

5

MESSAGE

OF THE
GOVERNOR OF ALASKA
TO THE
EIGHTEENTH ASSEMBLY
OF THE
ALASKA TERRITORIAL
LEGISLATURE



January 30, 1947

**MESSAGE OF THE GOVERNOR
TO THE
XVIIIth TERRITORIAL LEGISLATURE**

Mr. President of the Senate, Mr. Speaker of the House, Honorable
Senators and Representatives, Members of the XVIIIth
Territorial Legislature:

For the fifth time, and in all probability for the last time, it is my privilege to address the Territorial Legislature. I venture to express the hope that it is the last time that any Governor will address a Territorial Legislature. If Congress heeds the expressed will of the people of Alaska, it will be the Legislature of Alaska, a state of the union, that will, the next time, be addressed by a Governor elected by the people of Alaska. It is also a privilege to salute among the members two who served in the first Territorial Legislature in 1913 thirty-four years ago, Senator Earnest B. Collins of Fairbanks and Senator Charles Davenport Jones of Nome, representatives then, senators now. It would be a fitting climax to their long span of service to the Territory, if they who had served in the first Territorial Legislature could likewise serve in the first State Legislature.

TRANSPORTATION

Meanwhile, there are serious problems which, as a Territory, we still have to face and which it is my duty to discuss with you. Some of these problems are, unfortunately, beyond our direct control. They are beyond the direct control of the elected representatives of the people of Alaska here gathered. They are problems of great gravity which, unfortunately, we can attack only indirectly. They are problems mainly, which come under the all-important head of transportation, involving Alaska's various lifelines. They involve maritime transportation, air transportation and overland highway transportation. They are, as I say, problems that are largely decided not by us, but for us and decided often not for Alaska's interest, by distant agencies and unseen men.

Shipping

You are aware that some fourteen months ago an increase in shipping rates, possibly as high as 100%, was proposed by the War Shipping Administration in behalf of the carriers as their requirement to take the ships back into private operation. This came as a surprise move, with less than three weeks' notice to Alaska, and with clear indications that the increase, as on all previous occasions, was virtually pre-arranged. My reaction to this prospect, which was shared by those with whom I consulted, the Delegate, the Attorney

General and the members of the Development Board, was that such increase would be utterly disastrous to the Territory, since the steamship rates were already the highest per mile anywhere. So we determined to make a fight of a kind that had never been made before. The members of the Development Board agreed to hire special counsel, expert in this field, and with the approval of the Attorney General, did so. The result is that in January of this year, just a few weeks ago, the U. S. Maritime Commission rejected totally the carriers' requests for freight and passenger increases, and ordered the present rates maintained, rates which, however, still retain from early war days a 16% surcharge over prewar rates. However, the battle may have to be fought again, since the carriers have again requested increases, this time amounting to 53% over pre-war rates, and again the matter is to be fought out in Washington, in the next few weeks.

This is one striking example of one of the disadvantages to which a Territory is subject. I, for one, am convinced that if we had two United States Senators in Washington and a Representative, all with a vote, our leverage for action favorable to Alaska would be much greater. It is my unchanged view that Alaska, with its already notoriously high living costs, cannot stand, and should not be expected to stand, any further steamship rate increases. And I further believe that if it should be demonstrable—which it was clearly not in the hearings during the last year—that the carriers cannot operate under a return to private operation without loss at present rates then Congress should provide a subsidy or repeal the Jones Act.

As you know, the practice of subsidizing the American merchant marine when it is engaged in foreign travel has long been established. But for so-called coastwise shipping a subsidy is not furnished. The justification for the subsidy for American flag vessels engaged in foreign trade is that they are in competition with other nations with lower standards of living and lower wage scales, and that the American operators paying higher wages cannot compete with these lower foreign wages. Hence, the subsidy. But since Alaska is an American area its shipping is classed as coastwise.

It is my contention that, while we are classed as coastwise, actually the conditions surrounding Alaska shipping more nearly resemble a foreign trade operation. The American vessels plying between the states and Alaska leave the continental area of the 48 states and travel through foreign waters for 700 miles before they reach Alaska. For a substantial part of their run, that is at least for 1,000 miles, they are subject to the competition of foreign flag carriers, the Canadian vessels, whose crews receive lower wages, and whose operations are variously subsidized by their own government.

