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HATFIELD BUDGET

For General Fund $312,971,692; With $14,620,550 for Buildings; For Revenue: 1% Net Receipts Tax, Lower Income Rates; Tobacco Levy

Governor Mark Hatfield's General Fund budget for the 1959-61 biennium, upon coming before a joint session of the House and Senate Monday, called for a total of $312,971,692, divided $298,351,142 for Operating expenses and $14,620,550 for Capital Expenditures for state buildings of which Higher Education would get $7,000,000.

For all state buildings the budget submitted by former Governor Holmes proposed $2,494,550 in his over all budget of $298,615,347.

Therein are the major differences in the General Fund proposals, with Hatfield trimming some Holmes' items but adding some.

With the Hatfield Budget message the die is cast at the Legislature. To what extent the Holmes' Democrats, with the former Governor pulling the strings behind the scenes, actually control the Legislature is the revelation that awaits.

Senator Walter J Pearson, Democratic President of the Senate called the Hatfield budget a "fraud" which must be taken with a political grain of salt, and Speaker Duncan, Democrat, gave the Governor no assist, but Alfred H Corbett, Democratic Senate chairman of the Ways and Means committee took it thoughtfully and as worthy of study and analysis, with some political slant in his misgivings as to whether cigarette tax revenue can be

(Continued on page 3)

INDEX

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Senate Bills 107 and 110 sponsored bi-partisan by Senators Hopkins and Overhulse Democrats and Husband and Yturri, Republicans, would preclude appointment or election of any person to a port commission who has an active pecuniary interest in any business in the field of transportation, shipping, forwarding or handling of passengers or freight. They would, if passed, affect the Port of Portland and other similar districts. The proposal is supported by the railroads, not to question the integrity of any such appointed or elected, but to try to keep port commissions neutral on rate controversies. Commissions like that for liquor control and banking may have no members with allied interests, but port commissions do not have regulatory or policing powers and were created to advance certain transportation facilities, water and air particularly.

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"If, to please the people, we offer what we ourselves disapprove, how can we afterwards defend our work? Let us raise a standard to which the wise and the just can repair. The event is in the hand of God."
GEORGE WASHINGTON.

HATFIELD BUDGET

(Continued from page 1)

counted on as spending money in view of which a small bond issue for building might have to be the alternative. Republican minority leaders called it realistic and Democratic leaders sniped at it. The fate of the Hatfield proposals may rest in the fate of House Bill 380, a drastic tax revision now introduced *at the request of ex-Governor Holmes* who is check-mating Hatfield from the sidelines. Holmes' House Bill 380, a very long and complicated bill may become the big tax issue of the session. Watch it.

In detail, Governor Hatfield proposed decreases in the Holmes Budget for operations of $2,155,585 of which $1,000,000 was taken from the Board of Control emergency fund and in some activities "desirable" but not necessary in his opinion. Against that decrease in operating expenditures Governor Hatfield proposed increases of $4,385,930 including mainly $1,000,000 for civil service salaries; $700,000 for Higher Education salaries and $1,590,000 (actually $1,790,000 as passed) for the Centennial commission all of which former Governor Holmes in an unrealistic budget had passed up.

In addition Governor Hatfield proposed about $1,000,000 for a group of activities he found necessary including the Eastern Oregon Tuberculosis hospital conversion for old age patients; the Board of Parole and Probation, salaries for Judges Pro tem, electronic voting machines for the Legislature and additional money needed to see the Legislature through its work, none of which was provided in the Holmes budget. The Hatfield budget also proposes to take care of inflationary costs of supplies and services amounting to over $2,000,000 for which no provision had been made in the Holmes budget.

The operating and building budget, without a bond issue, closely approximates the forecast ($315,000,000) by *Oregon Voter* January 31, and it appears to be somewhere in the realm of what the important Ways and Means Committee, facing the real responsibility of being realistic, indicated would be necessary.

At that point the Hatfield Budget takes on the major problem (revenue) and is of a different hue. How to raise the revenue will become the issue and to what extent Governor Hatfield's proposals will be enacted into law, without a bond issue for buildings, is still the legislature's secret.

In the remote wings of the Capitol the former Governor who became a private citizen a month ago is apparently still at work, as Murray Wade in *Capital Parade* a month ago said he would be.

On the morning that Governor Hatfield gave his proposals to the Legislature, for a budget and for a way of raising the revenue, there came to the desks of the Legislators, House Bill 380, in printed form, introduced by the Committee on Taxation at the request of former Governor Holmes, who for 30 days has been a private citizen, but who continues to propose (and perhaps depose) through the Democratic-controlled legislature. The situation of a retired governor so openly proposing and deposing as a private citizen seems to have few if any precedents.

The situation has point because in private citizen Holmes' proposals there now appear some drastic changes in taxes for revenue purposes that will be found quite similar to the proposals by Governor Hatfield. In some of these the taxpayers will feel the impact. The House Wednesday passed his bill to eliminate installment payments of income taxes.

After pointing out that the Holmes budget, due by law December 20, did not reach him in printed form until Jan 8 (19 days later), Governor Hatfield emphasized that it called for $47,000,000 more than anticipated current general fund revenues, and that the former governor predicted a $70,000,000 deficit by 1961.

He then asked the Legislature to take a hard look at the earmarked or dedicated funds ($807,000,000). The legislature's habit he said, of earmarking so much revenue (nearly two-thirds of what the state takes in) for special purposes means "our budgets (Gen Funds and Dedicated Funds) are forced out of balance when measured against our needs for governmental services."

Elsewhere and in the accompanying tabulations Governor Hatfield's proposals to raise the revenue necessary for his $313,000,000 General Fund Budget are presented. Essentially they call for higher liquor prices (as Holmes did); the use of the $30,000,000 surplus (as Holmes did); anticipation of the return of money given the Centennial (which Holmes made no provision for at all); increased higher education tuition fees averaging $10 a term for residents and $20 for non residents; a 1% net income receipts tax levy to broaden the base (Holmes suggested a gross income tax as possible alternative); downward revised rates for income taxes (partly psychological); eliminating federal income tax, property tax, contributions and other deductions excepting only personal exemptions and for dependents (much as Holmes the citizen has proposed in his several bills); a cigarette or tobacco tax to raise $7,000,000 if a capital gains provision costing the state about the same amount is passed, but tied together in such a way apparently that you couldn't have one without the other. He also came out for a cent increase in the gasoline tax (to 7 cents) to finance federal highway matching funds.

Significant: In an aside remark, not included in the printed Budget message Governor Hatfield, commenting on the appropriations bills being introduced beyond what was conceived by the former administration (Holmes) Governor Hatfield said: "I shall not hesitate to utilize the executive veto in those cases in which I believe we have gone beyond the bottom of our purse or beyond the bounds of desirability." (There seems little chance to pass money bills over a veto which gives Hatfield strength.)

In a second aside, not in the printed message, the Governor also said that if Oregon ignores the Sly recommendations "we will be like a patient paying a considerable doctor bill but refusing to take his prescription because we don't like the taste of the medicine." (Actually Governor Hatfield drew partly on Dr Sly's recommendations but passed up that for a building bond issue, and his net receipts tax is a modification of Dr Sly's gross income tax idea.) See following pages for more detail.

Two-thirds of the television sets in the world are in the United States.

GOVERNOR HATFIELD'S PROPOSED BUDGET
GENERAL FUND—OPERATING AND BUILDING 1959-61
COMPARATIVE WITH EX-GOVERNOR HOLMES' PROPOSALS

REVENUES:	
Proposed by Governor Holmes	$298,615,347
Les—Amount recommended for Capital Construction	2,494,550
Available for Operating Budget	$296,120,797
Suggested adjustments proposed by Governor Hatfield:	
Centennial Commission	$ 2,630,000
Higher Education increase in tuition fees	1,320,000
Increased Board of Control Collections	200,000
Increased Gift and Inheritance Tax Revenues	350,000
Total Additional Revenues	$ 4,500,000
Total Revenues Available	$300,620,797
Less—Proposed Expenditures—	
Operating Budget	298,351,142
Balance Available—transferred to Capital Construction Budget	$ 2,269,655
EXPENDITURES:	
Proposed by Governor Holmes	$296,120,797
Suggested adjustments proposed by Governor Hatfield:	
Decreases:	
Board of Control	$ 1,000,000
Oregon Technical Institute	100,000
Board of Health	100,000
Elk Creek Hatchery	182,293
Farm Forestry	151,361
Forest Protection and Conservation Committee	149,174
Financial Responsibility	349,757
Military Department	100,000
Division of Labor Elections	23,000
Total Decreases	$ 2,155,585
Subtotal	$293,965,212
Increases:	
Civil Service Salaries	$ 1,000,000
Higher Education Salaries	700,000
Centennial Commission	1,590,000
Legislative Assembly	275,000
EOTB Hospital—Geriatrics Use	504,000
Board of Parole and Probation	214,800
Pro tem Judges	77,130
Electronic Voting Machines	25,000
Total Increases	$ 4,385,930
Total	$298,351,142

CAPITAL CONSTRUCTION BUDGET 1959-61

REVENUES:		
Proposed by Governor Holmes	$	2,494,550
Adjustments Proposed by Governor Hatfield		
Transferred from Operating Budget		2,269,655
1% net receipts tax		9,856,345
Total	$	14,620,550
Capital Gains Tax Provision		
Loss of revenue resulting from revision of capital gains tax		(7,000,000)
To be financed by tobacco tax when enacted		7,000,000
EXPENDITURES:		
Proposed by Governor Holmes		
Board of Control	$	344,550
Board of Higher Education		2,000,000
Oregon Technical Institute		150,000
Total	$	2,494,550
Additional Proposed by Governor Hatfield		
Board of Higher Education	$	7,000,000
Board of Control		5,126,000
Total	$	12,126,000
Grand Total Capital Construction	$	14,620,550

GRAND TOTAL OPERATING AND BUILDING $312,971,692

SCHEDULE OF TAX RATES PROPOSED BY GOVERNOR HATFIELD FOR AMENDED PERSONAL INCOME TAX LAW

On net receipts: 1%

On net income, after deduction of personal exemption and dependency credit:

Taxable Balance	Rate	Cumulative Tax
$ 0 - $ 2,000	1%	$ 20
$ 2,000 - $ 4,000	2%	$ 60
$ 4,000 - $ 6,000	3%	$ 120
$ 6,000 - $ 8,000	4%	$ 200
$ 8,000 - $10,000	5%	$ 300
$10,000 - $30,000	6%	$1,500
Over $30,000	7%	

GOV HATFIELD'S CAPITAL CONSTRUCTION BUDGET (Detail) 1959-61

Comparative With Ex-Governor Holmes' Proposals

PROPOSED BY GOVERNOR HOLMES:			
Board of Control			
Oregon Fairview Home			
Central Kitchen Addition	$ 94,550		
MacLaren School for Boys			
Boiler Expansion—Steam line replacement	250,000		
Total		$ 344,550	
Board of Higher Education			
OSC—Central Heating Plant Addition			
OCE—Central Heating Plant and Service Building			
UOMS—Medical Research Building			
Total—Board of Higher Education		2,000,000	

Oregon Technical Institute			
Land acquisition, planning, working drawings and specifications only			150,000
Total—Per Governor Holmes			$ 2,494,550
ADDITIONAL PROPOSED BY GOVERNOR HATFIELD:			
Board of Higher Education			
PSC—Classroom Building—South			
UO—Science Building—First Addition			
OSC—Physics Chemistry Building Addition			
EOC—Hoke Hall Addition			
UOMS—Physical Plant Service Building Addition			
Total—Board of Higher Education			$ 7,000,000
Board of Control			
Fairview Home			
2 Inmate Cottages (215 beds)	$ 756,000		
Water Tank	51,000		
Expansion of Heating Plant	35,000		
	$ 842,000		
MacLaren School for Boys			
New Kitchen and Dining Room	325,000		
Oregon State Women's Institution	567,000		
School for the Deaf			
Heating Plant Expansion and Maintenance Shops	199,000		
Correctional Institution	2,000,000		
Capitol Mall Property Acquisition	500,000		
Capitol Mall Utilities Expenditures	600,000		
Eastern Oregon Tuberculosis Hospital Improvement Assessment	33,000		
F H Dammasch State Hospital Planning—Phase II	40,000		
Supreme Court Building Preliminary Planning	20,000		
Total—Board of Control			$ 5,126,000
Total—Governor Hatfield's Recommendation			$12,126,000

HATFIELD TAX PLAN

Calls for $9,857,000 New Revenue With Broadening of Base; Holmes Bill a Complete Revision of Law

In accompanying columns Governor Hatfield's realistic budget and his formula for getting the new revenue required for it are presented. The tax formula utilizes some of Dr Sly's ideas if Oregon is to continue a "high service" state.

His budget message is based on revenues needed to meet the projected expenditures. Dr Sly implied, and many tax authorities say, that the high cost of government in a high service state, might better start with what the state and its economy can afford and then prescribe revenues necessary which, of course, is the basic purpose of any budget-making. The temper of Oregon, apparently is not for that at this time. We tailor the revenues asked to the expenditures, rather than the expenditures to our revenues available at a reasonable tax burden or sacrifice.

In recommending revision of the personal income tax law, Governor Hatfield on the morning of his address found *"at the request of former Governor Holmes"* HB 380 introduced and printed by the House Taxation Committee proposing a text for the complete revision. So, Holmes the Democrat, has modified what Hatfield the Republican asked for, presenting a pretty kettle of fish for the beleagured legislature, by jumping the gun on the Governor!

But, in the main Governor Hatfield asked for reduced income tax rates, a broader base and widened tax brackets, particularly in the lower income tax group. All comments thus far have pointed out, and Dean Ellis, chairman of the state tax commission who helped work out the plan frankly said, it would increase the tax for low income couples with children. What has not been said is that presently in Oregon many low income couples with children, generally pay no income tax, although their income may approach $3,000 to $5,000, because of dependents and exemptions and other deductions, but these same couples get back from the state, from the income tax paid by others, from $105 to $300 or $400 in state aid to public education for the children who erase their taxes. The purpose of broadening the base is to have these beneficiaries of state service pay at least a token in support of government in all its forms. At the hearings on the bills, either those proposed by ex-Governor Holmes or by Governor Hatfield this fact must be brought out.

The average taxpayer may find it difficult to understand Governor Hatfield's 1% tax on net receipts (in effect a form of gross income tax) as it is related to the regular income tax with lower rates and wider brackets. This first step is 1% on income less certain expense of earning that income but with no other deductions.

The Hatfield plan would raise 68,300,000 a year ($10,000,000 more for the biennium); the Holmes plan $65,200,000 ($4,000,000 for the biennium). The thing to remember is Hatfield's net receipt tax would come first after which the lower income tax rates would apply in $2,000 brackets or the amount over in each case. See examples following.

Governor Hatfield reasons that by simplifying the returns and widening the tax brackets the net income tax rate is reduced, for example, from 6% to 1% at the $2,000 taxable level to which would be added the 1% net receipts tax.

If either this plan or a similar one proposed by ex-Gov Holmes is adopted the hard fact Oregon taxpayers will have to get accustomed to is that there will be no deductions of federal income taxes paid, no deductions for contributions and no deductions for property taxes paid locally which would make the taxable balance in paying state income taxes, higher than now. On the other hand there would be some reductions to many taxpayers in their federal income taxes because such taxes paid to the state would be deductible for federal income tax purposes.

It is Governor Hatfield's premise, supported by his taxing authorities on the state commission, that this would raise

$9,857,000 of additional revenue, but get it from more taxpayers than now pay.

We suggest study of the tabulations in another column before jumping to any conclusions and mentally calculating what the offset would be in federal taxes. More detail on this next week.

The Legislature being controlled by Governor Holmes' party, the revenue-raising program that comes out of the Legislature will no doubt take into consideration HBs 57, 58 and 380, introduced by the House Tax committee at the request of ex-Governor Holmes. Hatfield's lever to get something of what he wants is the veto.

In HB 57 there would be no deductions for federal income taxes paid, estate, inheritance, legacy and gift taxes, gasoline taxes not a business expense, property taxes paid locally, and some other deductions presently possible. Hatfield wants some of this.

After eliminating deductions to get the taxable balance of income, ex-Governor Holmes proposes in one bill, somewhat changed in HB 380 to reduce the income tax rates on the first $500 from 3 to 2%; on the second $500 from 4 to 3%; on the third $500 from 5 to 4%; on the fourth $500 from 6 to 5%; on all taxable income in excess of $2,000 and not in excess of $8,000 from 7 to 6% and all income in excess of $8,000 from 9 to 7%, all with a provision there would be no surtax.

In HB 58 the rate formula above is used and it spells out the elimination of present deductions, and the allowance of certain business expenses as deductions, those allowed or not allowed for non-resident taxpayers; disallowing any deductions for expenditures that improve values of property, insure an officer or employe of a business; fixing personal exemption at $600 ($1200 for a married couple) and $600 for each dependent, fixing limitations and changing the law on deductions taken by estates and trusts, all applicable starting Jan 1 1959.

HB 380 which makes some of HBs 57 and 58 passe is a complete revision of the personal income tax laws and repeals ORS chapters 315 and 316, and is introduced by the House Taxation committee at the request of former Governor Holmes after making a budget. It eliminates almost all personal deductions including federal income taxes, contributions, interest on mortgages and other obligations but allows personal and dependent exemptions, medical costs above 15% of net income and certain business expenses.

This bill is one for tax accountants to analyze but there are some major generalities readily understood.

This bill will have to be considered with Governor Hatfield's proposals because with Democrats controlling the legislature the Holmes bill is bound to get attention. The bill is 74 pages long and there are 84 new sections replacing the present law. Until it can be compared section by section with existing law its import cannot be briefly summarized.

The State Tax Commission has prepared a comparative analysis of the present income tax, the Hatfield plan and the Holmes (HB 380) plan for eight classes of taxpayers from Single to Couple with five dependents. We present four typical examples:

SINGLE—NO DEPENDENTS

Income	Present	Hatfield	HB 380
$ 1,000	$ 7	$ 14	$ 5
2,000	34	32	22
3,000	72	58	48
5,000	168	122	138
7,000	274	206	268
10,000	451	370	478
15,000	754	714	828
20,000	1018	1064	1178
50,000	2136	3358	3278

JOINT—NO DEPENDENTS

Income	Present	Hatfield	HB 380
$ 1,000	$ 0	$ 10	$ 5
2,000	14	28	16
3,000	38	48	36
5,000	103	106	98
7,000	187	184	204
10,000	337	340	404
15,000	643	678	754
20,000	964	1028	1104
50,000	2538	3316	3204

JOINT—TWO DEPENDENTS

Income	Present	Hatfield	HB 380
$ 1,000	$ 0	$ 10	$ 5
2,000	0	20	10
3,000	7	36	24
5,000	58	82	66
7,000	129	148	126
10,000	270	284	276
15,000	562	606	606
20,000	889	956	956
30,000	2489	3232	3056

JOINT—FOUR DEPENDENTS

Income	Present	Hatfield	HB 380
$ 1,000	$ 0	$ 10	$ 5
2,000	0	20	10
3,000	0	30	15
5,000	22	64	52
7,000	79	118	98
10,000	204	236	196
15,000	480	534	528
20,000	811	884	808
30,000	2436	3148	2908

ATIYEH GAINS POINT

For Free Enterprise on State Liens; a Tactical Move Wins Out

A minority dissent on HB 89 as originally written made by freshman Representative Victor Atiyeh, Republican, Washington county, has brought an amendment to the bill that will have the effect of keeping the state from engaging in business competitive with private business where state liens and property foreclosures are involved.

The measure gives the State Land Board power to bid in real or personal property subject to a state lien (debt or taxes) and to administer such property as the board deems for the best interest of the state. The liens could be placed by any state agency including Fish, Liquor, Tax, Industrial Accident or Unemployment Commissions, and the Public Utilities commissioner. The power given to bid in the properties by the State Land Board was properly proscribed as to sums that could be paid, but as originally written the door was left wide open for the state to enter into business with such properties in competition with all taxpaying businesses.

