful spots for parks which people might enjoy, nevertheless, we now have quite a large number of state parks paid for and managed by the state. There is, however, no homogeneity in the system. A state park system which will afford camping grounds and resorts for the traveling public can well be established and its establishment and maintenance go hand in hand with the highway program.

The method of taxing automobiles in Minnesota at the present time is most unsatisfactory. The lowest license tax paid in any state in the union is paid in Minnesota, and the same tax is levied upon every vehicle in like sum. Certainly those who can afford to operate automobiles of high price, great weight, and high motive power should be compelled to pay a far greater tax than persons who operate slower, lighter and lower priced cars.

I feel confident that the details of taxation and method of administration will be wisely provided for and that a definite policy for detours will be adopted by you, and that, above all things, responsibility for the construction of the roads will be fixed in such manner and be subjected to such careful inspection and critical review as will absolutely guarantee to the people sound, intelligent and honest administration.



The construction of roads contemplated under Amendment No. 1 will afford in these days of depression great opportunities for labor and will have a strong tendency to stabilize wages.

Such roads when constructed will be of inestimable value to the agricultural interests of this state in relieving them from complete reliance on railroads for transportation purposes as well as in making country life more attractive. It will bring the rural and urban populations of our state into more intimate relations and from the prosperity given to farming communities will flow great advantages to the cities and villages. A great road system will make Minnesota even more attractive and a better state in which to live.

There are many other problems deserving of attention but with which it is unnecessary for me to deal.

The last election witnessed the full enfranchisement of women in our state and nation. The unselfishness and patriotism with which they assumed the obligations of citizenship presage a greater future and a brighter history. Already the women are making their influence felt as a potent force interested in the enforcement of our laws on education, compulsory school attendance of eight months during each year, the same scale of wages for men and women be maintained for the same services, co-relation of education and labor with a view of enabling the young to select the avocations for which they are peculiarly fitted, community hospitals safeguarding particularly motherhood and infancy, mothers' pensions, and so forth.

One of the reasons for the calling of the special session of the legislature of 1919 was to provide for a bonus for the Minnesota boys who served in the great war. A cash bonus was granted but the law passed was very difficult to administer. The greatest difficulty encountered in its administration was the sale of bonds

to provide funds for paying the bonuses. May I ask that you at once so amend the law as to make possible the immediate sale of the bonds that the boys may without further delay receive the bonuses which they so well deserve.

It is most gratifying to know that the Interim Commission charged with the duty of recommending a bill for Workmen's Compensation Insurance is bringing so unanimous a report to your body. The fairness and industry evidenced by the House and Senate Committees on this subject deserve the greatest praise. Your body will give just and intelligent consideration to labor in this and other measures.

The subject of clearing our cut-over lands in order that the prospective settler may have every advantage in establishing himself may well receive your further consideration.

Doubtless you will give attention to the reorganization of our State Government. The state auditor's office should become an auditing office purely and a separate department should be established for the care of the natural resources of our state. The state should have a permanent budgetary secretary appointed by the Governor subject to ratification by the House and Senate. Unnecessary Boards and Commissions should be abolished. The practice of requiring state officials to serve as ex-officio members of Boards and Commissions seriously impairs their efficiency.

I have dealt at some length with the four leading problems discussed during the recent campaign, namely: election reforms, marketing of farm products, tonnage tax and roads. These four problems will doubtless have your consideration, and I am confident that you will solve them wisely.

Economically our country is still affected by the great world war in which the United States played such

a great and unselfish role. The absence in the service of five million men for a period of nearly two years, as well as the demand for our manufactured articles in foreign countries caused an unusual shortage in American products, thus increasing their value in the home market, reducing the purchasing power of money and increasing the price of labor. With the lessening of the demand abroad and at home, there has come a decline in all values. As a result we must meet a period of economic depression and readjustment.

No appropriations should be made that are not absolutely necessary for the efficient administration of public affairs. In view of the prevailing high tax rates, public expenditures should be so regulated that we may reasonably look for a reduction in tax burdens.

Economic depression and readjustment necessarily mean temporary loss. Let us not give way to disappointment on this score. Let us not seek solace in the destruction of American ideals and institutions, but let us build upon the foundations of our forebears, believing that American ideals of life, liberty and the right to private property are still the best. Let us remember that "Righteousness exalteth a nation." The pledges of great parties are not to be taken lightly. Party honor, like personal honor, must be preserved untarnished. The welfare of a state is greater than the ambitions of an individual. To your hearts and brains has been committed the solution of the problems that are troubling the men and women of Minnesota. I am confident that you will meet the issues honestly, consider them fairly and decide them in accordance with the wishes of the right-thinking electorate of this state.