Now, on top of all these high rates, and the renewed threat of still higher rates, is the uncertainty and inadequacy of the service. We all know what the Territory has been through in the last year. We have been subjected to a series of disastrous maritime traffic interrup-

tions, strikes, work stoppages, delays, culminating in a complete tie-up of thirteen weeks. This shipping paralysis has disastrously affected nearly all Alaskans with the possible exception of some of the Bering Sea ports. And here again, Alaska was helpless, caught in the grip of a struggle between management and labor, in which Alaskans had no authority and no voice. Alaska's only part was that of victim. It was held as a hostage by these distant forces, with pressure on Alaska's economy and on the suffering, actual or prospective, of Alaskans, as the weapon used by each contestant to get the other to yield. Just what this Legislature can do beyond the oft-used plea of a memorial, which experience has shown has only a limited effectiveness, I do not know. But I should be most happy to meet with any and all members of the Legislature, to get your views and to discuss further with you how Alaska's paramount interest in this matter may be made to prevail.

Airways to States

A corresponding, though perhaps less immediately acute, situation exists in air transportation between Alaska and the states. The Civil Aeronautics Board decision in the Pacific Case, issued a few months ago, which determined what routes should be flown, and by what carriers, across the Pacific, and to Alaska, left Alaska, with the exception of Anchorage, worse off than before. Evidence is mounting, evidence which I would also like to discuss with any and all interested members of the Legislature, that all southeastern Alaska, and central and northern Alaska, including the Fairbanks and Nome areas, are definitely worse off than they could or should be, and that even the direct benefits which Anchorage, alone among our communities has received, may to a considerable degree be temporary. Here again is a matter which is beyond the direct control of the Territorial elected representatives.

Highways to States

In the third field of transportation between Alaska and the United States, overland highways, there is a similar situation. We have the Alaska Military Highway, including that important part of it called the Haines Cutoff, and the prospect of other road connections from the states to Alaska. These arteries of transport might serve in a slight degree to relieve our plight in the event of future tie-ups. But we are still uncertain as to the ultimate action of the Canadian authorities in the matter of road maintenance and cooperativeness. Again, I may stress my view that had Alaska the greater political weight which statehood would give us, our battle would be less uphill.

APPROPRIATIONS AND REVENUES

However, there are matters of vital importance over which we, in Alaska, can exercise authority and assume responsibility, and where, subject only to certain limitations imposed by the Organic Act and other Federal legislation, can demonstrate the Territory's capacities for self-government.

This biennium the Territory faces a financial problem. The submitted budget presents estimates from the various Territorial agencies totaling \$10,974,930, and it indicates anticipated revenues for the biennium of \$3,736,700. The anticipated revenue for the next biennium is actually \$3,332,739 lower than the appropriations for the previous biennium. In the previous biennium the Legislature made appropriations of \$7,069,439, of which \$5,648,222 was made available through the appropriation bill in the regular session of '45, with special appropriations that year of \$317,165, and further appropriations made by the special session of \$1,104,392. The total appropriations for the biennium just past were therefore, as I have stated, over \$7,000,000. Thus, actually, the budget presented to you, if met, would require an expenditure of \$3,905,491 above the appropriation for the biennium just past, an increase of slightly over 50%. But viewed in terms of the anticipated income, the difference between what is likely to accrue from existing revenue sources and what is requested is \$7,238,230. The Legislature is therefore faced on the one hand with apparently diminished revenues, if based on the existing sources of income, and on the other hand, with requests for increased expenditures.

This is the first regular legislative session since the close of the war. It is the first session of any kind since hostilities were officially declared ended, as was done by the President of the United States a few weeks ago. We are, therefore, for the first time facing the problems which confront every other state and territory of the union that are involved in the transfer from a war economy to a peacetime economy.

The estimates submitted have come to you pretty largely, though not wholly, as they were submitted to the Board of Budget by the heads of the various agencies. This time the Board felt that it had not facilities to make the kind of thorough analysis of the needs and requests of each agency to enable it to satisfy its members as to what would be the minimum needs of each agency. Moreover, the decision in the matter would be made and will be made by the Legislature. It is a further obvious fact that we are living in a time of extremely rapid change, and that conditions alter so speedily that estimates made in the early fall, as are the territorial departmental estimates, are already subject to new factors before the Legislature meets and perhaps even further changed during the two months that the Legislature is in session. It therefore seemed wise to present

these estimates with relatively minor changes to the Legislature for its study and its decision.