Freshman Representative Atiyeh on the House Tax Committee, brought in a minority report and clearly stated his objection in urging that it not pass. He finally succeeded in getting it made a special order of business. With odds against him on halting passage, he did succeed in getting it re-referred to the Taxation committee (where his views are respected), with the result the bill was amended in the important particular where power was given to the state to "administer" such property, to have that power limited so that the state "while holding such property shall not engage in any enterprise (with it) competitive with private enterprise other than the renting or leasing of such property or interest thereon."

This is an important amendment and for a Freshman member to detect the loophole in the bill as drawn originally, and against some formidable opposition of the Tax committee majority to get such attention on the floor as to get the bill referred

back to the committee where his amendment prevailed, is worth noting. Freshmen members usually have to feel their way on bill strategy so early in a session when the going is rough, as it was in this instance, but young Atiyeh, when he saw he couldn't prevent passage of a bill that had a bad loophole in it, made his point on the floor and eventually got the amendment. The bill carries $100,000 appropriation for a fund to be used for the purpose by the State Land Board and therefore must go to Ways and Means where the $100,000 may yet stop it.

Kenneth L Hicks, courageous and straight-talking editor of the *Daily Courier* at Grants Pass is suddenly dead at 60, the victim apparently of an unexpected heart attack February 6. He was a veteran Oregon newspaper writer and editor—at The Dalles, Bend and Grants Pass, following a career in Tacoma. At one time he was part owner of The Dalles *Chronicle*. Two years ago upon the retirement of trenchant Frank Streeter he became editor of the Grants Pass paper and continued that newspaper's unequivocating editorial course. He spun no socialistic theories, reasoned upon the facts of history and reality, and jousted valiantly with less straight-forward writers. His page reflected Josephine county's hardy virtues. He will be missed by us and many others.

LINCOLN REMINDER

We Veer to Marxist Concept, Russia to the Emancipator's

By Ralph T Moore

At this anniversary of Lincoln's birth we would do well to take a good look at his tax philosophy of sharing the privileges of government with all who help in bearing its burdens.

This is in sharp contrast to the present and popular Marxist concept of taxation in accord with "ability to pay." The latter is basic to the recent Chinese commune system which is proving a big flop even in that well disciplined land. It was also a favorite of the late Joseph Stalin and of his successor for a time and until it was discovered that incentive preservation is integral to every successful system of taxation. Now Mr Khrushchev is sideling toward ditching the "ability to pay" idea in favor of something offering greater incentive to both workers and investors. And the pudgy Nikita is nothing if not a practical man who knows which side of the economical bread is buttered.

This writer is convinced that Oregon's business will continue to be seriously handicapped until the will and the way are found to broaden the tax base. We simply can not continue a system in which only about half the people contribute anything toward state government finance. The demand for services has so badly outstripped present financial potentials as to compel a drastic change. And since both major political parties have taken the sales tax out of the picture there remains, for the present at least, only the Sly suggestion for a gross income levy. This would indeed broaden the base about the same as a sales tax but it would not have the flexibility of the sales tax in so far as the individual taxpayer is concerned. A stipulated amount would have to be paid by each income bracket regardless and beyond the control of the taxpayer. Yet it would in the main serve the Lincoln concept of sharing.

A good bit of our present tax trouble stems from a foolish inclination to use the tax-power as a punitive or regulatory instrument. The idea has been to squeeze the orange a little harder when more juice is needed and under the presumption that the harder squeeze will always be rewarded with more juice flow. But common sense tells us that this is true only to a limited degree. For once the juice has been extracted any addition to squeeze pressure is futile.

It will be smarter to treat taxation as an annual harvest. The latter, if it is to be held at maximum yield, needs fertilizing, cultivation, and intelligent soil utilization. The idea is not to foolishly sacrifice future potentials to assure a single, specific harvest but to carefully nurture and cultivate so that the same soil will yield increasingly greater harvests indefinitely. This is the scientific approach and the one best calculated to be in the general interest. But it is not the political or popular approach which mixes in a good bit of sentiment and pure selfishness. It would contemplate the sharing of the burden whereas the popular appeal contemplates soaking the other fellow while you go scot free.

The late Andrew Mellon, while Secretary of the Treasury, confounded Congressional politicians by raising more money from lower tax rates. His device was simply to cater to natural incentive and it paid off in big figures. But it garnered no votes because it favored nobody in particular and soon fell into disrepute in an age where the electorate tends to sell its vote to those bribing it with its own tax money.

We have drifted away from the Lincolnesque sharing toward the more materialistic communist concept of "ability to pay." It seems incredible that the American people should make such a choice but there it is. And in addition to adopting something akin to the suggested gross income tax we should also abolish both the capital gains (as Dr Sly suggested) and the estate taxes. Both tend to destroy both capital and jobs which we now need so desperately.

We should protect, not progressively destroy, our limited capital potentials. And our inconsistency in not taking care of existing business while breaking our necks to get new business is not going unnoticed by the investing public. It would seem better to do some badly needed fertilizing and cultivating of existing fields before we undertake to break new ground.

HAPPY BIRTHDAY!

Elaborate plans are well in hand for the Oregon Statehood Banquet at 6:30 p m this Saturday in the block-long lobby of the United States National Bank of Portland with Marshall N Dana as general chairman and Gov Mark O Hatfield honorary chairman of the "birthday party."

Vice President Richard L Nixon, representing President Dwight D Eisenhower, will be a guest of honor. Also at the head table with other distinguished guests will be Helen Mar Meek, great granddaughter of Joe Meek, trail-blazer and Oregon's first U S Marshal, gowned appropriately as "Miss Pioneer Oregon." Miss Meek was chosen for the honor by the Sons and Daughters of Oregon Pioneers of which her father Fred Meek, State Representative, is president, and which, with the Multnomah County Centennial Assn, Inc, is sponsoring the banquet.

Vice President Nixon will speak at birthday ceremonies Saturday at Astoria and in the rotunda of the State Capitol at Salem, with Gov Hatfield as host at a 90-minute public observance of the day. There will be a ball and buffet at the Marion hotel this evening.

Other cities and communities throughout the state will celebrate with programs in keeping with the spirit of Oregon's Centennial year.

Robert H Foley, Bend Attorney see OV 2-7 has been appointed by Governor Hatfield to the Circuit Court for Deschutes, Jefferson and Crook counties to fill the vacancy caused by the resignation and retirement of Judge Ralph S Hamilton. Judge Foley is 47, Army veteran of World War II, a former District Attorney, a member of the State Water Resources Board and is a specialist in water law. He is active in community affairs and led the Bar association poll requested by the Governor and on which he acted.

OF INTEREST TO WOMEN

How Horace Greeley Might Write To John Hay Whitney—in Horizon; Parody on Ten Little Indians

By The Votress

Our first copy of a Christmas gift subscription of the new magazine, *Horizon*, came a few days ago and it is a most fascinating publication with beautiful art work. It is published by-monthly by a subsidiary of the American Heritage Society. The cover, a reproduction of a 15th century Flemish painting, should really be framed.

The lead article is about the Arts of San Francisco—"so blessed by nature and individuality that it has become a magnet and proving ground of the arts." There has been so much written about the Bay Region one wonders how much more could be said, but this is "different" and the illustrations are outstanding.

We particularly loved, too, a Memorandum from Horace Greeley to John Hay Whitney. It is an imaginatory letter that Mr Greeley might have written to Mr Whitney (who owns the controlling interest in the New York *Herald-Tribune* and is our present ambassador to the Court of St James) on how to compete with the *New York Times*. He says in part: "I'm told they're putting out a great, compendious paper these days over at the *Times*. Then you put out an even greater one that isn't compendious. Publish a Sunday edition that people not only can read but actually lift. Let the *Times* people thrive by massive organization. As for you, thrive by individuals. I did, though it never made me rich." He goes on to urge him to hire dreamers, mavericks, poets and what today are called odd-balls, and concludes by saying: "And what is this 'public' they speak of? It hasn't changed; it's still composed of individuals. The best publisher and editor is the one who doesn't care one hoot what his 'public' supposedly thinks en masse, but who cares passionately for what he himself and those whom he most likes and trusts believe. You have been an ambassador abroad, and I guess you know that the strongest ambassador anywhere is the one who speaks his mind clearly and firmly. Be such an ambassador to our people at home. Trust in yourself above all; dare to be different. I greet over the years the editors of the rival *New York Times*, who sometimes do dare, despite all that money of theirs. But I greet particularly yourself, who must dare. Come West, young man, and help open up the country"!

* * *

From a reader we have a clipping with a parody on the ten little Indians, lightly but seriously commenting on the fact that one out of every six working Americans (11,000,000 in all) is employed by government, federal, state and local, paid with tax dollars. The parody on the nursery rhyme goes like this:

"Ten little taxpayers standing in line,
One goes to Washington, so there are nine.
"Nine little taxpayers pay for the state,
One switches jobs, so there are eight.
"Eight little taxpayers taxed high as Heaven,
The town hires one, so there are seven."

And, so on and on. There's no question that the trend is up in government employment and as that percentage goes up the percentage of those who don't work for government, goes down. Once, the article said, one out of every 1,000 workers was in government and not too long ago it was one in ten. Whatever else may be said of the 11,000,000 they are at work because the others produce taxes.

* * *

From a very sedate business executive who is a reader of this column we have this: At a party he attended not long ago the question was raised as to why everyone invariably refers to a boat as she. Here are some of the reasons he remembered: because there's always a great deal of bustle around her, because there's always a gang of men around, because she has a waist and stays, because she takes a lot of paint to look good, because it's not the initial expense that breaks you, but the upkeep, because she's usually all decked out, because it takes a good man to handle her right, because she shows her topsides, hides her bottom and when coming into port always heads for the buoys!

NEWS OF STATEHOOD

Slow in Reaching Oregon
Excited Little Interest

Elaborate plans for Oregon's 100th birthday party at Portland and the State Capitol, and statewide interest engendered in Centennial Year celebrations are in decided contrast to the apparent apathy with which the news of Oregon's admission to the Union was received, somewhat belatedly, a century ago.

The occasion was recalled succinctly by the late Harvey W Scott, long famed editor of *The Oregonian*, in an address at the 11th annual banquet of the Portland Commercial Club, June 29, 1905, as recorded in "History of the Oregon Country" (1924), compiled by Leslie M Scott, the editor's son and former State Treasurer.

Editor Scott said:

"At the beginning of the year 1859 I was at Oregon City, grubbing for roots under a tutor, so I might read Horace and Homer, and supporting myself by chopping cordwood. The act that made Oregon a state had been passed by Congress in the month of February (14th) that year. But it was more than a month before we could know of it, and when known it excited little interest. The news came to this coast by way of Panama, and by the steamer Brother Jonathan, from San Francisco to Portland. That steamer arrived at Portland the afternoon of March 15. At Oregon City the news that Oregon was a state did not arrive until nearly noon the next day. A few persons talked about it with languid interest, and wondered when the government of state would be set in operation. Perhaps it would be another week before it would be known at the capital (Salem) that Oregon was now a sovereign state, and the pioneer governor-elect, John Whiteaker, might not hear of it at his farm in Lane county for a month to come. An announcement that now would be instantly made at every telegraph station and would call forth the boom of guns and the peal of bells, passed almost unnoticed. But it occurred to a young man at Oregon City, named Stephen Senter, that there were persons at Salem who might wish to have the news, so he mounted a horse and started as messenger. At that time of the year it was not easy to ride. Molalla and Puddings rivers were to be crossed; both were out over the banks, and needless to say, the mud was at its worst. But this courier and herald of the state persevered, and after an effort of thirty hours reached Salem with the news. Naturally, the announcement was received with more interest at the capital than elsewhere, for it meant that the state government would supersede the territorial; but the people at large evinced little or no interest in it."

But Oregon was already well prepared for habiliments of statehood. Impatient at Congress' delay in passing the statehood bill, largely because of the question of how the new state's delegation in Washington might influence the slavery question, voters of the territory had adopted a constitution at an election Nov 9, 1857, by a vote of 7,196 to 3,215, had rejected slavery by 7,727 to 2,645, although, paradoxically it would seem, at the same time had voted 8,640 to 1,081 to exclude negroes and mullatoes from the territory. Conventions were held and nominations were made for various state offices in the spring of 1858 on the assumption that statehood was assured. There were three political parties in the field—the old line Democrats, the so-called National Democrats, an independent element, and the Republicans. The "old liners" nominated Lafayette Grover for Congress, John Whiteaker for Governor, Lucien Heath for Secretary of State, J D Boon for Treasurer, Asahel Bush for State Printer, and won out in the election later. Whiteaker was inaugurated as Governor on July 8, 1858. The Legislature that month elected Joseph Lane and Delazon Smith as United States senators, and they, with Grover, gathered in Washington in readiness to take their seats upon signing of the statehood bill.

The young state, 33rd in the Union, soon attracted national attention and recognition, when at the Republican national convention May 16 1860 at the Wigwam in Chicago, Horace Greeley, veteran editor of the New York Tribune, holding the delegate proxy of Leander Holmes of Oregon, was a potent factor in bringing about the nomination of Abraham Lincoln for president. Lincoln, incidentally, had previously declined appointment as Governor of Oregon Territory, largely, as recorded by historians, because Mrs Lincoln, having had a surfeit of "pioneering" was not inclined to move to the "backwoods" of the Great West.

Contemporaries recall that Oregon's 40th anniversary of Statehood was quite fittingly observed by the Oregon Legislature on Feb 14 1899 in deference to the "vanishing pioneers" whose ranks were being rapidly decimated by advancing years.

Only other state celebrating Feb 14 as a birthday is Arizona, admitted Feb 14 1912, and the "baby state" until Alaska's star was added to the flag this year.

PORT MASS TRANSIT

May Be Behind HB 408 With Portland Traction Acquisition

What could be a move to amend the Port District law (ORS 778) to enable the area in Clackamas county suburban to Portland to organize a port district and initiate tax-supported mass transportation, between, say Oregon City and Portland, may be the purpose of House Bill 408, introduced by Senator Monroe Sweetland and Representative Beulah Hand, Democrats, of Milwaukie.

The bill would amend the port district law to add "transportation" to maritime and shipping activities and to enable a port district to own, lease and operate steam and other motive power facilities including a railroad, *beyond the boundaries of the port district.*

The proposed amendment would eliminate from the law the restrictive clause "within the port boundaries." Particularly the amendments proposed would add the operation of motor busses, trolley coaches and railroads to that of barges, vessels, steamboats, etc, and would enable a port district to acquire by condemnation as well as purchase such facilities and to acquire franchises.

The bill would authorize taxes for these purposes not to exceed three tenths of one per cent of the assessed value within the district. The present law is one twentieth.

Under such an amendment if voted the proposed Port of Oregon City of which there has been some talk, might be organized and acquire by condemnation or purchase and operate the interurban freight and passenger lines of the Portland Traction company.

Senator Boyd Overhulse, Madras, is in the Salem General Hospital where he underwent an operation for an intestinal abscess (found not malignant). There is some doubt that he will be able to attend further sessions of the Legislature although his condition was reported satisfactory.

Dr Ralph E Purvine of Salem, since 1940 Health Service Director of Willamette University among other activities including that as serving as the official doctor for the Oregon Legislature, has been appointed to the State Board of Higher Education, replacing Dr R E Kleinsorge of Silverton, President of the Board, who will retire effective March 2 after 18 years on the Board. Dr Purvine, a graduate of Willamette and of Jefferson Medical College of Philadelphia, is a member of the State Board of Medical Examiners, a responsibility he will resign upon accepting the place on the Higher education board, which elects its president. In his long service as member and President of the State Board during a period when the board's responsibilities have become vast, Dr Kleinsorge showed a penetrating understanding of rapidly-moving events in the broad field of education and was a lodestar guiding the state in the development of the University of Oregon Medical School and allied activities into its notable place among such institutions nation-wide. Dr Kleinsorge is approaching 76 and his successive reappointments are the warrants of his devoted service. The Board now has nine members and the bill before the Senate would raise this number to 12.

Kudos to the Northwest Natural Gas Co for its Centennial (Jan) issue of *The Blue Flame*, company publication, an eight-page Time-size number, replete with pictures, many of which will stir nostalgic memories among old timers, and with interesting, informative reading. The Pacific Northwest's first gas utility started in Portland with the granting by the Oregon Territorial Assembly of a perpetual franchise for a "gas manufactory." The date was Jan 7, 1859, some five weeks before Oregon was granted statehood. Portland was a forest-bound town of some 2,874 population, but Henry D Green and H C Leonard moved with dispatch and visions of a great gas-glowing future once the franchise was granted. They soon had machinery and pipe en route from their native New York as fast as slow-going sailing ships could carry it, and a modest little "gas works" was under way by year's end. The first gas light burners in the city were turned on in June 1860. Northwest Natural Gas Co, successor to Portland Gas & Coke, has a present investment in its field of approximately $50 million, with ownership in the hands of 7,500 shareholders. The anniversary number of *The Blue Flame* carries on page one, a picture, appropriately enough, of Charles H Gueffroy, company president, seated at his desk before a life-size portrait painting of Henry D Green, Gasco's first president. The portrait has been loaned to the company for its centennial year by Green's granddaughter-in-law, Mrs Henry Green Reed of Pasadena, Calif. Don Johnston is editor of *The Blue Flame* with Kathleen Skinner as managing editor.

Charles E McCulloch and **Omar C Spencer** who announced their retirement from the law firm of Hart, Spencer, McCulloch, Rockwood and Davies will remain counseling partners. Mr Spencer had been with the firm since its founding on Sept 1 1907. Mr McCulloch had completed 50 years of practice with the firm. The new firm name is Hart, Rockwood, Davies, Biggs and Strayer, with addition of Hugh L Biggs and Manley B Strayer to the firm name with those of Charles A Hart, Fletcher Rockwood and David L Davies. Other partners are Thomas B Stoel, Paul L Boley, James P Rogers, Richard Devers, Frederick H Torp, George H Fraser, William W Wyse, John R Hay, Cleveland C Cory and Clarence R Wicks.

LEGISLATIVE POINTERS

Acting governors will be paid at the same rate the Governor is paid if the legislature approves the bill Ways and Means committee has agreed to introduce.

* * *

While the Democratic leaders make political capital of Governor Hatfield's budget as being larger than ex-Governor Holmes, the Ways and Means committee reported at midweek that bills introduced by members of the Democratic controlled assembly now call for appropriations $21,339,272 more than the Holmes austerity budget called for.

* * *

Ways and Means committee members are highly critical of the practice followed by some self-supported commissions and agencies which have been borrowing money in advance of their receipts to finance their operations. The issue arose in connection with the budget of the Fryer Commission which borrowed $5,000 at start of operations and proposed to increase loan to $10,000.

* * *

Senator Thiel has announced that some 400,000 first day cachet envelopes are available to pass through the Astoria Postoffice, the first one established West of the Rockies, today (February 14) as the Oregon Centennial stamp is put to official use.

BOND BID REMINDERS

Dist sch brd of Dist No 60 Beaverton, Wash Co, will open bids at 7 p m Feb 24 for $33,300 issue of gen obli dist bonds, dated Mar 1, in $1,000 denominations, to mature at $3,000 annually Mar 1 1960 through 1969 and $3,300 1970. Ruth Hoek, clerk, Rt 1 Bx 1050 Beaverton.

Bids are due at 2 p m Feb 24 at the Dept of Finance & Adminis, Salem, for furnishing faithful performance bond for the corp dept of the state government in amt of $10,000 for three yrs beginning at 12:01 a m March 1. The bond is to cover 18 employes of the dept.

BOND ISSUE NOTES

Gresham voters on Feb 17 will pass on two proposals for financing construction and maintenance of a city park in addition to a special levy to augment police and fire dept funds. For basic park construction a $40,000 bond issue to be retired over a 10-yr period; for maintenance and operation a $5,000 per year for 10 yrs special levy; for fire and police dept funds, a special three-year levy to raise an estimated $10,000 per year. In recent years voters have rejected proposal for a new city tax base and special levy issue, designed to take the place of special millage levies approved by voters some years ago but now expired.

Voters in Lane Co sch dist No 139 (Elmira) approved 45 to 7 a $34,000 bond issue to finance construction of an addition to Upper grade sch bldg.

Rockwood, Mult Co, will vote Feb 25 on proposal to authorize $395,000 bond issue for construction of a new sch bldg on NE 194th ave just south of Glisan st on site optioned by the sch brd.

Burns hi sch dist Harney Co voters have approved 403 to 349 issuance of $130,000 in genl obli bonds to finance completion of hi sch bldg. The electorate on Dec 4 rejected a proposed $162,000 issue after which outdoor athletic facilities and a laundry were eliminated from plans.

Eugene residents will vote in April on date to be named for revenue bond issue in amount to be determined to finance construction of Carmen-Smith hydroelectric project on the Upper McKenzie river. It has been indicated that the proposed issue may total up to $24 million.

Jantzen Inc has declared a $1.25 a share quarterly dividend on Series A 5% cumulative preferred stock payable March 1 to stock of record Feb 25, '59 and a 20c a share dividend on common stock payable Feb 1 to stock of record Jan 15, '59.

Mid-Week Quotations, Unlisted Stocks

These Bid and Asked Quotations are prices at which one or more dealers, members of the National Association of Security Dealers, Inc, would trade with the general public at time indicated below.

Quotations by Merrill Lynch, Pierce, Fenner & Smith, Inc, as of February 11, 1959.

	Bid	Asked
American Marietta	45½	47½
B C Forest Products	14¾	15¾
Bank of America	43⅜	45⅜
Bank of California	47½	49¼
California Oregon Power	37⅞	39⅞
Cascades Plywood	31½	33½
Consolidated Freightways	19⅜	20⅞
First Nat'l Bank of Oregon	57	61
Georgia Pacific Corp	63	63⅜
Harbor Plywood	19⅝	19⅞
Hyster Co, Common	26¼	28½
Iron Fireman	15	16¼
Jantzen Inc, Common	22¾	24¾
Kaiser Steel, Common	55	59½
Lone Star Steel	32½	34½
Meier & Frank	17½	19
Montana Power	68	69
Morrison Knudsen	33¾	35¾
Northwest Natural Gas	17½	18⅞
Oregon Portland Cement	131	149
Pacific Pwr & Light, Common	41⅜	43⅝
Pacific Pwr & Light, Prfd	100	103
Pacific Pwr & Light, 5.64 Prfd	107	112
Pacific Pwr & Light, 6.16 Prfd	110½	115½
Pope & Talbot	29½	33
Portland General Electric Co	29¼	31¼
Portland Transit, Common	7	8¼
Portland Transit, Preferred	23	25½
Portland Trust Bank	34½	—
Puget Sound Power & Light	34½	35
Ryder Systems	38¼	41
Seattle First Nat'l Bank	96	102
Texas Natural Gasoline	52	54½
U S Nat'l Bank of Portland	68½	73½
U S Plywood	48¾	49¼
Van Waters & Rogers	31¼	33¼
Washington Natural Gas	16¾	18½
West Coast Telephone	24⅜	25⅞
Weyerhaeuser Timber	44½	47

1812 FIRST NATIONAL CITY BANK NEW YORK 1961

FIRST NATIONAL CITY BANK

Monthly Letter

Business and Economic Conditions

New York, April 1961

General Business Conditions

THE business observers who have been looking for the recession to bottom out around this time have found much in recent news to encourage them. Arrival of spring weather brought out customers at department stores and auto dealers, and ordering by business and government has also picked up. Business investment plans reported in March indicate that the decline in plant and equipment expenditures may be halted and even reversed during the second half of this year. Industrial production and personal income nearly held their own in February, while housing starts rose for a second month. Employment increased slightly though unemployment held around 6.8 per cent of the labor force.

Some of the improvement in the last few weeks may be a natural reaction after the unusually bad weather early this year, but the revival in buying interest points to something more basic. A key item among the encouraging reports was the increase in new orders received by durable goods manufacturers during February. The gap between shipments and new orders virtually disappeared. Part of the rise in orders was due to stepped-up defense contracts with aircraft and instrument firms, but demand for steel and other basic materials also picked up a little. This encourages the hope that the stringent inventory controls of the past year have done their work, that stocks of purchased materials have been cut to a practical working minimum, and that the way has been cleared for any gain in consumption to set off buying all along the line.

These are all signs of a probable "bottoming out." Solid statistical confirmation must await later figures but the prospect is encouraging. It is still far from clear, of course, whether the economy will turn up promptly as in 1958, or will bump along the bottom for several months as in 1954. It is even less apparent whether the recovery will be vigorous and sustained, or mild and incomplete.

CONTENTS

Production Bottoming Out

Industrial activity in February held at nearly the same level as in January, and preliminary reports indicate little further change in March. The Federal Reserve index of industrial production (seasonally adjusted, 1957 = 100) stood at 102.0 in February, compared with 102.4 in January. Output of steel, television sets, and some appliances increased, but offsetting declines were registered in autos, furniture, and building materials. Automobile output was still being cut back in March, but an upsurge in sales, trimming dealers' stocks below one million cars, has led to an increase of 18 per cent in the daily production rate scheduled for April. It would appear that weather had much to do with the sales setback in early 1961, and industry officials now talk hopefully of a good spring season.

Steel mills, among the earliest to feel the impact of inventory cutbacks, have also led the rest of the economy on the upswing. New orders exceeded shipments in both December and January (the latest months published) and order backlogs reportedly have been strengthened further in February and March despite lagging demand from the automobile industry. Steel output, at a 69 million tons a year rate in December, ran in March at the equivalent of 83 million tons.

If industrial activity touched bottom in February or March, the recession will indeed have been one of the mildest on record. Over all, the dip in gross national product may have been only about one per cent. Industrial production decreased 7.1 per cent through February from the business cycle peak reached last May – about as long a decline as in previous postwar recessions, but not so deep. The contraction through February was smaller than the 10.2 per cent decline in 1953-54 and decidedly less sharp than the 14.1 per cent drop in 1957-58. In 1958 the recovery was prompt and sharp. In 1954, on the contrary, there was a long, relatively flat bottom, persisting for over half the year.

A comparison of movements in the book value of business inventories also shows that the current decline has been more gradual than in the two preceding recessions. The liquidation of manufacturers' stocks tapered off early this year, while retailers were making their first sizable cuts in inventories. In the past, upturns in industrial production and retail sales have usually occurred before inventory reduction has fully run its course. Thus, it would not be unprecedented for inventory liquidation to persist through midyear even though production and sales revive earlier.

Sustained Capital Spending

In a survey taken in January and February and released in March, businessmen reported plans to spend $34.6 billion on plant and equipment during 1961. Although this represents a decline of 3 per cent from the 1960 level, it is encouraging on several counts. The decline is smaller than most observers had anticipated; despite the recession, there has been little deterioration in investment spending plans since last October when a McGraw-Hill survey also showed an anticipated 3 per cent decline from 1960 to 1961.

In addition, these figures point to the possibility of an upturn in the latter part of the year in this vital sector of the economy. Capital expenditures in the first quarter of 1961 were estimated at a seasonally adjusted annual rate of $34.4 billion and outlays in the second quarter are scheduled at a $33.8 billion rate. Thus, if the year as a whole is to average out to the $34.6 billion level reported in the same survey, a somewhat higher rate of spending will be required in the second half. So far, the cutbacks in investment in this recession appear to be following the gradual 11 per cent decline which occurred in 1953-55 much more closely than the 22 per cent cut which followed the 1955-57 capital spending boom.

The Employment Problem

The rise of unemployment in this recession beyond 5 million persons or 6.8 per cent of the labor force has led the Administration to propose a number of relief measures. As was done in the 1958 recession, President Kennedy has secured legislation to help finance a temporary extension of unemployment compensation from the general standard of 26 weeks to a maximum of 39 weeks. The cost is figured at about $1 billion, to be recovered by added taxes on employers. He has also proposed temporary federal contributions toward the cost of relief aids for children of needy jobless parents, and optional retirement at age 62 for men under the old-age pension system. At the same time, the President has strongly advocated enactment of depressed-areas legislation which would provide grants and loans to revive work opportunities in districts of chronically heavy unemployment, such as the frequently cited coal mining centers in West Virginia.

The idleness of large numbers of workers involves not only hardships for the individual and his family but also waste of the nation's human resources. If the United States is to expand its national product, we will need the help of all available hands. As President Kennedy commented in mid-March:

> I am hopeful that we can have employment high five days a week and forty hours, which is traditional in this country, and which is necessary if we are going to continue economic growth and maintain our commitments at home and abroad.

Even without the proposed new measures, the nation is already providing income on an unprecedented scale to nonworking people. For every nine dollars earned in wages and salaries, one dollar is being received under various welfare programs, mainly by persons not working. About 25 million families and individuals (less an unknown number receiving payments from more than one government source) are beneficiaries.

Plainly, government is already doing a great deal to maintain incomes and relieve the hardships of families in distress. Moreover, private business arrangements – pensions, insurance and hospitalization, severance pay, supplemental unemployment compensation, etc. – have been expanded to form a fixed part of our over-all system of helping workers and their families meet their financial problems. The help of innumerable private charities and individuals should not be ignored; along with state and local government agencies, they still carry the main responsibility for economic and spiritual help to those in despair. They, too, know best the age-old difficulty of providing aid without undermining the will to work and sense of responsibility of the beneficiary.

Growth of Unemployment

That there are reportedly more than 5.7 million persons unemployed sounds like a severe indictment of the American economy and the ability of the private enterprise system to get more people to work. The figure is less alarming when we note that frictional unemployment is a natural phenomenon in a free market economy. The employment opportunities which a given firm has to offer depend in the final analysis on how consumers exercise their freedoms of choice. Needs for some workers are strictly seasonal, as in the garment trades, farming, food processing, resorts, retailing, and construction.

Thus, paradoxically, some level of unemployment is descriptive of a condition of what is – in the practical sense – full employment. There has been a good deal of debate as to just what this level is. Senator Paul H. Douglas, who has devoted a lifetime of study to labor statistics, wrote a book, *Economy in the National Government*, in 1952, in which he commented on Sir William Beveridge's use of 3 per cent unemployment as indicative of full employment:

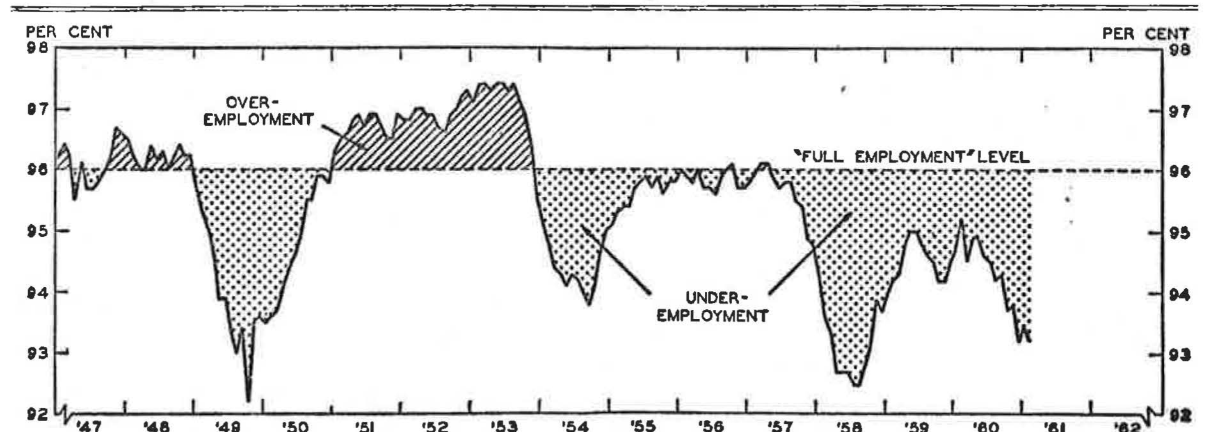
> If we were to make such an application for the United States, I believe that a 3 per cent test would be almost fatal. . . . Seasonal and transitional unemployment in this country would . . . be much nearer 6 per cent than 3 per cent of the employable work force. • • • •
>
> To use deficit financing in order to drive unemployment down below 6 per cent is therefore very dangerous. It will tend to do far more harm through inflation than the good it will do by absorbing some of those who are unemployed from seasonal and transitional causes.

The more recent tendency has been to define 4 per cent unemployment as equivalent to "full employment." As Chairman Walter W. Heller of the President's Council of Economic Advisers told the Congressional Joint Economic Committee on March 6: "An unemployment rate of 4.0 per cent is taken as a reasonable target for full utilization of resources consistent with reasonable price stability." President Kennedy, at his March 15 press conference, endorsed this figure as an objective.

The 4 per cent criterion means that, with a civilian labor force averaging around 72 million persons, we might expect to have a minimum of perhaps 3 million persons unemployed at a time when work opportunities are abundant and many employers are experiencing scarcity of applicants. Thus the slack in the labor force is not 5.7 million but less than 3 million.

The chart shows the employment record going back to 1947, portraying the percentages of employment rather than of unemployment. The 96 per cent "full employment" level was reached in 1947-48, surpassed during the 1951-53 Korean War boom, and achieved most recently in the period 1955-57. During the Korean War, with 1½ million young men drawn into the armed forces, inflationary pressures were acute, as reflected in price performance and the invocation of price controls.

The failure of the economy to develop enough jobs to bring unemployment down to 4 per cent in the 1958-59 upswing has been widely deplored. A number of explanations have been offered, including excessively tight money, overspeedy rebalancing of the budget after the $12



Employment as Per Cent of the Civilian Labor Force (Seasonally Adjusted) billion deficit in fiscal '59, constriction of the economy by failures to get on with long-promised income tax rate reforms, and profit squeeze resulting from relentless employment-cost inflation at a time when foreign competition denied opportunities for needed price adjustments. No list of reasons would be complete without mention of the long steel strike which broke the momentum of recovery at 5 per cent unemployment.

Expansion of Labor Force

Actually the economy has performed in a fairly creditable fashion in creating job opportunities. With all the talk of the unemployment problem, the Department of Labor figures show that employment in February reached a new peak for the month. In other words, the rise in unemployment is a result of growth in the labor force. In fact, the number of people more or less seriously in the market for jobs has risen at a rather spectacular rate and for reasons which the experts cannot fully explain. Nearly 2 million persons joined the labor force in the twelve months ended February 1961 – about twice the average rate of previous years – while the number of jobs increased 135,000. As a result, unemployment was 1,774,000 greater than a year earlier.

Natural forces of recovery will provide more jobs. But we need to do better and aim for a full performance of the economy consistent with the reasonable aspirations of people for leisure. The bald fact seems to be that, with the development of competitive power of industrial nations abroad, we can no longer indulge the luxury of constant employment-cost inflation. To seek a solution to the critical wage-price problem and related issues, the President has created the 21-member Advisory Committee on Labor-Management Policy, consisting of seven members drawn from business, seven from the trade unions, and five representing the public, plus Labor Secretary Goldberg and Commerce Secretary Hodges. It is to be hoped that the Committee will give close heed to the warning in the President's Economic Message of February 2:

> We cannot afford unsound wage and price movements which push up costs, weaken our international competitive position, restrict job opportunities, and jeopardize the health of our domestic economy.

Corporate Earnings in 1960

Annual reports becoming available since our preliminary tabulation last month show that the trend of corporate profits was somewhat weaker than previously indicated. Financial statements by 3,433 corporations published to date now show combined net income after taxes of $21.2 billion, a total virtually unchanged from 1959 compared with a gain of 2 per cent shown in our March compilation.

In manufacturing, where the downpull exerted by the recession became apparent toward the end of 1960, total net earnings of 2,034 companies amounted to $12.8 billion, a decline of 4 per cent instead of the 2 per cent dip shown a month ago based on 1,479 companies.

Outside of manufacturing, much of the gain reported in our earlier figures was wiped out as more minus signs appeared in trade, mining, and transportation; but public utilities and financial firms generally resisted the trend.

In manufacturing, which normally accounts for over half of corporate net earnings, almost two out of three firms reported gains in sales, but only nine out of 20 had higher earnings. The much discussed profits squeeze shows up most emphatically in the predominance of declines in earnings per dollar of sales and invested capital, reflecting rising cost pressures under competitive market conditions that forestalled corresponding price advances.

The average margins on sales in manufacturing narrowed from 5.8 to 5.4 per cent. This was one of the lowest profit margins recorded in the postwar period, and compares with the thirteen-year average (1947-59) of 6.3 per cent. Of the 41 industrial groups, average profit margins were lower in 33.

For all nonfinancial corporations included in our table, aggregate sales and revenues amounted to $307 billion. Out of this huge total, the companies retained 5.7 per cent in profits after taxes. This represented a decline from the 6.0 per cent recorded in 1959, and a sharp falloff from the 1947-59 average of 6.4 per cent.

When related to book net assets, which aggregated $232 billion at the beginning of 1960, profits of all reporting companies represented an average return of 9.1 per cent, compared with 9.8 per cent in 1959. Except for 1958, this was the lowest figure since World War II, and compares with the 1947-59 average of 11.2 per cent.