Necessity of Balancing the Budget

Now, one aspect of this financial problem is not controversial. On that there can be no disagreement between the executive and legislative branches of the government or between the members of the Legislature. We must balance the budget. We have no authority, or right, legally or morally, to go beyond the prospective revenues in planning our expenditures for the next biennium. The controversial question, the question on which there are bound to be honest differences of opinion between agencies of the Territory and the Legislature, and between the legislators themselves, is how this result is to be achieved.

At the one extreme is the policy of reducing all expenditures to meet existing revenues. At the other extreme is the policy of raising additional revenues to meet proposed expenditures. Between these two lie all possible variations.

Territorial Guard Can be Dispensed With

I would like to say, to begin with, that there are some cuts which can obviously be made now, which reduce somewhat the presented figures. Since hostilities have officially ended, it is no longer necessary to appropriate for a Territorial Guard, for which an item of \$73,000 had been submitted. That, in my judgment, can now be dispensed with. The Guard has served splendidly and is entitled to the Territory's appreciation. But the war is now over. Of course, it may be that the War Department will have some proposals for the reestablishment of a National Guard which we had for a brief period before World War II and which exists in all the States and other territories. But to date I have received no such proposal, and should one come while the Legislature is in session, it is a matter for you to decide whether you want it or not. Nor do I know, as yet, whether any expenditure will be required for the return of the rifles and other equipment which the War Department supplied the Territorial Guardsmen. Personally, I hope not. I consider that the equipment and rifles are not worth the cost of crating, assembling and shipping to the nearest Army posts, and that they should be left in the communities where they are now located. I have already presented that view to the War Department. However, the War Department decision may be otherwise, and if so, I shall inform you if word comes within the next sixty days, while you are in session.

It may likewise be pointed out that the estimate of \$240,000 submitted by the Commissioner of Veterans' Affairs, which is a rough estimate for the administration of the Veterans Act passed by the special session of the Legislature, is an item, which, during the

last year since the agency was in existence, has been taken out of the funds specifically made available by the tax on gross sales and services, and may be again if you so desire.

On the other hand, experience shows that there are always other measures requiring revenue introduced in the course of a legislative session, and that the total amount asked for, despite the above-mentioned reductions, is likely to be substantially higher than the proposed budget figure now before you. Some of the agency heads have informed me that, in view of recent events and changing conditions, they no longer consider their proposed estimates adequate. Each of these agencies will naturally present its justification for its requests to the appropriate legislative committees. In analyzing these requests for increases, you will observe that the greater part of these increases come from established agencies.

You will also note that almost invariably these increases are the result of new conditions, sometimes from circumstances brought about by the close of the war, conditions which make necessary the resumption of services discontinued during the war, or of activities which could not be carried on during the war, or activities made possible to us by recent acts of Congress.

Education, Welfare, Health Needs

In round numbers, a million dollars additional is asked in the budget report for the support of schools.

In round numbers, a million dollars more is asked for the University of Alaska.

Approximately \$600,000 more is asked in the budget submission by the Department of Public Welfare, of which nearly half the increase, or \$250,000, is for old age assistance, \$138,000 more for the relief of destitution, and \$165,000 more for carrying out the provisions of the Juvenile Code, for allowances to mothers and for aid to dependent children.

The Health Department is asking for \$369,000 more, to continue for the biennium the health program, particularly in regard to tuberculosis, which was wisely provided but for only one year by unanimous action in the special session last year.

Funds for Airports

There is an item of \$200,000 asked for by the Territorial Highway Engineer to provide Alaska's 25% participation in the seven-year C.A.A. program, for which ten million dollars has been allocated to Alaska. During these seven years, if Alaska is to receive the full federal 75% contribution it should appropriate two and a half million dollars. Of course this territorial appropriation need not be wholly from territorial funds. The large municipalities which desire to take

advantage of this program may, I believe, be expected to make some contribution. It should be pointed out also that the provisions for Alaska in this federal airport act were uniquely generous. Elsewhere throughout the union the matching is on a 50-50 basis, whereas in Alaska alone it is on a 75-25 basis. To be sure it is not necessary that more than a fraction of the total amount needed need be appropriated now. However, if the Legislature desires to have the Territory share in this program, it seems obvious that the requested sum of \$200,000, or less than a tenth of Alaska's potential share, is a bare beginning and will permit of the expenditure of Federal funds on airfields to the extent of only \$600,000 in the next two years. Both Anchorage and Fairbanks alone have immediate major airport needs which require far larger appropriations. Juneau likewise has to lengthen its runway to accommodate four-engine planes. Cordova has a similar need. There is a pressing airfield problem in Bristol Bay. Scores of villages in the Second Division, where air travel is the chief means of communication, need improved airfields, as the efficiency of operation calls for the use of ever larger planes.