Moreover, it must be noted that rates of return figured on book net assets (also known as net worth, stockholders' equity, or capital and surplus) as a base are overstated because book values lag behind current costs. Physical property (plant, equipment, and land) is entered on balance sheets at historical costs, less accrued depreciation, and is therefore considerably below current values. Other assets, such as inventories, patents, investments, etc., may also be carried on the books below market value. While

NET INCOME OF LEADING CORPORATIONS FOR THE YEARS 1959 AND 1960
(Dollar Figures in Thousands)

No. of Cos.	Industrial Groups	Reported Net Income After Taxes 1959	Reported Net Income After Taxes 1960	Per Cent Change	Book Net Assets Jan. 1-a 1959	Book Net Assets Jan. 1-a 1960	% Return on Net Assets-a 1959	% Return on Net Assets-a 1960	% Margin on Sales-b 1959	% Margin on Sales-b 1960
16	Baking	$ 65,730	$ 68,028	+ 3	$ 573,797	$ 598,123	11.5	11.4	3.4	3.1
11	Dairy products	103,674	106,289	+ 3	878,520	952,625	11.8	11.2	2.6	2.5
15	Meat packing	71,589	58,468	—18	923,510	931,981	7.8	6.3	1.0	0.8
18	Sugar	32,675	28,729	—12	502,840	511,137	6.5	5.6	3.0	2.8
86	Other food products	382,514	392,637	+ 3	3,240,656	3,440,321	11.8	11.4	4.1	4.2
13	Soft drinks	65,251	64,844	— 1	382,405	414,839	17.1	15.6	8.3	7.2
14	Brewing	24,124	26,038	+ 8	309,470	321,003	7.8	8.1	3.4	3.8
13	Distilling	108,200	102,653	— 5	1,354,494	1,411,160	8.0	7.3	3.8	3.7
17	Tobacco products	250,090	261,133	+ 4	1,674,989	1,782,821	14.9	14.6	5.8	5.8
62	Textile products	213,159	196,528	— 8	2,680,202	2,830,282	8.0	6.9	4.2	3.5
53	Clothing and apparel	46,574	48,640	+ 4	443,406	484,043	10.5	10.0	3.6	3.5
24	Shoes, leather, etc.	50,442	43,375	—14	450,610	484,953	11.2	8.9	3.3	2.7
25	Tires, rubber products	263,657	235,651	—11	2,037,752	2,221,932	12.9	10.6	4.5	4.0
26	Lumber	145,860	107,368	—26	1,244,470	1,338,632	11.7	8.0	7.5	5.9
23	Furniture, wood products	33,019	27,655	—16	318,926	348,544	10.5	7.9	4.5	4.0
72	Paper and allied products	430,003	404,994	— 6	4,095,924	4,380,979	10.5	9.2	6.5	5.7
49	Printing and publishing	83,393	88,447	+ 6	650,833	721,288	12.8	12.3	4.3	4.7
78	Chemical products	1,188,636	1,062,989	— 7	7,720,719	8,248,714	14.7	12.9	8.9	8.0
29	Drugs and medicines	328,692	333,825	+ 2	1,495,960	1,668,064	22.0	20.0	11.6	11.1
26	Soap, cosmetics, etc.	159,929	179,049	+12	950,633	1,052,769	16.8	17.0	5.9	6.1
21	Paint and varnish	64,874	60,060	— 7	520,304	601.858	12.5	10.0	7.0	4.9
125	Petroleum prod. and refining	2,807,434	3,024,109	+ 8	28,065,660	29,632,840	10.0	10.2	8.4	8.7
22	Cement	127,175	98,428	—23	794,422	868,796	16.0	11.3	16.3	11.5
19	Glass products	203,862	181,017	—11	1,223,476	1,356,332	16.7	13.3	8.9	7.7
58	Other stone, clay products	267,789	245,801	— 8	1,834,468	2,047,477	14.6	12.0	8.9	8.1
48	Iron and steel	834,948	804,200	— 4	9,949,054	10,299,905	8.4	7.8	6.0	5.8
11	Agricultural implements	217,340	87,458	—60	1,941,196	2,087,636	11.2	4.2	5.8	2.4
90	Building, heat., plumb. equip.	147,692	128,649	—13	1,618,556	1,669,492	9.1	7.7	4.0	3.6
161	Electrical equip., radio and TV	768,248	675,619	—12	5,330,400	5,811,863	14.4	11.6	4.8	4.1
48	Hardware and tools	52,804	49,063	— 7	570,371	596,452	9.3	8.2	4.7	4.9
28	Household appliances	86,380	70,965	—18	612,567	652,872	14.1	10.9	5.8	4.5
160	Machinery	291,874	276,146	— 5	2,965,027	3,143,113	9.8	8.8	5.0	4.5
29	Office equipment	198,745	222,902	+12	1,377,103	1,574,063	14.4	14.2	6.5	6.8
52	Nonferrous metals	441,733	410,553	— 7	4,981,890	5,275,244	8.9	7.8	6.7	6.7
115	Instruments, photo goods, etc.	301,733	296,326	— 2	1,854,635	2,099,708	16.3	14.1	6.7	5.7
130	Other metal products	323,528	266,230	—18	2,843,224	3,043,390	11.4	8.7	4.4	3.6
17	Autos and trucks	1,472,195	1,508,419	+ 2	8,734,583	9,526,045	16.9	15.8	6.7	6.4
53	Automotive parts	198,649	143,527	—28	1,515,771	1,640,900	13.1	8.7	4.2	3.9
19	Railway equipment	85,132	76,090	—11	1,065,007	1,123,441	8.0	6.8	4.4	3.9
43	Aircraft and parts	193,877	138,469	—29	2,164,528	2,276,326	9.0	6.1	1.8	1.2
125	Misc. manufacturing	241,461	207,703	—14	2,021,209	2,248,525	11.9	9.2	4.7	3.9
2,034	Total manufacturing	13,324,684	12,809,074	— 4	113,908,567	121,720,488	11.7	10.5	5.8	5.4
22	Coal mining - c	75,538	69,361	— 8	995,919	1,062,989	7.6	6.5	5.1	5.6
26	Metal mining - c	53,846	59,861	+11	774,973	815,529	6.9	7.3	6.1	7.5
8	Other mining, quarrying - c	36,963	35,474	— 4	358,019	371,108	10.3	9.6	18.0	17.0
56	Total mining - c	166,347	164,696	— 1	2,128,911	2,249,626	7.8	7.3	6.5	7.5
47	Chain stores — food	229,165	236,283	+ 3	1,642,089	1,814,300	14.0	13.0	1.4	1.3
59	Chain stores — variety, etc.	160,743	139,726	—13	1,536,117	1,642,342	10.5	8.5	3.1	2.6
47	Department and specialty	202,376	191,002	— 6	1,836,180	2,021,795	11.0	9.4	2.7	2.4
7	Mail order	245,341	220,120	—10	2,011,449	2,126,523	12.2	10.4	4.3	3.8
104	Wholesale and misc.	119,610	118,451	— 1	1,041,671	1,114,729	11.5	10.6	2.2	2.1
264	Total trade	957,235	905,582	— 5	8,067,506	8,719,689	11.9	10.4	2.5	2.2
108	Class I railroads - d	578,314	444,657	—23	17,142,266	17,291,787	3.4	2.6	5.9	4.7
21	Common carrier trucking	18,960	13,468	—29	103,136	133,257	18.4	10.1	3.2	2.1
18	Shipping	37,770	35,596	— 6	676,082	694,203	5.6	5.1	4.7	5.7
13	Air transport	59,546	15,672	—74	503,464	564,955	11.8	2.8	3.4	1.0
65	Misc. transportation	60,913	57,501	— 6	732,266	761,944	8.3	7.5	4.2	3.8
220	Total transportation	755,503	566,894	—25	19,157,214	19,446,146	3.9	2.9	5.2	4.0
233	Electric power, gas, etc. - d	2,063,099	2,238,200	+ 8	20,474,096	22,039,335	10.1	10.2	13.2	13.1
33	Telephone and telegraph - d	1,262,089	1,363,853	+ 8	12,790,385	13,827,473	9.9	9.9	14.1	13.8
266	Total public utilities	3,325,188	3,602,053	+ 8	33,264,481	35,866,808	10.0	10.0	13.6	13.4
41	Amusements	43,371	53,234	+23	547,860	578,840	7.9	9.2	4.0	4.0
31	Restaurant and hotel	33,163	31,010	— 6	306,680	331,928	10.8	9.3	3.2	3.2
58	Other business services	122,903	120,080	— 2	1,102,639	1,257,271	11.1	9.6	6.8	6.8
31	Construction	46,965	44,068	— 6	365,717	392,621	12.8	11.2	4.4	3.9
161	Total services	246,402	248,392	+ 1	2,322,896	2,560,660	10.6	9.7	4.7	4.8
*	Commercial banks	1,257,000	1,686,000	+34	15,901,000	16,826,000	7.9	10.0	—	—
64	Fire and casualty insurance	260,422	239,650	— 8	3,525,696	4,106,208	7.4	5.8	—	—
220	Investment trusts - e	619,605	686,813	+11	15,672,464	18,319,822	4.0	3.7	—	—
90	Sales finance	273,846	288,710	+ 5	1,994,315	2,166,956	13.7	13.3	—	—
58	Real estate	13,374	11,103	—17	169,245	197,884	7.9	5.6	—	—
432	Total finance	2,424,247	2,912,276	+20	37,262,720	41,616,870	6.5	7.0	....	....
3,433	Grand total	$21,199,606	$21,208,967	+—†	$216,112,295	$232,180,287	9.8	9.1	6.0	5.7

a—Book net assets at the beginning of each year are based upon the excess of total balance sheet assets over liabilities; the amounts at which assets are carried on the books are far below present-day values. b—Profit margins computed for all companies publishing sales or gross income figures, which represent about nine tenths of total number of reporting companies, excluding the finance groups; includes income from investments and other sources as well as from sales. c—Net income is reported before depletion charges in some cases. d—Due to the large proportion of capital investment in the form of funded debt, rate of return on total property investment would be lower than that shown on net assets only. e—Figures in most cases exclude capital gains or losses on investments. *—Federal Reserve Board tabulation of all member banks; number of banks (6,174) not included in our totals; assets are annual averages. †—Increases or decreases of under 0.5% not shown.

the huge amounts of capital invested at rising prices since World War II have narrowed the gap between market and book values, the discrepancies are still important, especially where replacement costs have risen most steeply.

As pointed out in these pages last December, erosion of corporate profits represents an extension of a downdrift that dates back to the earliest postwar years. Certainly, if the economy is to be set on a course leading through new frontiers to new peaks of prosperity and power, this trend will need to be reversed. For profits are the creative force behind growth of job opportunities, growth of tax revenues, and growth of resources for investment in progress.

Upvaluations of Mark and Guilder

On March 4, the German Government announced that the Deutsche mark, valued at 23.8 cents (4.2 to the dollar) for the past decade, was being revalued upward by 5 per cent to 25 cents (4 to the dollar). A day later, the Netherlands Government stated that the guilder would be proportionately upvalued, from 26.3 cents (3.8 to the dollar) to 27.6 cents (3.62 to the dollar). The paralleling actions reflect the closeness of trade ties between the two countries.

In 1949, when the pound sterling and 15 other currencies were devalued by 30 per cent, the mark was one among seven other currencies cut by smaller percentages — 21 per cent. Impressions that the mark devaluation was excessive to the needs began to be formed as early as 1952. Thus there has been a recurrence of rumors that the mark would be upvalued and these became widespread last year as reserves piled up and the boom showed no sign of abating.

The German upvaluation, joined by the Dutch action, therefore, was not a total surprise, though it shook up the foreign exchange markets and, visiting unexpected losses or profits on foreign traders, spread nervousness about possible other exchange rate readjustments. There were active rumors, officially denied, that the Germans would upvalue again on the theory that 5 per cent was not enough, that the pound would be devalued against the dollar, that the Swiss franc and perhaps the Italian lira would follow suit with upvaluations. Calm was restored after further changes failed to develop and European central bank governors, meeting at the Bank for International Settlements on the March 11 weekend, issued a statement that they were satisfied that "rumors . . . about possible further currency adjustments have no foundation. . . ."

The United States Government issued a statement on the German move, describing it as "a useful but modest step" toward redressing the "basic disequilibrium in the free world balance of accounts, which has been characterized by a persistent surplus of the Federal Republic and deficits in some other free world countries, including the United States." At the same time, hopes were expressed that the action would put an end to speculation on the possibility of a further revaluation of the mark and that Germany would move forward with a large-scale program of foreign assistance to less-developed countries on a continuing budgetary basis. This last aspiration reflects the desires of the United States Government to shift some of the burdens of foreign aid over to the new Germany which has become the number one industrial power in Western Europe.

The German and Dutch Positions

The economies of both Germany and the Netherlands have enjoyed a flourishing growth over the past decade. There have been some special factors in these achievements: comparatively light burdens of expenditures for national defense and assistance to underdeveloped countries and, in the earlier postwar years, reconstruction financed under the Marshall Plan. Germany also had the advantage of labor migration from the East. But there are more ingredients than these to the success story. More than anything, German and Dutch prosperity represents the dividends from practical encouragements to individual enterprise, emancipations from controls, wise management of national financial affairs, and, above all, hard work of the people themselves.

In Germany, industrial production last year was 2½ times the level of 1950, while gross national product almost tripled over the decade. In the Netherlands, both production and GNP doubled between 1950 and 1960. Referring to the growth of the real national income of Germany, 1949-56, German Economics Minister Ludwig Erhard, in his book, *Prosperity through Competition*, observed:

> This measure of the undisputed success of the policy demonstrates how much more sensible it is to concentrate all available energies on increasing the nation's wealth rather than to squabble over the distribution of this wealth, and thus be sidetracked from the fruitful path of increasing the national income. It is considerably easier to allow everyone a larger slice out of a bigger cake than to gain anything by discussing the division of a smaller cake.

Germany has had a surplus on exports, and on current account as a whole (including U.S. military expenditures), every year since 1952. The current account surplus has averaged $1¾ billion annually since 1957. Positive encouragement to enterprise, and willingness to use relatively high interest rates to develop saving for investment, attracted a growing influx of private capital from abroad. With a particularly steep rise in 1960, German gold and dollar holdings have passed $6 billion, more than is reported by any other foreign country. Germany has thus experienced an embarrassment of riches, tending to create excessive growth in money supply and to accentuate inflationary pressures in an already "overheated" economy.

A rising curve of government expenditures has added to the pressures. The Bundesbank in 1959 applied restrictive credit policies and, last June, went so far as to forbid payment of interest on foreign-owned deposits and sale of German Treasury paper to foreigners. But capital inflow persisted, particularly as expectations of a possible mark upvaluation spread and as Germans repatriated funds and borrowed abroad. These movements had their counterpart in strains on balances of payments of the United States and other countries.

Partly out of a sense of responsibility for maintenance of international financial order, the Bundesbank sought to counter the influx by cutting, in two stages, its discount rate from 5 per cent in November to 3½ per cent effective January 20 and by correspondingly reducing the rates on Treasury paper. But this proved insufficient.

The rise in Dutch reserves has also been impressive, having almost tripled between 1950 and 1960. The Netherlands generally has slightly larger imports than exports, but this difference is more than offset by net surpluses earned on transportation and other services.

The upvaluations will help even up competitive opportunities in world trade, as between Germany and the Netherlands and the United States and other nations. While raising the cost to the U.S. Government of maintaining military forces in Germany, the upvaluations will enlarge our export opportunities. To preserve the benefits, it will be necessary, of course, for American manufacturers to keep a lid on their costs and prices.

Domestic Considerations

The decisions of the two governments, however, were primarily dictated by their own domestic situations with prosperity spilling over into inflationary boom.

The idea of upvaluations was resisted, not unnaturally, by German and Dutch exporters. But these objections were outweighed by the difficulties of holding inflationary forces in check. In other words, it was decided that German and Dutch business could stand some stiffening of foreign competition. The upvaluations have the natural effect of holding down prices expressed in marks and guilders. They also permit further easing of credit policies.

Two other alternatives presented themselves. One would have been a further easing of restraints on imports, so far as consistent with the Common Market obligations of the two countries. This course is being followed by France, which is lowering tariffs unilaterally by 5 or 10 per cent to arrest a rising price trend. In Germany, there apparently was some discussion of removing the special import tax and repealing tax remission on exports.

The other alternative would have been to let inflation effect the cure, with costs and prices rising relative to those of other nations. Indexes of the cost of living in both Germany and the Netherlands, after rising about 4 per cent in 1959, held steady in 1960 but labor shortages, showing up in wage advances of around 10 per cent a year, have been setting the base for further price markups. The simple fact was that this trend of events was unacceptable to the people, fully aware of the follies and futilities of wage-price inflation. Basically, thus, the decisions were impelled by desires for stable money. Revaluation against other currencies — the dollar, the pound, the Swiss, French and Belgian francs, indeed all other currencies in the world—seemed the best way out, to relieve excess pressures of demand for home-produced goods and to make imports more cheaply available.

The Dollar Standard

The German and Dutch actions stirred widespread interest if only because upvaluations against the dollar have been so uncommon. Among European currencies, only the Swiss franc has held a firm relationship to the U.S. dollar throughout the postwar period. Since World War II, there have been a hundred devaluations of foreign currencies in terms of the U.S. dollar, but only three previous upvaluations. In 1946 the Swedish krona was upvalued from 23.8 to 27.8 cents, though later, in 1949, it was cut back to 19.3 cents. In 1948 the New Zealand pound was upvalued from $3.22 to $4.03 (equivalent to the pound sterling) but devalued to $2.80, in company with sterling, in 1949. The Canadian dollar was upvalued from 90.9 cents back to parity with the U.S. dollar in 1946, but cut back again to 90.9 cents in 1949. The present "floating rate" exchange system was introduced on September 30, 1950. Since 1952, as a result of Canada's attractions to foreign investors, the Canadian dollar has commanded a premium over the U.S. dollar, rising as high as $1.06 over the period

1957-59 but hovering closer to $1.01 in recent months.

Some observers described the German and Dutch actions as a devaluation of the dollar, and certainly any sequence of similar actions by other countries would reflect a weakening of faith in the dollar as an international standard of value. But this has not happened, nor is it likely to so long as American fiscal and credit policies are pursued along the lines which the rest of the world considers sound.

Other countries have the power to upvalue or devalue their currencies against the U.S. dollar. The United States Government does not possess an equivalent ability to upvalue or devalue against other currencies. This is a cost of having a dollar which serves as an international unit of value. Other countries price their currencies with respect to the dollar or, as in the Canadian case, allow their currencies to fluctuate against the standard of the U.S. dollar. We could, to be sure, undermine foreign confidence to such a degree as to precipitate widespread upvaluations of other currencies. But this would be an incredible act on our part – one of shrugging off international leadership and responsibility.

Actually, we can take a good deal of satisfaction out of the achieved stability of exchange rates. There were fewer changes in relationships among major currencies during the period September 1949 to February 1961 than in any corresponding time span since World War I. The adjustments of September 1949 worked out better than anyone reasonably could have hoped and set a basis for gradual dismantling of exchange controls, at least over current transactions. The test now is for nations to make a free currency system work and to keep their finances on an even keel. Even so, some minor adjustments may be needed from time to time.

Foreign Currency Values*
Expressed in U.S. Cents

	May 31 1946	Aug. 31 1949	Sept. 30 1949	Feb. 28 1961	Mar. 15 1961
Pound sterling	403.0	403.0	280.0	280.0	280.0
Canadian dollar	90.9	100.0	90.9	101.3	101.2
100 Japanese yen	†	27.8	27.8	27.8	27.8
Dutch guilder	87.7	87.7	26.3	26.3	27.6
Deutsche mark	†	30.0	23.8	23.8	25.0
Swiss franc	22.9	22.9	22.9	22.9	22.9
100 old French francs‡	84.0	36.8	28.6	20.3	20.3
Belgian franc	2.3	2.3	2.0	2.0	2.0
100 Italian lire	44.4	17.4	16.0	16.0	16.0

*Mainly official rates, but "floating" rate in Canada for 1961, effective export rate in France for August 1949, and "premium" rate in Italy for 1946. †No definite exchange rate after the war until June 1948 in Germany and April 1949 in Japan. ‡Equals one new franc.

A Touchy Problem

Realignments among the values of important currencies are upsetting to the commercial world even when, as in the German and Dutch cases, the changes amount to no more than 5 per cent. As shown in this case, they permit speculators to reap a reward and start new speculations and disturbing flows of "hot money." Yet there sometimes have to be adjustments in international currency relationships, to compensate for basic structural changes in international trade, differences in rates of progress in productivity, and spasmodic indulgences of inflation in one country or another.

The world is equipped with an International Monetary Fund to help nations ride out temporary swings in their balances of payments. But where a particular country has a chronic problem of either excessive surpluses or deficits in its balance of payments, temporary measures help only if there is simultaneously an effective attack on the problem.

There is a choice of ways to deal with this kind of situation. One is by adjustment of the economy to a higher or lower price level – by tolerated inflation or determined retrenchment. A second is by change in exchange rate. A third is by interference with the free market – by exchange and import controls.

The first type of adjustment – the classical cure – has the great merit of preserving order and stability in international currency relationships, with all the resulting benefits in trade and investment. Sometimes, however, this choice is not practicable, economically and politically. Retrenchment may involve unemployment and bankruptcies; inflation, once tolerated, gains a momentum that is hard to check. Modest measures, operating with only marginal effect, will frequently suffice, but this is not always so. When solution in these terms is impracticable the other means have to be explored.

The second choice – change in exchange rate – attempts to meet these objections while maintaining freedom of trade, travel, and capital movements. If exchange rates cannot be adjusted, then the tendency is to use exchange controls to prevent money from going out or to keep it from coming in. The end result then may be to suffocate the flow of trade which it is the function of foreign exchange rates and foreign exchange markets to accommodate. In these special cases, fixed exchange rates defeat their purpose.

Some advocates of liberalism in the old sense have gone so far as to suggest that all currencies be allowed to float so that a country's overseas payments and receipts could always be cleared whichever way the pressures were running. What this in effect would mean is that other currencies would rise and fall against the dollar from day to day and even from hour to

hour. The Canadian system offers an example where the authorities intervene in the market only to smooth out movements in the exchange rate dictated by forces of supply and demand. Although there are no statutory limits on the movement of the Canadian dollar, the range over the past five years has been from $1.00 to $1.06.

Individual countries may, for special reasons, wish to let their currencies float – against the fixed reference points of other currency values. But trying to have all currencies float would be to create indescribable confusion in world trade as well as to put all currencies at the mercy of speculative bull or bear raids. International transactions are complicated enough without taking away common denominators.

The rules of the International Monetary Fund require that each currency have a fixed parity and that treasuries and central banks limit exchange rate fluctuations to 1 per cent on either side of the official parity. The IMF, while upholding the rule in principle, has tolerated the Canadian floating rate system for 10 years now, and there are a dozen countries that, for one reason or another, have not officially established parity values for their currencies. Some students of the problem have urged a widening of margins of exchange trading. This could give the exchange markets a better chance to clear transactions, discourage international movements of funds simply to take advantage of interest rate differentials, let a strong or weak currency demonstrate more fully how strong or weak it is, remove altogether perhaps some needs to adjust par values, and make needed adjustments of par values more orderly.

The IMF might give consideration to these proposals. But the principle that there should be parity values, and prescribed limits to exchange rate fluctuations, should be preserved.

Tax Paradise Revisited

In the January issue of this *Letter* we published an article, "Agenda for Tax Reform," which took account of complaints over the sluggish growth of the U.S. economy and suggested that we might find the reason in the severity of our taxation on the means to progress – employment, income, and capital accumulation. Other nations are getting ahead faster with tax systems designed to protect incentives to individual effort and enterprise.

The article offered a series of comparisons of our federal income tax rates with those imposed by central governments in other countries. Tables were presented showing that the United States, in a list of 20 countries, had the highest marginal rate of personal income taxation (91 per cent) and, in a list of 14 countries, the highest maximum tax rate (52 per cent) on undistributed corporate profits. A third table brought out the fact that, among nations with high corporate tax rates, other countries go much further in giving credit to shareholders for these taxes, thus mitigating double taxation of corporate profits distributed as dividends. The article also mentioned the more generous capital consumption allowances permitted in Western Europe as well as the absence of capital gains taxation in many countries abroad.

We had expected our article to bring letters from readers abroad, throwing further light on their statutes and tax systems. International comparisons of taxes are tricky, and not only in the ways the laws are written but in the ways they are administered. Words even take on special meanings for tax purposes. Nevertheless, the subject is one that demands study. The power to tax is the power to destroy. As Germany and Japan can attest, it can also be applied as a power to create.

Personal Income Taxation

Our analysis was explicitly limited to *income* taxation by *central governments.* Letters from Zurich properly complain that our tables made Switzerland look too much like a tax paradise, with 8 per cent as the maximum marginal rate of personal income tax imposed on Swiss citizens by the Confederation. This figure was affirmed as correct but it was pointed out that cantonal (state) and communal (local) income taxes – highly variable from one place to another – build up the maximum marginal rate of personal income tax to more like 20 or 30 per cent in Zurich and some other areas.

This still seems moderate to an American citizen who has 20 per cent as the *initial* rather than the *top* personal income tax rate. The reason becomes clear why a famous boxer found Swiss citizenship attractive.

A Norwegian correspondent, Mr. Knut Rasmussen of the Norwegian Shipowners' Association, draws attention to the fact that Norway, like Switzerland, is a country which relies on a high degree of local taxation. Here the situation differs fundamentally from the Swiss case because municipal income taxes (inapplicable to dividends), ranging in some Norwegian towns as high as 22 per cent, are superimposed upon central government levies running up to a top of 55 per cent. Even so, it is worthy of special note that the United States, and the United

Kingdom too, are more determined to level down people of superior talents and earning power than socialist Norway. Or, perhaps it is that Norwegians are more practical and recognize that confiscatory rates are less productive of revenue than they are of tax avoidance.

Taxing incomes has become the favorite method of raising government revenue in the United States. Income taxes are the main revenue source of the Federal Government and are now growing in importance among states and even municipalities. The following table, largely based on data supplied by the Tax Foundation, lists the 32 states which now levy income taxes. The Foundation also lists some 300 municipalities which have local income taxes, led by Philadelphia which this January advanced its rate from 1½ to 1⅝ per cent. There is no state income tax in Pennsylvania, where most of the municipalities taxing income are located, but we now have cases in Kentucky and Missouri where triple-tiered income taxation is in effect.

Maximum (Marginal) Rates of Personal Income Taxation Imposed by States in the U.S.A.

Alaska	12.18%	Kentucky	6.00%
Minnesota	11.55*	Louisiana	6.00
North Dakota	11.00	Oklahoma	6.00
Wisconsin	10.20†	Kansas	5.50
New York	10.00	Mississippi	5.50
Idaho	9.50	West Virginia	5.22§
Oregon	9.50	Alabama	5.00
Colorado	9.00‡	Arkansas	5.00
Hawaii	9.00	Utah	5.00
Delaware	8.00	Virginia	5.00
Vermont	7.50	Arizona	4.50
California	7.00	Missouri	4.00
Montana	7.00	New Mexico	4.00
North Carolina	7.00	Iowa	3.75
South Carolina	7.00	Maryland	3.00‖
Georgia	6.00	Massachusetts	3.00¶

*Includes 10% surtax on 1960 income. †Includes 20% surtax on 1960 income. ‡Additional surtax of 2% on dividend and interest income. §Adopted February 14, 1961. ‖Except 5% on net investment income. ¶Includes 1% additional tax and 20% surtax on 1960 income.

Note: Income from investments is taxed by New Hampshire (4.25%) and Tennessee (6.00%). The District of Columbia has an income tax with a top rate of 5%.

Theoretically, an American can have all of an increment of income taken away from him in taxes but this contingency can be avoided with timely advice from tax counsel.

Capital Taxes

The focus of our January article was on income tax rates. Except by passing allusion to gift, inheritance, and capital gains taxes, we did not attempt to get into the thorny subject of capital taxes. According to a Bulletin of Julius Bär & Company, Zurich, sent to us by courtesy of Mr. Walter J. Bär:

> . . . the Swiss stockholder faces a plurality of taxes. In the first place, the dividend income is reduced at source by the Federal stamp duty on coupons in the amount of 3 per cent. . . . The dividend is then subject to cantonal and communal income tax and to the federal tax. Furthermore, the cantons and communes levy assets taxes on stock holdings and, to conclude, the church tax is deducted of which the amount varies from one canton and one creed to the other.

Capital taxes in Switzerland have become more severe with the rise in Swiss stock prices and the decline in their yields — indeed to a point where capital taxes may exceed the dividend return since these taxes are levied on market values without regard to income:

> The purchase of such shares, which fetch almost no yield or for which an extra amount must be paid in terms of taxes, is therefore not interesting for the permanent investor. Socially, this is undesirable because acquisition of foreign securities, speculation and tax evasion are thus promoted. Many Swiss stockholders gradually come to face the problem of whether they, too, should become "tax tourists" and establish their tax residence in Liechtenstein or Monaco!

In the Scandinavian countries, too, capital taxes bear down on persons with accumulated wealth. In Norway, for example, the capital tax is a net worth tax with assets valued at the market. The tax rates graduate up to 1.75 per cent on the national level and the municipality takes about 0.4 per cent.

Mercifully, the Scandinavian countries put an 80 per cent limit on the national and municipal income and capital taxes. In the United States the federal income tax has a limit, but at a higher level, 87 per cent.

Equivalents for capital taxes are not missing from the American scene. Inheritance, gift, and capital gains taxes are forms of levies on accumulated capital; in the same broad category are real estate taxes, universally applied, and also personal property taxes in the states which levy imposts of this type. Florida, for example, favored by retired people not only for its climate but also for its forbearance from state income taxation, imposes an 0.2 per cent personal property tax applicable to the "full cash value" of stocks and bonds. Property taxes can create situations like those cited for Switzerland where the tax costs of carrying an investment exceed the direct return.

It is worthy of passing note that corporations in Europe are often subject to taxation by state and local as well as central governmental bodies. In the United States, corporations are subject to state taxes under a wide variety of formulae as the price of doing business in the corporate form. The highest state income tax levied on corporations is Idaho's 9½ per cent. Moreover, a corporation may be liable for taxes in several states.

Japanese Tax Reduction

Letters from readers overseas so far have exposed only one real error in the figures published in our article. A Japanese official explains that their "enterprise tax" is a local government tax and should not have been added onto the central government's 38 per cent corporate tax. Thus the table on maximum tax rates imposed by central governments on undistributed corporate profits should have shown Japan at 38 per cent instead of the 45.44 per cent published in our table. Correspondingly, the maximum rate paid and withheld on corporate profits distributed as dividends should have been shown as 44.2 per cent (allowing for a 10 per cent withholding tax) instead of 50.9 per cent, and the credit allowed the individual shareholder in a range of 20-30 per cent (including credit for tax withheld) instead of 30 per cent. A new Japanese tax law will reduce the tax credit on dividends received, effective January 1, 1962, to 17½-25 per cent. But this change is more than compensated for by a cut in the corporate tax rate effective April 1, 1961. The two tables on taxation of corporate profits are reproduced here with Japan shown in its right place based on the new law.

Summary

In summary, it would appear that compounding of income taxes is more serious in a number of countries abroad than it is in the United States. But even when account is taken of all levels of taxation, our statement seems to hold that the United States can lay claim to the highest personal income tax rate in the world. This is a curious position for a country that relies on individual initiative for progress.

Taxes on capital add to effective total tax burdens in Switzerland as well as the Scandinavian countries. These taxes amount to a special impost on wealth. The trouble with them is that, like excessive income tax rates, they drive wealth away into friendlier tax jurisdictions.

Taxation by Central Governments of Corporate Profits Distributed as Dividends

	Maximum rate paid and withheld by corporation	Credit allowed individual shareholder
France	62%	24%*†
Netherlands	54.95	15†
United States	52	4
United Kingdom	51.25	38.75‡
Canada	50	20
Belgium	45.31	30†
Germany	42.58§	25†
Sweden	40	0
Australia	40	0
Switzerland	35.60	27†
Japan	35.20	17.5-25
Norway	30	0
Union of South Africa	25	33.33-100
Italy	20	8

*Credit is 8% against taxable income and 16% against personal tax liability. †Deducted at source and credited to individual shareholder. ‡The individual, if subject to surtax rates on his personal income tax return, must, however, pay the surtax on the gross dividend actually declared rather than the net dividend actually received. §Ignoring the variable effect on the tax base of property tax on net worth.

Maximum Tax Rates Imposed by Central Governments on Undistributed Corporate Profits

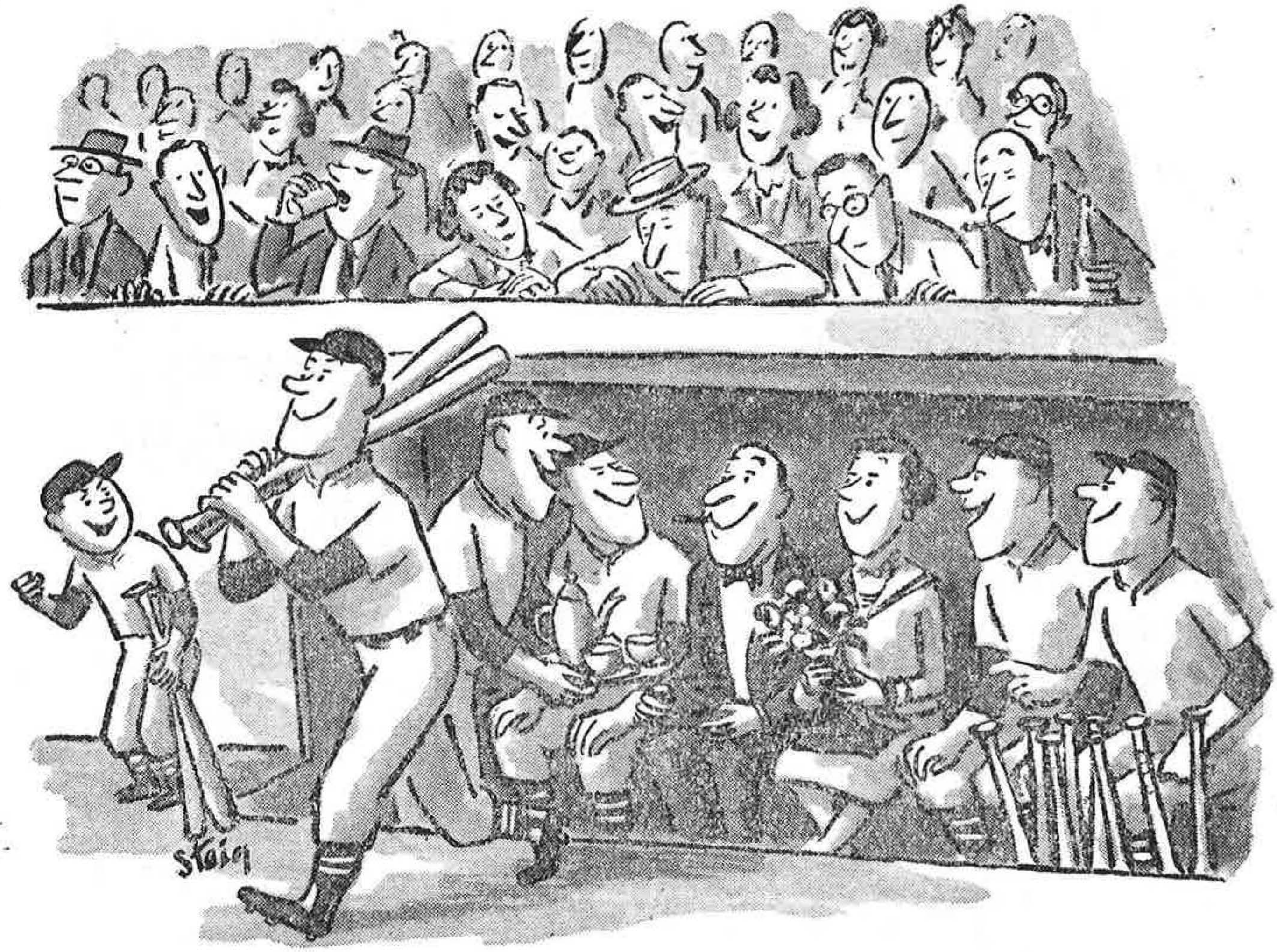
United States	52%
United Kingdom	51.25
Germany	51
France	50.98*
Canada	50†
Netherlands	47
Belgium	40§
Australia	40
Sweden	40
Japan	38‡
Norway	34
Union of South Africa	25‖
Italy	20¶
Switzerland	8§

*Includes tax levied on reserves of accumulated profits. †Includes 3% tax for old age security contribution. ‡There is an additional 10% tax on retained profits of closely held corporations. §Taxes paid in previous year are deductible in determining taxable income, thus lowering the effective burden. ‖An extra 25% tax is levied on profits (beyond certain limits) not distributed. ¶In addition, there is a 15% tax on profits in excess of 6% of capital and reserves.

One other general observation is that tax rates tend to be more flexible abroad. Here, we have become locked into a federal income tax rate structure adopted back in 1954. Abroad, rates are commonly subject to annual review and changes. For example, it has been reported that the Netherlands has in readiness a set of tax reductions to put in force when stimulation of employment opportunities is needed. This very state of alertness gives a coloration of optimism to the business community. It might be added that, among nations forging ahead in the competitive world, tax changes have been predominantly in a downward direction with the fiscal result that growth of the tax base has bolstered revenues.

It would be helpful if we could learn some lessons from abroad, and set the stage for a period of brilliant expansion by adopting a policy of shaving income tax rates year after year and thus raising the horizons for individual and collective progress. Such an imaginative formula is offered in the Herlong-Baker bill now before Congress for consideration. As Congressman Herlong has said so well:

> By use of capital-destroying tax rates and methods we have prevented our economy from achieving anything like its potential for progress. This means that we have fewer and less productive jobs than should be available. Our total production is far short of our national capability for progress and the standard of living of our people is correspondingly less than it should be. It also means that failure to effect fundamental reform of our tax structure quickly would put in jeopardy the industrial supremacy on which our national security depends.



the nicest things happen to people who carry

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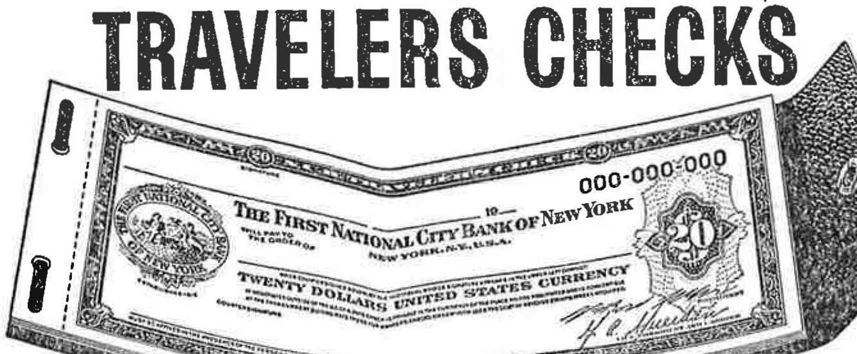

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THE FIRST NATIONAL CITY BANK OF NEW YORK

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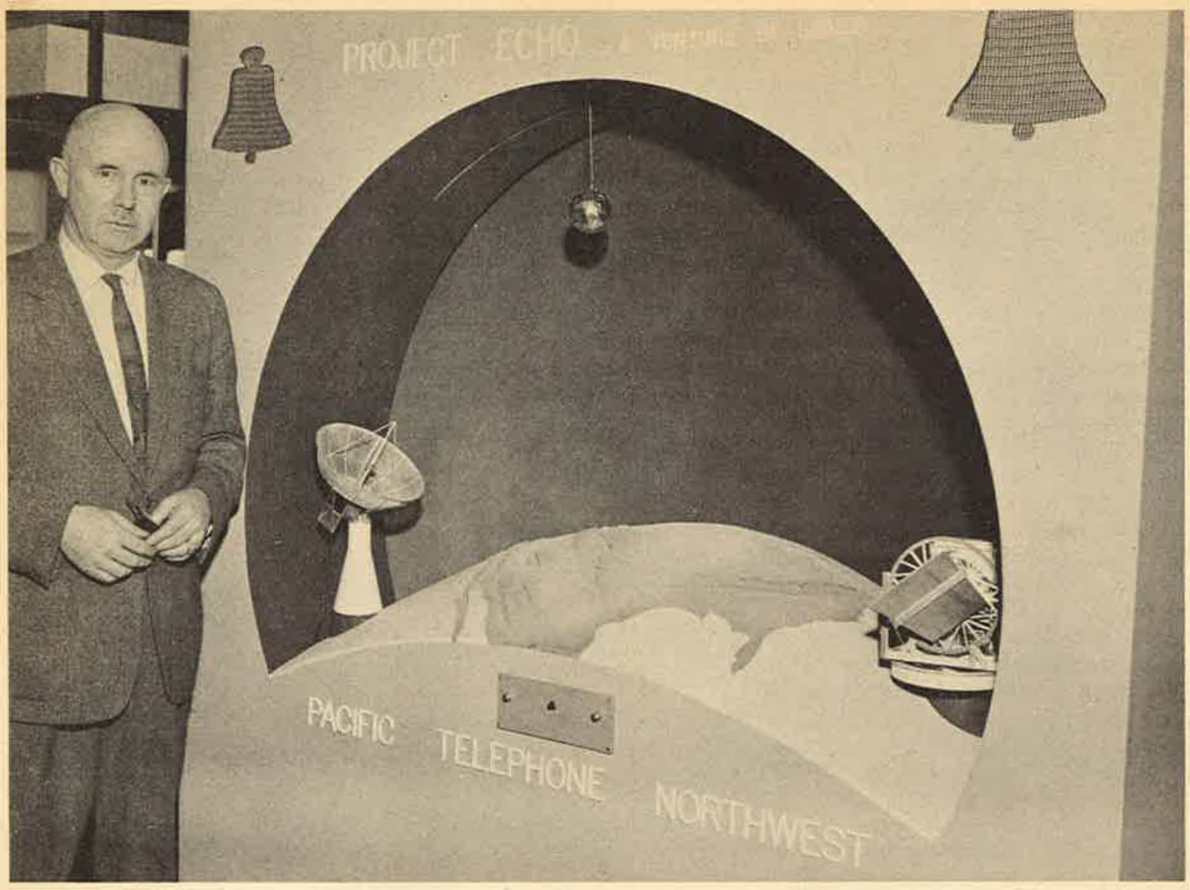
"Little Echo" Looks, Runs Like Big One



Charles E. Seavey, Oregon area public demonstration supervisor, designed the Project Echo exhibit that is a miniature replica of the space communications system developed by the Bell Telephone Laboratories.

Pacific Telephone Northwest has★ its own satellite communication system. It's a replica—in miniature—of the space communication system used to transmit speech and music between New Jersey and California last August.

Designed In Oregon

Designer of the working replica of the Project Echo system is C. E. (Chuck) Seavey, public demonstration supervisor for the Oregon area. Built by a Portland display firm, "Little Echo" first went on display at Seattle. It will be available for public display purposes in the Pacific Northwest in the future.

The miniature system is enclosed in a case that is six feet wide and high and 28 inches deep. Antennas, located at extreme ends of a relief map of the earth, send and receive microwave signals by bouncing them off a metal plate above a simulated balloon satellite. The miniature satellite is covered with Mylar plastic, the same material used to make the 10-story high Echo satellite still circling the earth.

View Of Space

A blacklight backdrop rotates to give a constantly changing view of galaxies and constellations in outer space. Other working parts of the display include the microwave generating system, and an electric motor to move the satellite across the display.

Little Echo's antennas are 1/120th the size of the real ones. The satellite appears as a person would see it from 200 miles away. The relief map of the earth is scaled to look as if a person were seeing it from 1,000 miles away in a space ship.

Accident Reduction Aim Of Safety Sleuths

By C. E. JOHNSON
Interdepartment Safety Comm.

Like agents of the FBI, Oregon area safety sleuths are in hot pursuit of "Public Enemies" that menace the well-being of telephone men and women at work and at home.

These public enemies are also known as **Unsafe Actions, Hazardous Conditions** and **Apathetic Attitudes.** They are guilty of causing accidents, injuries, pain and misery.

OREGON AREA SAFETY SLEUTH

449 Accidents

Records for last year show that of the 215 on-the-job accidents resulting in injuries in the Oregon area, 20 involved time lost from work. For the same period of time there were more than 10 times that number, or 234 off-the-job accidents, that resulted both in injuries and time off work.

Not recorded is the number of near misses or "almost accidents." No report is available of the unsafe actions or hazardous conditions that were corrected before they could cause an accident.

Plans have been laid to combat the area's accident rate in 1961. Details are included in departmental safety programs. Some of the basic philosophies of these programs are:

An ounce of prevention is worth a pound of cure. (Daily emphasis will be placed on preventing accidents before they happen. This requires being alert for unsafe working conditions and accident hazards and promptly eliminating them.)

Learning from experience. (This entails thoroughly investigating accidents and near accidents to determine their causes and prevent them from recurring.)

Safety is everyone's job as much as any other aspect of providing telephone service. (A number of different methods are proposed in the departmental programs to promote around-the-clock safety awareness on the part of all employees.)

These are some of the plans laid by Oregon's safety sleuths to eliminate their accident-causing enemies. And like agents of the FBI, they are relying on the general public—in this case all telephone men and women—to get the job done.

Retirements

D. L. Emery, Commercial, Portland, January 30, 39 years' service. **Pearl O. Wise,** Traffic, Portland, January 30, 41 years' service. **Laura M. Faubion,** Traffic, Eugene, February 10, 20 years' service. **Grace L. Nelson,** Traffic, Portland, January 31, 41 years' service. **Mabel M. Hansen,** Traffic, Portland, January 31, 40 years' service. **Lawrence F. Booth,** Plant, Portland, February 4, 38 years' service. **Muriel Schulenberg,** Administration, Portland, January 31, 48 years' service. **B. Benz,** Engineering, Portland, January 31, 41 years' service. **Lenora M. Langston,** Traffic, Eugene, February 3, 40 years' service.

Medford—Splicer Richard W. Straus is a city councilman at nearby Gold Hill.

Mouth-To-Mouth Method Saves Operator's Baby

Salem—Supervising Operator Carol Smith will be forever grateful that she saw the film, "Rescue Breathing," during a Traffic department safety meeting. What she learned from the film about the mouth-to-mouth method of artificial respiration helped her save the life of her son, Bruce.

When Bruce was one week old he choked during a feeding. Holding him by the heels and patting his back didn't help. So Carol and her husband, Jack, rushed Bruce to the hospital in their car.

En route the baby stopped breathing and was turning blue from lack of oxygen. Remembering some details of the mouth-to-mouth method, Carol tried it. Her first attempt was unsuccessful.

Then she recalled it was necessary to tilt the baby's head back and force its jaw forward.

Her second attempt at reviving her baby was successful. After several breaths were forced into the baby's lungs, he sputtered and started to breathe on his own.

Hospital attendants told Carol her quick thinking and actions saved her baby's life.

Employee Booklet Racks Close

"Handbook of First Aid" is the last offering on Oregon area's booklet racks. After more than eight years and about 1,400,000 booklets, the employee booklet rack service is being discontinued on March 1.

Plans now under consideration call for selected booklets to be offered to employees from time to time in the future.

Legislature Calls For Excise Tax Repeal; Rep. Atiyeh Introduces Joint Memorial

Salem—The Oregon State Senate and House of Representatives in a joint memorial have unanimously called upon the U. S. Congress to "effect repeal of the wartime imposed and still continuing burdensome excise taxes on transportation and communication."

The memorial was introduced in the State Legislature by Representative Victor Atiyeh. It was signed by all 30 State Senators and 60 State Representatives.

First Time

Veteran legislators cannot recall any other piece of legislation that has borne the signatures of all members of the Senate and House of Representatives.

Rep. Atiyeh's memorial pointed out that excise taxes were imposed during World War II to discourage unnecessary use of overburdened facilities.

REPRESENTATIVE VICTOR ATIYEH
". . . repeal excise taxes."

The memorial states that "continued imposition of these taxes results in particular hardship upon western United States business and residents in view of their distance from eastern markets and the necessity for constant transportation and communication contact in the normal and essential conduct of daily business."

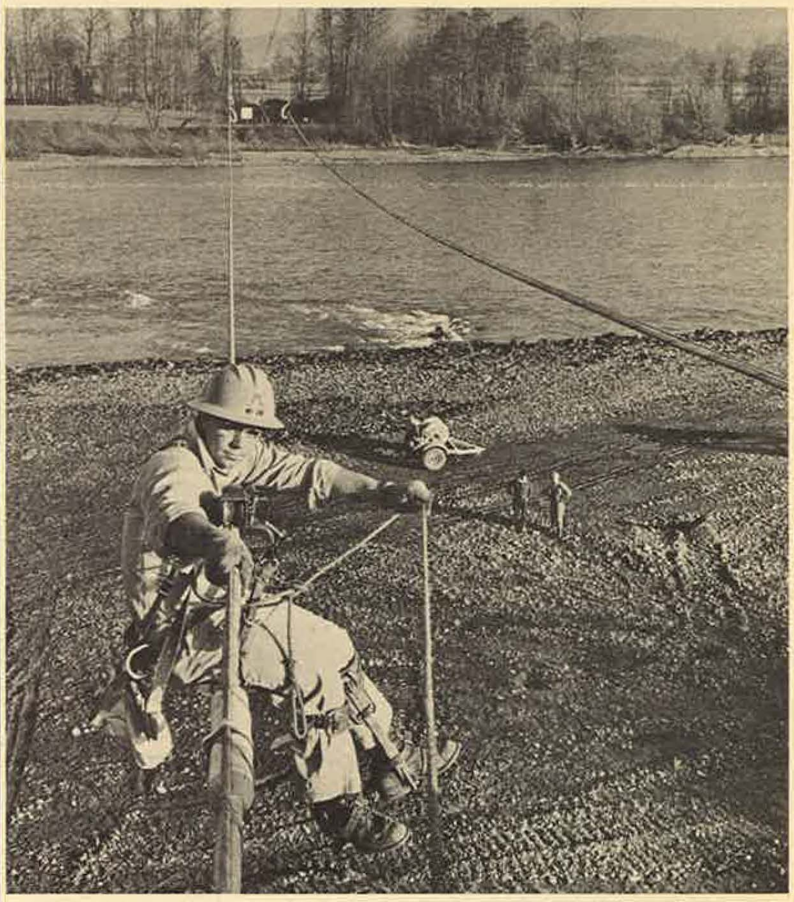
Luxury Taxes

The document states that "these taxes remain in force as though they were taxes on luxuries . . . that the public interest requires the maintenance of sound and vigorous transportation and communication services and such services are weakened and impeded by continued collection of taxes patently created as a war measure."

Copies of the memorial are to be sent to the President and Vice President of the United States, and to all members of the Oregon Congressional delegation.

Rep. Atiyeh, Republican, is a representative from Washington county. He served in the 1959 Legislature and as a member of the Interim Tax committee headed the sub-committee on personal property and inventory tax. He is presently vice chairman of the Tax committee in the State House of Representatives.

Coax Cable Climbs From River Into Sky



Safely seated in bosun's chair, Lineman Bob Bomark prepares to swing out across the McKenzie River while pulling strand for coaxial cable.

Eugene—The Portland-to-Sacramento coaxial cable is riding high and safe over the McKenzie River near Armitage State Park.

Formerly the vital communication link was buried 10 feet under the riverbed. But fast flowing waters exposed it to possible damage from large rocks, or the roots of a floating snag.

In addition, highly erosive sand and gravel moving along the river bottom could wear through the cable's protective covering and expose some 3,000 transmission wires and tubes.

To avert these hazards, engineers decided to substitute an aerial cable across the river. Suspended from three steel strands, the cable now runs almost 1,000 feet between poles on opposite banks of the river.

Linemen constructing the new cable section were John Lewis, Carl Brown, Earl Milligan, Bob Bomark, S. B. Fleener and Lloyd Schultz. Splicers on the job were Joe Bernardi, Merritt Tourtillott, Warren Hunter, George Armitage, Marvin F. Sveen, Al Fox, Robert Meisenholder and Roy Tone.

Supervising the project were Splicing Foremen Bill Schultz, Bill Waterman and Bill Boles.

Exhibits Feature Latest In Home Phone Service

Exhibits featuring the latest in home telephone service will be on display at a number of home shows and conventions in Oregon during the next three months. The events and dates are:

Oregon Education Association convention, Portland, March 16-17; National Office Managers' Association convention, Eugene, March 22-24; Astoria Home show, March 23-26.

Albany Home show, April 6-8; Portland Home show, April 14-23, Salem Home show, April 20-22; The Dalles Home show, April 21-23.

Medford Home show, May 5-7.

... from HERE and THERE

by DAVE UNDERHILL

editor, OREGON Telephone News

Ready to serve their community on a moment's notice are some 200 volunteer members of the Multnomah County Sheriff's Reserve. Of that group, 12 are Portland telephone men. Pictured above (from left, front to back) are **Moe Huiard, Glen Cook, J. Allen Sloan, Eugene Malsey, Claude Ethen, Ken Attwood, Dick Miesner, Al Svatos, Lloyd Johnson and Lloyd Carney. Bernard Young** and **Jim Kirkland** were not present for the picture.

To receive their deputy sheriff commissions, members of the reserve must pass four months of rigid police training and a year's probationary period as an associate member of the reserve. Included in the training are procedures of arrest, search and seizure, rules of evidence, weaponry, civil defense, self-protection and first aid.

Averaging 300 duty hours a year, the reserves assist in search and rescue missions, drowning cases, traffic control and other emergency situations. They have regular duty nights, patroling in prowl cars bought and maintained by their own units. They are truly an example of good citizenship in action.

* * *

Good natured gift-giving continues between the telephone company and the Central Lincoln County Public Utility district at Newport. Two years ago—prior to the dial conversion—we presented **PUD Manager John Schriner** with a new telephone system—two tin cans joined by a string. Last year Schriner presented **Bob Herring**—now wire chief at Klamath Falls—with a panic button machine. He offered the old transformer, topped with a light bulb and panic button, for the dial conversion, if needed. Deskman **Chuck McCloskey** and **Line Assigner Wally Donnelly,** assisted by **Operator Christel Conklin,** retaliated this year. They presented Schriner with a Tommy Telephone deskset composed of a papier-mache bell-shaped body enscribed with a Bell emblem, an old receiver for arms and a painted styrofoam ball for a head.

* * *

You could call them King and Queen of the Mountain. In reality they're **Vince (station repairman and ParTEAA Line editor) Gignac** and his wife, **Mary.** They are both instructors in the Portland Jaycee Ski School. Vince for seven years and Mary for five. They teach three classes each weekend at the Government Camp Summit area. Vince is classified as a certified instructor by the Pacific Northwest Ski assoication and Mary is scheduled to take her certification tests this spring. They are active in the Skiyente and Schneevogeli Ski clubs. And in 1959 the Skiyente gals honored Vince as "King Winter" for having contributed the most to skiing activities that season. To add to their honors, they are both certified as racing officials by the Pacific Northwest Ski association. Naturally, with all this Alpine activity, Vince and Mary have their own mountain cabin at Government Camp. It's the second one they have built themselves, and in both cases Mary built the fireplace. The first one they located at Rhododendron after learning to ski in the Jaycee Ski School following World War II.

* * *

Jim Henderson of General Sales is chairman of the Portland Rose Festival committee to promote planting and growing of roses. Jim promises Rosarians will plant one rose bush, free of charge, in the garden of every Portland homeowner having 24 roses already in the ground. So hurry up. Get your 24th rose planted and then contact the Rose Garden Promotion committee through your favorite Portland radio station.

Bill Pringle Proud Of Progress At Wood Village

Wood Village — "Our problems are similar to those of Portland, but on a much smaller scale."

That's PBX Installer Bill Pringle talking, City Councilman in his spare time for the City of Wood Village. The suburban community, with a population of 822, is about 20 minutes east of Portland out the Banfield Expressway.

A Family Affair

Community activity is a way of life in the Pringle family. Bill's wife, June, is Wood Village City Recorder. Five mornings a week she keeps the city's financial records straight and handles other community affairs.

Working for the telephone company is another Pringle tradition. Bill's dad, Jack, had about 42 years in the business before he retired in 1949.

Bill got into "politics" shortly after moving to Wood Village in 1955. The wooded property across from his place was a haven for transients. He thought it would make a good park and mentioned his idea to some of the "city fathers." The next thing he knew he was on the City Planning Commission. Later he was appointed to a Council vacancy, and was re-elected last November.

Full of Pride

Bill speaks with pride of his home town. Its "sparkling pure" water comes from a 365-foot well and is stored in a 280,000 gallon reservoir. The sewage system, with primary and secondary treatment plants, is twice the size needed to serve the present population. A new wholesale lumber firm just settled in the north part of town.

What about some of those problems? Well, the city would like to annex some property and square off its city limits. There's a new development of 40 homes building on the south edge of town that will need water and sewage services. The park across from Bill's place hasn't been finished, and the City Council would like to attract more light industry.

"But we're in pretty good financial shape," Bills says. "We are one of the few cities in Oregon that is almost debt free, and our millage rate is one of the lowest, too."

PBX Installer Bill Pringle and his wife, June, are pleased about the financial status of Wood Village. Bill is serving his second term as City Councilman. June holds the job of Wood Village City Recorder.

Commercial Objectives Stated For Management

"If we are well organized and do our jobs to the fullest of our capacities, we can meet the objectives we have set for ourselves in 1961."

That was the challenge that General Commercial Manager J. J. Lovejoy placed before the department's 195 management people at a series of meetings in Portland in late January.

Improve Service

"Our overall job," Lovejoy said, "is to improve communication services for our customers. To do this we have to increase sales and bring in more revenue.

"This, in turn," he added, "allows us to find better ways to do things; to develop new services and products; to provide even better service and realize more revenue.

Profit and Progress

"It all adds up to the fact that to perform our job, to make progress, we have to make a profit," Lovejoy concluded.

During the course of the four meetings, various Commercial groups reported 1960 results and their objectives for 1961. Some of these are shown in the table below.

	1960 Results	1961 Objectives
Customers	402,935	409,900
Telephones	574,700	595,824
(Gain)	23,900	21,000
Extension Sales	18,000	26,000
Color Sales	23,000	34,000
Listing Sales	12,000	15,000
Regrades	33,000	40,000

SERVICE *Anniversaries*

February

5 Years

Robert O. Botsford
Sharon C. Bowers
Thomas R. Bradford
Richard R. Cameron
George R. Campbell
Richard E. Cullen
Donald D. Dingman
Madelyn L. Dixon
Edna S. Doyle
Iona J. Dworschak
Robert A. Eade
Dennis D. Eckert
Doris I. Edwards
Frankalene M. Gates
Loyal R. Holmes
Susanne Howell
Wallace A. Johnston
Constance M. Kelly
JoAnne C. Lawrence
Clarice C. Luscombe
Carolyn E. Manuel
Dolores J. McDonald
Marilyn I. Morris
Robert N. Nalum
Melvin L. Oaks
Grant M. Orr
Vernon E. Padberg
J. A. Perkins
Dwain E. Peterson
Barbara T. Risbrough
Gerald G. Scovil
Violet M. Sharpe
James D. Singler
Harvey G. Smith
Genevieve G. Speer
Merle E. Starkey
J. A. Swalko
Thomas E. Wilson

10 Years

Mary E. Egger
Jeanette R. Gallucci
Maxine L. Pearson
Edith E. Redifer
Helen D. Reed
Eunice M. Shandy
Muriel J. Sparks
Phyllis J. Stout
Theodore G. Suomela
Richard A. Thom
DeMaris L. Trumble

15 Years

Richard P. Barton
Walter E. Bertram
Elmer E. Buschert
Clyde R. Charters
Dorothy L. Clark
Nell M. Conley
Dorothy D. Fritch
George F. Heller
John M. Jardine
R. L. Maier
M. Lucille Maris
Harry W. Mathis
Donald M. McAffe
Everett N. McFall
Marjorie E. Mehlhaff
Maxine J. Molzan
Nina H. Nedry
Francis D. Peldo
Vida A. Phillips
Donald D. Pittman
Blanche M. Poage
W. C. Ricks, Jr.
Ona L. Robinson
Casper C. Schweigert
Alfred M. Sorensen

20 Years

Charles S. Barry
Betty L. Bond
J. M. Bowden
Florence E. Dull
Lawrence E. Getgen
Robert W. Grigg
Eva M. Lennox
Richard W. Melum
Howard G. Schippers
Riley Thomson
Jess G. Vincent
Albert P. Witchel

25 Years

Thomas J. Miller
Edward F. Perrott

35 Years

Harry J. McNally
Elmer C. Swenson

40 Years

Rena I. Hayward

45 Years

Catherine E. Butterfield

OREGON ***Telephone News***
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Six Candidates In Race For "Miss Portland Belle" Crown

JANE OTT
Engineering

JULIE BUCK
Administration-Treasury

DARLENE BATES
Traffic

CHRISTINE ILER
Plant

CAROL KRAGE
Accounting

CAROL HANSEN
Commercial

OREGON
Telephone News
PACIFIC TELEPHONE NORTHWEST OREGON AREA
No. 103 February 28, 1961

Home Interphone Due In Oregon Mar. 1

Introduction of a new home telephone system is scheduled for the Oregon area March 1. Called Home Interphone, it is a complete home communications system that operates with specially adapted telephones.

Home Interphone combines, for the first time, all the advantages of the telephone with a wide range of intercommunication services. Included are door-answering, broadcasting by voice throughout the house, hands-free talking and even automatic "baby sitting."

Microphones Built In

All of these features are now built into versions of the standard home telephones. Each unit in the system is a master station. The unit includes a specially designed extension telephone with a built-in microphone, plus a small separately mounted speaker. Desk phones, wall phones or Princess phones can be used.

Door answering is carried out through an outside microphone-speaker combination. The control unit and transformer which power the system are installed in the basement or other out-of-sight locations.

Free Maintenance

Home interphone has a lifetime guarantee, with repairs and maintenance provided to the customer at no additional cost. There is an installation and monthly charge for the system.

The phones and speakers used in the system are available in a variety of standard colors.

A special committee, under chairmanship of Lee Hansen, General Sales, is planning promotion and sales of the Home Interphone in the Oregon area. Other members of the committee are Ken Attwood, Plant; Don Iverson, General Sales, and Eileen Youngbluth, Commercial.

Paul Preston Discovers "Shocking" Water Pipe

Salem—Installer-Repairman Paul Preston is credited with saving a customer from a "shocking" experience.

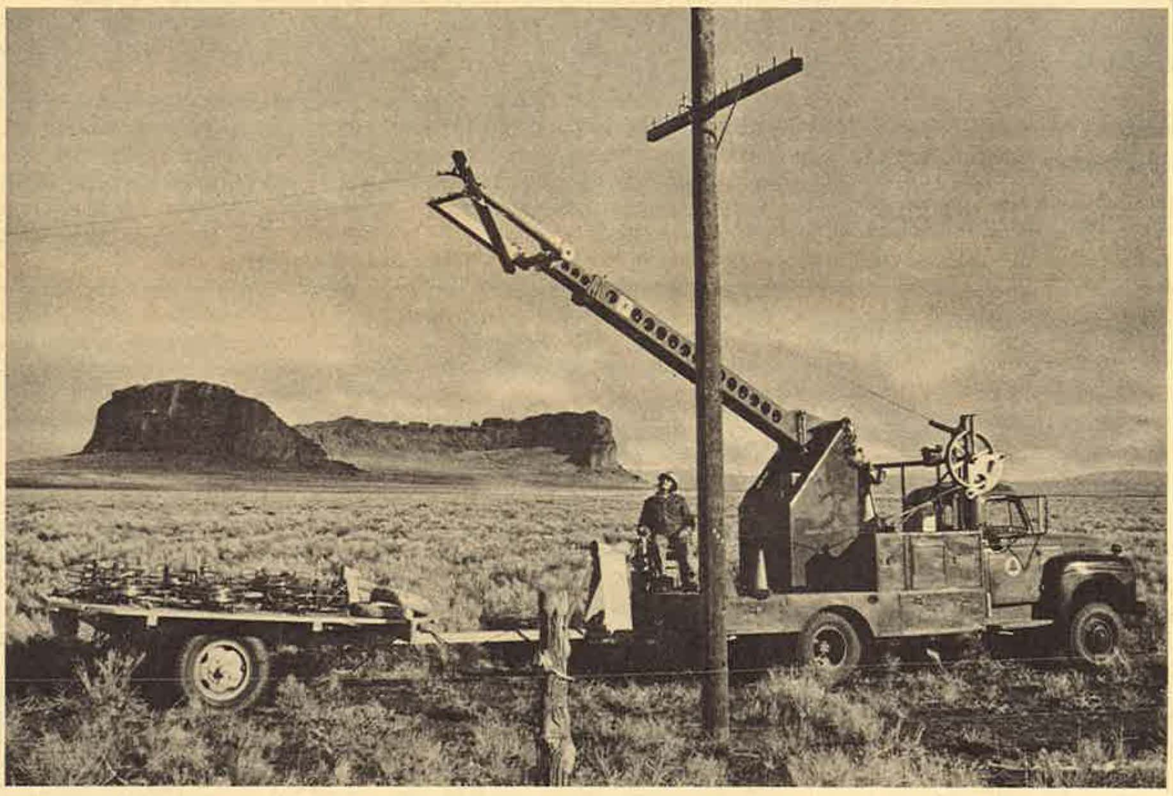
While installing a phone, Preston received a shock from a water pipe he was attaching a ground wire to. He tested the pipe with his voltage tester. It registered a positive electrical charge.

Water faucets and appliances in the customer's home gave a similar reaction to the voltage tester. So Preston recommended the customer call an electrician.

The electrician found a short circuit in the electrical system for a well pump.

The Dalles—Operators here presented the Columbia Nursing Home with a big sheet cake for Valentine's Day. They also raised $21 for the March of Dimes with a coffee hour.

Construction Men Find Fort Rock, Silver Lake Friendly



Historic Fort Rock, a refuge for early settlers from attacking Indians, looms in the background as construction rig strings telephone wires for new Silver Lake exchange in northern Lake county. Riding on the back of the truck, Lineman Arthur Hansen handles Telsta boom controls. Lineman Charles Prinslow was driver.

Silver Lake—"This is just about the friendliest place we've ever worked in. Everywhere you go people wave at you as you drive by. And they all want to know how the job is coming along, and when they'll be getting phone service."

These are comments of the eight construction men now working in the Silver Lake and Fort Rock areas of northern Lake county.

Starting From Scratch

Their job is to help build a complete new telephone exchange from scratch. It will serve some 100 customers in an area of about 500 square miles. The closest phone to Silver Lake is 50 miles away at LaPine.

Supervising the outside construction part of the $345,000 project are Splicing Foremen Everett Lang from Astoria, and Henry Weise from Salem. Linemen assigned to the job are Donald Ackerman and A. W. Hukill, Corvallis; Arthur Hansen and C. K. Prinslow, Salem; John Mattes and Lyio Tycksen, Baker.

A few statistics give an idea of the work to be done in this picturesque ranching country. The figures show:

1,905 crossarms to be placed on Mid-State Electric Cooperative's poles.

1,539,740 feet of wire to be strung over the crossarms.

255 anchors and 31,350 feet of anchor strand to be set.

143,327 feet of cable to be buried alongside Highway 31.

A central office building has been completed at Silver Lake. Installation of switching equipment will start soon. A long distance carrier equipment building will be set up where the buried cable and the wire join.

Final phases of the project call for installing of dropwires and phones, and complete testing of the system.

The current scheduled date for start of service is July 15.

★ ★ ★ ★ ★ ★ ★

Oregon Area Telephones 99 Per Cent Dial In July

Three major construction projects will bring the Oregon area's telephones to the 99 per cent dial mark by the middle of the year.

On May 20, dial service will replace the manual phones at Arlington, east of The Dalles.

July 1 is the date for conversion of some 1,600 telephones from manual to dial at Florence in southwestern Lane county. And on July 15 a new dial exchange, serving Silver Lake and Fort Rock in northern Lake county, will be in operation.

In addition, a brand new No. 5 crossbar switching system will replace the present dial system at Ashland on May 6.

All Number Calling (ANC) will also be introduced in the four towns at the time of the conversions. New central office buildings have been built in each of the communities.

Total cost of the four projects is estimated at about $1,700,000.

H. H. Holloway, assistant vice president, was on a four-man panel discussing "Business Decisions, Payoffs and Adequate Profit" at the University of Oregon's third annual business conference.

TEAA Queen's Ball Scheduled April 29

Six attractive candidates will vie for the title of "Miss Portland Belle" April 29 at the Portland TEAA's "Queen's Ball."

Selected as finalists from a field of 85 contestants were **Christine Iler, Plant; Darlene Bates, Traffic; Julie Buck, Administration-Treasury; Carol Krage, Accounting; Jane Ott, Engineering, and Carol Hansen, Commercial.**

A three-man committee—PBX Installer Bob Smead, Installer-Repairman Ken Van Dyke and Deskman Bryant Bishop — interviewed the contestants. Final selections were made on the basis of appearance, poise and personality.

Taken as a group, the candidates average 5-4 in height and 19½ years old. Their outside interests range from sports through acting, ballet dancing, music and painting. Brunettes outrank blondes, 5 to 1. Four of the finalists have brown eyes, one has blue and the other green. Average length of service with the company for the group is 8½ months.

Site of the "Queen's Ball" at which one of the six will be selected Miss Portland Belle is the Palais Royale on W. Burnside in Portland. Tickets for the affair may be obtained from TEAA representatives.

New Astoria Directory Lists John Jacob Astor

Astoria—A name famous in Oregon's history is listed in new telephone directories being delivered this week. It is that of John Jacob Astor, New York capitalist, fur trader and founder of Fort Astoria in 1811 as a fur trading post.

The original John Jacob Astor won't be here to receive calls at the number— (FA 5-6311)—listed for that name. But a direct descendant of his will be.

Anniversary Visit

This spring, Lord John Jacob Astor, the Baron of Hever, plans to attend Astoria's sesqui-centennial celebration. He will travel here from his home in London, England, for the historic event.

The 150-day celebration, starting April 12, will commemorate establishment of Astoria as the first American settlement on the Pacific Coast.

IN MEMORIAM

With deep regret we report the deaths of the following active and retired employees: **Carol J. Gilliland**, Accounting, Portland, January 23, 4 months' service. **George E. Post**, Plant, Portland, January 13, 38 years' service. **Ruth D. Hogan**, Traffic, Medford, February 14, 31 years' service. **Oscar Tinkle**, Commercial, Portland, February 16, 43 years' service.

Editorially Speaking:

Painting The Big Picture

Our corporate image—the big picture of our company that customers carry in their minds—is formed in many ways.

Of course, the kind of service we provide, and what is costs, have much to do with forming this image. But oftentimes it's the little things . . . the human things, if you will . . . that we do in providing service, that help as much to paint the big picture of us as a company.

Take the time **Installer-Repairman Jess Ticer** installed a Princess phone at a customer's home in Eugene. Before going in the house he washed the mud off his boots. Then before entering the room where the phone was to go, he removed his boots in order not to mark the new carpet.

Jess's thoughtfulness prompted the customer to write . . . *"Such consideration is almost unheard of and I want to thank you many, many times."*

Recently **Transmissionman Russell Caldwell** stopped to change a tire for three young coeds on the highway near Salem. He then made sure they safely reached the nearest service station two miles away.

In writing to express their appreciation, the girls concluded by saying . . . *"If any one of us ever have his children in our classes, they may be assured of receiving straight 'A' grades."*

There are many other instances that could be cited to prove our point. But these two do well to show that while striving to run our business efficiently and economically, we mustn't forget the value of just plain neighborliness. Our customers appreciate it.

* * *

Competition In A Catalog

Mail order catalogs are fascinating publications. They list all kinds of attractive items at enticing prices.

For instance, a current catalog lists these articles for the modern business . . .

"Telephone Intercoms for Greatest Privacy." They range in price from $30 to $80. You can get one for only 10 per cent down. They feature selective ringing and conference calling.

"Two-To-Eleven-Station Phone Dial System." Needs no switchboard. Dial your number directly. Range up to 500 feet. Price per phone only $43.

Then there are **"Install-Them-Yourself Intercom Systems."** No special tools needed, all instructions provided. Prices range from $19 to $60.

Who says telephone companies don't have competition in the field of communications?

If there are still any "Doubting Thomases," how about the well laid plans of corporations—other than AT&T—to jump into the race for space communications? Or how about the firms setting up private microwave systems to connect their plants spread across the nation? This is competition in all its reality.

What can we do about it? Just this. Be there first, with the best service and at a price that is attractive to the customer.

* * *

Eugene-Springfield Phones Double In 10 Years

Eugene—The Oregon area's second largest telephone exchange, Eugene-Springfield, has passed another milestone in its 66-year history.

As 1961 got underway, the exchange had just passed the 50,000 mark in number of telephones served. The exact total, according to company records, was 50,171.

Another First

And this year, for the first time, Eugene is listed in "The World's Telephones" report. It is shown with other U.S. cities having a population of 50,000 or more.

To get an accurate picture of growth in Eugene and Springfield, it is necessary to look at only three entries in the telephone history books. In 1894 the first exchange was established with 25 phones. Fifty-six years later, in 1950, the number of phones had increased a thousand-fold to 25,000.

25,000 More

Then in the short span of 10 years, by the end of 1960, the number of phones in use increased by another 25,000 to the present total.

Currently some 500 telephone men and women are employed in Eugene, Springfield and other Lane county communities.

They represent an annual estimated payroll of $2.5 million that contributes to the county's growth and prosperity.

Grants Pass—Frank Kline, acting chief switchman, is serving a two-year term on the City Council.

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Deane Bond, Photography
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Please send them to the above address or
Call CA 6-5771

Inauguration Invitation Elaine Burnham's Reward For Democratic Campaign Activity

Capitol dome towers in the background as Congresswoman Edith Green (left) and Elaine Burnham pose on snowy steps of Old House Office building during Presidential Inauguration activities in Washington.

When Elaine Burnham volunteered her services to the Oregon Citizens for Kennedy committee early last year, she had no idea she would be dancing at the President's Inaugural ball a year later.

But the attractive and personable traffic staff assistant from Portland District No. 2 was there with a number of other Oregonians invited by Congresswoman Edith Green.

Practical Politics

That's the ending to Elaine's story, however. To start at the beginning. . . . Soon after saying, "Yes, I'll help out," she began to learn a lot about the practical side of politics.

During the primary and general elections—in her spare time and on vacations—she helped with some of the things that have to be done in a political campaign. There were countless phone calls to make; a mountain of letters to address, seal and stamp; campaign buttons to sell and rallies to attend.

Her increased interest in things political took her to the Democratic National convention in Los Angeles on her vacation.

But the best, and most exciting of all—besides backing a winning candidate—came after the campaigning. It was the special invitation from Mrs. Green to attend the Presidential Inauguration on January 20. Elaine arranged her vacation time to do just that.

With two friends she arrived in Washington, D.C., on January 17. One of their first stops was at Mrs. Green's office. But getting there was easier said than done.

Unscheduled Tour

A local citizen mis-directed them to the Senate office building. Much later—after an unscheduled ride on the Senate subway and an unguided, underground tour of a number of buildings—they got their bearings and found their destination.

The next day was a full and adventuresome one. It started out with a tour of the White House and a visit to the United States Supreme Court where a number of Oregon attorneys were being sworn in.

That afternoon Elaine and her friends attended the Reception for Distinguished Ladies.

Long Lines

"When we got there," Elaine reports, "there were four slow-moving reception lines. We got into one, not knowing who was awaiting us at the other end. Finally after an hour we reached the head of the line to be greeted by Mrs. Harry Truman, Mrs. Mike Mansfield and Mrs. Hubert Humphrey. And as we left we passed Mrs. Lyndon Johnson.

"Later we learned that the 'Distinguished Ladies' had half-hour shifts."

Elaine's third day in the Washington merry-go-round started out calmly. There was lunch with Mrs. Green and other Oregonians at the Speaker's Dining room. House Speaker Sam Rayburn joined the group briefly.

There was a tour of the Capitol buildings, highlighted by a glimpse of TV's Bat Masterson acting like any other tourist. But from then on, the day's schedule was plowed under by the now famed Inaugural snowstorm.

Twice Too Late

The worst traffic jam in Washington's history caused Elaine and her friends to miss the Governors' Reception and a buffet dinner. They did make it on time to the Democratic Gala. It was two hours late in starting.

Inauguration Day dawned bright and cold. Warmly dressed, Elaine and friends had an excellent view as John Fitzgerald Kennedy was sworn in as the 35th President of the United States.

But the cold proved too severe. So they retired to Mrs. Green's apartment. There, sipping coffee and munching on sandwiches, they watched the long parade on television.

Crowning event of the frantic four days for Elaine was the inaugural ball at the Sheraton-Park hotel.

Dancing Room

"Contrary to news reports," says Elaine, "there was room to dance. But when the word spread that the President would arrive shortly, everyone crowded close to the platform. We could see only the heads of the cabinet members and their wives as they arrived. And when the President walked in, everyone in front jumped up and down so that those in the back couldn't see."

Despite the snow and cold, the traffic jams and missed appointments, Elaine accounts her four days in Washington as "the most exciting of my life."

Box Score

JANUARY

Company Telephones in Service	575,707
Net increase for January	1,075
Residence Extensions Net Increase for January	570
Upgrades January	2,159

Portland DDD Start Slated For May 20

Just under three months remain until more than 100,000 Portlanders will be able to span the nation by spinning their telephone dials.

On May 20 Direct Distance Dialing will be available to our customers served by the AT, BE and CA central offices. They will be able to dial their own station-to-station long distance calls to some 4,300 cities in the United States and Canada. Hawaii and Alaska cities are not included.

Preparations for introduction of the new service are in full swing. Some 30 Western Electric employees are installing and testing DDD equipment in four Portland telephone buildings.

The company's DDD publicity committee has formed several programs to tell our customers the story of DDD. Twenty-four employees from all departments are taking training as volunteer speakers. They will be available to tell the "Portland DDD Story" to various organizations throughout the city upon request by calling CA 6-8733.

Pioneers Celebrate Fiftieth Anniversary

Oregon's Telephone Pioneers of America celebrated the 50th anniversary of their international organization on February 10.

In a joint proclamation, Vice President and General Manager F. M. Mitchell and Pioneer President Robert Barnes designated the day as "Pioneer Day in Oregon."

Page Speaks

Highlight of the day's activities was the annual banquet in Portland of Oregon Chapter No. 31. John H. Page, Pacific Telephone Northwest vice president for public relations and revenues, was main speaker at the affair, attended by more than 400 Pioneers and their guests.

JOHN H. PAGE
". . . cherish human values."

"To meet the economic and social challenges of the world we live in today," Mr. Page said, "we must be a competent and efficient business; provide error-free service; be ready to meet the demands of changing times, and be a true representative of the free enterprise system.

Human Values

"And at all times, both as individuals and as a business, we must cherish and never sacrifice human values," Mr. Page added.

Special tribute was paid at the banquet to five charter members of Oregon Chapter No. 31. Honored were O. C. Hoff, W. C. Kerron, H. C. Kerron, L. E. Munger and Sam Ten Eyck. Other charter members not able to attend the affair were Eva Bauman, Edna Barnhardt, Ethel Cawthorn, Ellen English, J. F. Lowrie, Jess Marcus, Dora Schmittdeil and Daisy Thomas Smith.

They are the surviving members of the group of 60 men and women who founded the Oregon Telephone Pioneers chapter in 1924.

Today, some 1500 men and women are listed on the Pioneer rolls in Oregon.

STATE OF OREGON

Executive Department

Salem

PROCLAMATION

WHEREAS, the Fifty-second Legislative Assembly enacted Chapter 627, O.L. 1963 to amend present Oregon personal income tax and corporate excise tax laws and to raise approximately $60,000,000 more than the existing revenue act, and

WHEREAS, the voters of the State of Oregon at a special statewide referendum election held on October 15, 1963, rejected Chapter 627, O. L. 1963, and

WHEREAS, it is estimated that State General Fund revenues to be raised during the current biennium under existing tax law will be approximately fifty-eight million dollars less than the amount appropriated from the General Fund by the Fifty-second Legislative Assembly in its Regular Session, and

WHEREAS, the authority of the Governor to reduce expenditures by allotment control or otherwise does not extend to appropriations to the Basic School Support Fund nor to appropriations made to the judicial and legislative branches of government and to other elective officers, and

WHEREAS, it would be desirable to make some of the necessary reductions in General Fund expenditures from these appropriations over which the Governor does not have control;

NOW, THEREFORE, I, MARK O. HATFIELD, Governor of the State of Oregon, find that an extraordinary occasion exists, and I do by this proclamation, pursuant to Article V, Section 12 of the Oregon Constitution, call the Fifty-second Legislative Assembly of the State of Oregon to convene in Special Session on Monday, November 11th, 1963, at 12:00 o'clock p.m.

Given over my hand and the Great Seal of the State of Oregon at the Capitol in Salem this 16th day of October, A.D., 1963.

Governor

Attest:

Secretary of State

RECEIVED
OCT 16 1963
HOWELL APPLING, JR.
SECRETARY OF STATE

June 22, 1960

Representative Clarence Barton
Box 365
Coquille, Oregon

Dear Clarence:

It doesn't look as if I will see you at our next Interim meeting, and so I thought it best to share with you some of my thoughts on personal property taxes.

Charlie Mack has provided me with some figures which are somewhat revealing, and actually prove the difficulty of the task before us. Actually, the key to the whole situation, especially in regard to the percentage of replacement tax is the years '59 '60 for which we have no information as yet. To make a complete replacement using the year of 1958--which is the latest year that we have data--would take 3.5 per cent of a net business tax. Charlie believes he can prove, however, that something approximating 2 1/2 per cent will do the job for the '59 '60 years.

My main concern, however, is two-fold. First of all is there a relationship to personal property and business profit? Secondly, would any move that we might make additionally burden the real property tax payer? The figures that I have before me seem to prove the case in the negative. As an example, personal property taxes have increased approximately from 20 million dollars in 1950 to 31 1/2 million dollars in 1958. While net business income has only increased from 871 million dollars to 906 million dollars. Personal property taxes have stepped up at a very steady rate. Whereas business net income has fluctuated rather dramatically during this same period. This then creates the problem of the property tax payer picking up the tab in the years in which net business income was lower. I believe that we can solve most of all the technical problems that will confront us, but this one has me a little puzzled.

Another addition of thought particularly in the light of some suggestions that you have already made to me is that I do not believe we should only eliminate inventory from taxation leaving the remainder of personal property on the books. The farmer, motel and hotel owners are among many others of the high personal property-low inventory group who really have a case in defense of their stand against partial elimination; and I believe that we would be doing an injustice to them just for the sake of those of us who have high inventories. You know how I feel about this field of taxation, but stronger than that is my desire to create a good law in its stead. I shall be leaving July 16th to go back to the National Boy Scout Jamboree and will not return until August 1st. Sometime before or after this, I hope that we have an opportunity to sit down and discuss the various problems between us in hopes some good solution can be found.

Give my best regards to May and I shall look forward to seeing you again.

Very truly yours,

Victor Atiyeh

VA/lr

Form 19-F
State Printing 19837

OREGON STATE TAX COMMISSION

Date May 24, 1960

Interoffice and Field Memo

From George R. Pederson

Tax Subject Personal property trends and replacement tax figures

To Commissioner Mack

Re:

VIA Ass't. Com. Bass

In reply to your memorandum of April 22, the material given below has been prepared. Your specific request is given first and then the information. If time permits, or you believe it desirable, this information can be expanded and "dressed up" with charts, tables, pictograms, etc.. The Interim Committee may possibly wish this additional work done for use in their final report. The requests and answers follow:

"1. To what extent does personal property carry the present tax load?"

For the current tax roll (1959-60), taxes levied on personal property amounted to $31.8 millions, or 16.7 percent of all taxes levied. While taxes charged against personal property have increased, year by year, over the past decade, the proportion of the total tax load carried by personal property has continually declined. For the period 1950-51, through 1959-60, the increases in taxes levied for the major classifications of property were:

Class	Percent
Real	124.3
Personal	59.5
Utility	39.7
Total	97.5

As a part of the tax roll, personal property totalled 22 percent in 1951-52, and has declined every year since then with the lowest figure, 16.7 percent, representing the current fiscal year.

"1. (a) Carried back over 10-year period to show effect and trend of continual expansion of personal property exemptions."

The foregoing figures demonstrate, for tax levying purposes, that a part of the tax burden previously carried by personal property taxpayers has been shifted to real property taxpayers. A number of reasons including exemptions are responsible for this trend. Some of the causes are: (1) administrative policies which require better reporting but, at the same time, reduce or eliminate discriminatory ratio practices; (2) changes in the way of doing business, e.g., conserving capital by keeping inventories at minimum levels; and, (3) new exemptions and greater awareness of previously granted exemptions.

The Commission, in past years, collected only limited amounts of information on part of the personal property exemptions. It asked the assessors for the amounts cancelled under the "processors' law" but, some counties reported "no" cancellations when property of the eligible classes regularly existed in the counties. This year, for the first time, the Commission is asking the assessors to provide information on another major cancellation, automobiles in dealer inventories. Because of the paucity of existing data, no definitive conclusion can be made on how much of the personal property tax base has disappeared through exemptions. The exemptions, however, have undoubtedly been a contributing factor in the shift of a part of the tax load to real property.

"1. (b) Comparison of

(1) Percent requirement estimated to be needed last year to replace all personal property exemptions, also as an offset to inventories only."

In the request, I assume that the first part of the sentence deals with offsetting all taxes presently imposed on personal property. The latest year for which data is available is 1958. In that year, personal property taxes amounted to $31.6 millions and business profits totalled $906 million. A tax rate of 3.5 percent on the latter amount would have raised a sufficient amount to offset the entire levy on personal property. This answer needs to be explained at two points. One is that the tax rate of 3.5 percent is higher than the 2.5 percent quoted for the same purpose at the last session of the Legislature and the second is the technical limitations on the concept of business profits.

The 2.5 percent figure presented to the Legislature assumed that most of the personal property class, Other Machinery and Equipment, represented affixed machinery of manufacturers. The Legislature, earlier in the session, transferred manufacturer's fixed machinery and equipment to the real property classification. Since this property would remain on the tax rolls, the replacement tax could be set at a lower rate. The detail of assessment rolls which the Commission is just starting to gather for the 1960 roll and the information which the Committee is collecting on the several classes of personal property will test the accuracy of the reasoning involved in rolling back the tax rate from 3.5 to 2.5 percent.

Business profits listed in this memorandum and previous statements on this subject are taken from the U. S. Department of Commerce's estimate for unincorporated enterprises and from corporation tax returns filed with the Commission for corporations. The Department of Commerce in explaining its figures freely indicates the possibility of error in numerous places in making their complex estimate. For this reason, I have already suggested the need for going through the separate schedule business returns filed with the Commission this year. Before we do this, the Committee may wish to help us by establishing certain guidelines. I have in mind such questions as what exemptions will be granted, what treatment will be given to individuals operating two or more businesses where one of the businesses incurs a loss, and whether or not proprietors of unincorporated businesses will be granted a salary allowance? The last question is not a problem when dealing with proprietorships alone but when closely held corporations will also be taxed, the issue of achieving similar treatment doesarise.

For inventories alone, a rate falling in the range of 1.4 to 1.7 percent would have raised sufficient revenues to offset personal property taxes on inventories in 1958-59. A range is given, above, because data is not yet available on the value of livestock which can properly be described as inventory.

The percentage figures for a replacement tax for inventories are based on total net income from the aforementioned two sources. No adjustments have been made for possible Committee decisions on exemptions.

"1. (b) Comparison of
(2) The same percent requirements as applied this year with additional exemptions allowed and greater returns being shown on net income due to economic improvement."

Figures on 1959 business profits will not be available until later this year. Figures for 1960 are likewise not available. Within a few months, the assessors will be sending in assessment roll summaries which will provide detail on the additional exemptions passed by the 1959 Legislature.

"2. Why personal property is needed to sustain budget base for various districts.
(a) Comparable figures to show over the past ten years the effect resulting had a personal property exemption been allowed."

Over the last decade, the assessors would have had to levy 16.7 to 28.2 percent, higher taxes on other classes of property if personal property had not been on the tax rolls. Because these figures are statewide averages, the figures for the individual taxing districts and the properties within the districts will vary in both directions (higher or lower) from this mean. The lower figure applies to the last year of the period, 1959-60.

"2. (b) What percent on business income would have been needed over the same ten-year period to replace the taxes lost by exemption?"

I assume you mean total exemption in this question. Subject to the limitations mentioned earlier in this memorandum on business profit figures, the tax rate for the replacement tax would have had to range between 2.3 and 3.6 percent. This range is for the nine-year period through 1958-59. The lowest figure would have been sufficient in the earliest year of the period and the highest in the next to the last year. With some exceptions, the trend of the computed tax rate increased from year to year.

Unless some sort of ceiling is placed on property taxes generally, the increases which would have been necessary over the past decade to keep the two parts of the equation in equilibrium, suggest the need for a rather frequent review of the replacement tax rate, if such a tax is adopted.

> "3. Comparative study showing total returns and the effect of a 2 percent business tax carried over a ten-year period; compared to actual returns under present system.
>
> (a) What percent would be needed over same period each year to replace the returns received?"

For the ten-year period, ending in 1959-60, personal property tax levies amounted to $275.3 millions. For the nine-year period ending in 1958-59, they totalled $243.6 millions. For the latter (nine years) period, business profits aggregated $7,860 millions. A tax at a two percent rate would have produced $157.2 millions over the nine-year period, or $86.4 millions less than the amount needed to fully offset personal property taxes. A rate of three percent, however, would have produced $235.8 millions, a few millions of dollars short of equaling the personal property taxes levied.

You attached to the memorandum a letter from Representative Atiyeh on the same subject. I believe the answers already given generally answer the questions posed in his letter, except for the one related to the effect of personal property tax repeal on individual taxing districts. The answers to this latter question and more precise answers to his other questions will come out of the study presently being conducted by the Committee and the one we are considering on profits of unincorporated enterprises.

From the standpoint of timing, it seems to me that the Committee will have to work with the data presently available in order to arrive at their general conclusions and recommendations. At the last minute, the figures based on 1959 incomes and 1960 tax levies can be inserted in the recommendation.

GRP:vb

Taxes Levied by Class of Property
1950 - 59 Tax Rolls

Roll	Personal Property	Real Property	Utility Property	Total
1959	$31 768 620	$137 164 711	$21 379 783	$190 313 114
1958	31 600 292	125 759 240	21 318 374	178 677 907
1957	31 196 189	114 641 225	21 027 851	166 865 262
1956 ①	30 275 000	110 514 999	19 129 253	159 919 252
1955 ①	28 100 000	97 258 163	19 273 446	144 631 609
1954 ①	27 600 000	88 859 146	18 104 871	134 564 017
1953 ①	26 400 000	79 867 983	16 656 394	122 924 377
1952 ①	25 000 000	73 596 171	15 793 727	114 389 898
1951 ①	23 467 312	67 532 601	15 781 640	106 781 550
1950 ①	19 916 326	61 150 473	15 300 237	96 370 036

① Individual categories for 1956 and prior years partly estimated

Distribution of 1950 - 59 Tax Rolls By
Class of Property (Percent)

Roll	Personal Property	Real Property	Utility Property	Total
1959	16.7	72.1	11.2	100.0
1958	17.7	70.4	11.9	100.0
1957	18.7	68.7	12.6	100.0
1956 ①	18.9	69.1	12.0	100.0
1955 ①	19.4	67.3	13.3	100.0
1954 ①	20.5	66.0	13.5	100.0
1953 ①	21.5	65.0	13.5	100.0
1952 ①	21.9	64.3	13.8	100.0
1951 ①	22.0	63.2	14.8	100.0
1950 ①	20.7	63.4	15.9	100.0

① Individual categories for 1956 and prior years partly estimated

Net Income - Incorporated and Unincorporated
Enterprises 1950 to 1959 (million)

Year	Corporations	Unincorporated Businesses	Total
1958	$303 ①	$603	$906
1957	261	596	857
1956	321	625	946
1955	240	583	823
1954	284	542	826
1953	240	566	806
1952	274	599	873
1951	344	608	952
1950	334	537	871

Sources: "Survey of Current Business", various years and Analyses of Corporation Income Tax Returns

① Tentative

Personal Property taxes as a Percent of Business net Income

Year	Personal Property Taxes ①	Business Net Income (millions)	Percent
1958	$ 31 600 292	$ 906 ②	3.49
1957	31 196 189	857	3.64
1956	30 275 000	946	3.20
1955	28 100 000	823	3.41
1954	27 600 000	826	3.34
1953	26 400 000	806	3.28
1952	25 000 000	873	2.86
1951	23 467 312	952	2.47
1950	19 916 306	871	2.29

① Partly estimated for 1956 and prior years
② Tentative

Sources: Business net Income – "Survey of Current Business", various years and Analysis of Corporation Excise tax returns

Note: The estimates of net income of unincorporated businesses appearing in the "Survey of Current Business" include both partnership and proprietors profits for the whole range of economic activity — farms, contractors, manufacturers, retailers, wholesalers, and services including the professions.

May 31, 1960
D.F.

STATEMENT ON THE SALES TAX

By Clarence Barton

One of the principal pastimes in the political arena is that of trying to shift the tax burden onto someone else. We have witnessed this before, and 1960 again finds those who are attempting to disturb what is considered one of the finest and fairest tax structures in the United States, by saddling the people of Oregon with a sales tax.

Economists and political scientists who have studied our tax structure during the past 20 years have reached the universal conclusion that from the standpoint of equity and justice, Oregon's is one of the best tax structures in these United States. Griffenhagen and Associates in 1947, Dr. John Sly, 10 years later, numerous Legislative Tax Committees and Interim Committees, Dean James Gilbert and Dr. Ward Macy of the University of Oregon, have all so concluded.

These conclusions, reached after a 20 year study, fully repudiate those who would have you believe that a sales tax is the answer to all our problems; that it is somehow a tax that isn't going to affect any of us; and that it will in some way reduce the total taxes that each of us must pay for the services that we have all demanded from state and local government.

Let us examine the arguments that are advanced for the sales tax.

TOURISTS. It is said that we must get the tourists to pay their share of our taxes; that when Oregon residents visit Washington or California, we pay sales taxes, and therefore it is only fair that they pay when they visit Oregon. I might point out that it is fine and dandy for those fortunate residents of Oregon who can afford to winter in Honolulu or Acapulco if they want to spend their money that way to subsidize the State of Hawaii or the Government of Mexico, but those dollars spent were earned in Oregon and the only way they can be taxed here is through the income tax. Few Oregon residents, if they think the thing out, should care to contribute to these winter vacations or the support of the Mexican government by assuming the burden of a sales tax so that the income taxes paid by these prosperous followers of the sun may be reduced.

But what would we raise in Oregon by a sales tax on tourists? In normal years the total amount spent by tourists in Oregon is about $140,000,000. A 3% sales tax on all this would produce $4,200,000. This is a substantial sum, but wait a minute. A large portion of the tourist dollar is spent on gasoline which is the highest taxed commodity in Oregon and on which the tourist is now being taxed about 20 cents for each dollar spent. Tourists also buy food in grocery stores, purchase lodging for the night and patronize Oregon's liquor monopoly, and most sales taxes proposed have excluded these items. In any event the most optimistic estimates, according to former Governor Elmo Smith, would place sales tax receipts from tourists at about a million and one-half dollars. If this money were used for local property tax relief, it would amount to about what one large public utility would save. I don't believe the people of Oregon will saddle themselves with a 65 million dollar sales tax in order to collect a million and one-half dollars from the tourists.

<u>THE SALES TAX IS A NEW BASE?</u> Dr. Macy, head of the Economics Department at the University of Oregon, and any other responsible economist or political scientist recognizes that all taxes must come out of income. In other words, the money that people earn in a year is the money they have available to them to pay their taxes. Therefore, the sales tax is not a new base--it still must come out of income. It is merely another device by which you collect the tax. Authorities agree that you can do anything with an income tax that you would want to do with a sales tax and, in addition to that, you can control it. In other words, if you want certain allowances in order to bring ability to pay into the picture, you can do this with an income tax when you cannot do it with a sales tax. You can tax any group as

much or as little as you want to. With a sales tax, you cannot get that kind of control--it is merely on how much each person spends. The sales tax is merely a gimmick to collect a tax out of your income in a different way.

BROADEN THE BASE. Proponents of the sales tax argue that it is needed in order to get more people to pay a greater tax and that many people now get by without paying any tax. This, of course, is not true because people pay taxes through their rent, they pay taxes in the price of goods which they purchase which has been passed on to them by business, and if we limit this to consideration of the income tax, the only people in this state who are not paying an income tax are those, for example, in the income bracket of less than $1,000. I ask you and would have you seriously consider whether a couple, and we have close to 55,000 of these in the State of Oregon with incomes less than $1,000, should be asked to pay a 3% sales tax on the necessities that they purchase. The proponents of the sales tax would require these people to pay income taxes so that the executives in the $200,000 bracket can pay less tax and more federal tax and send that money out of the state to the federal government. While authorities agree and recommend that we modify the income tax to further broaden the base, I cannot believe that we should adopt a tax system, which a sales tax would do, which would require our senior citizens on social security and pensions to contribute 3% of every dollar which they spend.

EFFECT ON INDUSTRY. Again, tax authorities indicate that the best climate on business is one on which they are taxed on their ability to pay and when they make income, not when they are losing money. Oregon's tax system today taxes on this basis. A sales tax would definitely discourage new industry coming into the state because every new plant construction, every addition to a plant now in Oregon, the builder of that plant would find himself saddled with an additional 3% sales tax on all the materials, goods and machinery that goes into that new building. It is hard to see how the sales tax proponents argue that the sales tax would help business.

COST OF ADMINISTRATION. The adoption of a sales tax would mean nothing more than the creation or addition of another state agency to hire a large number of people to go out and go through every retail store and check the books to see whether each business is collecting the amount of sales tax that they should be collecting. Since all taxes come out of income, it is hard to believe that some people propose two systems for collecting money from the same source.

FOOD WOULD BE EXEMPT. This is the foot-in-the-door approach for the sales tax. If Oregon adopts a sales tax with food exempt, as sure as night follows day, food in the future will be subjected to a sales tax. Of the 34 states that have a sales tax at the present time, only nine remain that still have food exempt, only seven remain that have medicine exempt, only three have clothing exempt. These are the bare necessities of life.

OTHER EXEMPTIONS. Proponents of the sales tax fail to tell you that while such necessities as clothing, housing, necessary furniture and other items of survival and decent living are subject to the sales tax and paid by all the income brackets which hit the people in the lower income brackets the hardest, such extras as lawyers fees, trips to the beauty parlor, golf fees, purchase of stocks and bonds and numerous other luxury items, especially services, have not been subjected to a sales tax. This means that the people in the upper income brackets contribute a much smaller portion of their income to state government compared to the people in the lower income brackets.

COST OF GOVERNMENT. We are all concerned that we receive from government the services we feel we want, but in every case in which a sales tax has been adopted for a few years the state goes on a spending spree, and the proponents of a sales tax are encouraging this type of a spending spree.

Senator Sweetland recently appeared before the Interim Tax Committee and here are a few of his statements:

"It falls heaviest upon those who are least able to pay."

"The sales tax takes more money from the family in the $2,000 bracket. The sales tax takes more money from an extra $100 earned by that family compared to the family in the $200,000 bracket that happens to earn an extra $100."

"Another reason for my opposition to the sales tax is that at any given income level the family with the greatest number of children or other dependents will have to pay the highest taxes."

Here is what Dr. Macy had to tell the committee in August of this year:

"Everyone agrees that a tax should be fair. To accomplish justice or equity, one should consider the principles of ability-to-pay and benefits received. On this basis, the net income tax is an example and to a degree the property tax. The sales tax cannot be justified for any other reason than expediency."

In conclusion, I believe that we can so write the income tax to do whatever the people of Oregon want it to do and raise the amount of revenue that we need. I believe that any steps that we might take toward bringing a sales tax to the State of Oregon violates our standards of justice and fair play and wholly ignores the responsibilities we have to one another as citizens.