So your problem is to determine how much of the ten million dollars for airfields in Alaska, to be expended over seven years, you wish to match on a basis of one Territorial dollar, or one joint Territorial and municipal dollar, to three Federal dollars.

Funds for Highways

The item for roads has been increased from \$575,000 in the last biennium to \$1,600,000. This is twice as much as the largest previous appropriation for roads by the Territory. In the 1939 session of the Legislature, during the Governorship of John W. Troy, \$800,000 was appropriated for roads. That has hitherto been considered a reasonable figure, providing \$100,000 a year for each of the four Judicial Divisions, and under our practice, it has of course included airfield construction. After the smaller appropriation of \$575,000 two years ago, there was considerable complaint in some of the divisions because certain much desired road projects were not undertaken. But sufficient money for these projects had not been appropriated. However, the reason for this larger item of \$1,600,000 is not merely the pressing need of roads desired by our various constituencies.

As you know, we have not for a long time received any substantial amount of money from the Federal government for new road construction. Congress has never included Alaska under the Federal Highway Act. Excepting for the war years, when as a part of war construction, the Glenn Highway, that part of the Alaska Military Highway and its connections that lie in Alaska, and some roads around bases, were built, Alaska has received little more than maintenance from the federal government for a decade. However, last year the Congress made a substantial appropriation for new construction, some \$1,360,000 in addition to funds for maintenance. But

Congress also decided to adopt the airfield formula, under which the Territory would be expected to put up one dollar for every three of the Federal government. This Act was nearing passage late last Spring after the special session of the Legislature had adjourned. Had the one-to-three matching provision been retained last year, there would have been no Federal funds at all, and the Homer-Kenai and Forty-Mile construction would not have been undertaken. We managed, for that reason, to persuade the members of Congress to delete the provision last year, but they determined that it would be included henceforth. The Bureau of the Budget has proceeded on that assumption this year in approving a \$2,400,000 request for roads in Alaska. This is for the coming fiscal year. Assuming that Congress grants that amount this year and next, the Federal contribution for roads will be \$4,800,000 in this coming biennium. The Territory's 25% share for the biennium would therefore be \$1,600,000.

These major items of increased demands deal with schools, welfare, health, airfields, highways, all essential to the life of our Territory and its communities. There are other items which as in the case of welfare, health, airfield and highway appropriations and in the Department of Agriculture are in varying degrees joint Federal and Territorial undertakings.

Vocational Rehabilitation

One such item which is new in the budget is \$54,000 for vocational rehabilitation. This follows the passage by the Special Session of the XVIIth Legislature of Chapter 15, which indicated the Territory's willingness to participate in the program of accepting Federal funds for the rehabilitation of disabled Alaskans. I will not detain you long to go into its details, except to point out that every state in the union and the other territories have long since accepted this program, which was inaugurated by the Federal government in 1920. The Federal government participates on a 70% basis to 30% for the state or territory. It should be pointed out that through Federal taxation in Alaska, that is, through the Federal income taxes which Alaskans pay, Alaska has for years contributed to the support of the program in every other state and territory. But it has not hitherto taken advantage of the Federal funds for itself.

Retirement for Territorial Employees Needed

These major increases account for four and a quarter million dollars additional revenue asked in the biennium. When added to the appropriations voted in the last biennium of \$7,069,439 they account for the larger part of the increases sought. Such other increases, which you will look into with each agency, are largely due to increased living costs, to the higher cost of supplies, to the fact that Federal salaries have been raised 14% and that it is difficult for Territorial agencies not to do equal justice to their employees, especially

since to date there is not even a retirement provision for Territorial employees (other than school teachers), an omission which I sincerely hope the Legislature will see fit to rectify.

However, this is by no means the whole story. As indicated earlier, some of the departments feel that their requests are insufficient to meet the needs of the people whom they serve. That is particularly true in the field of education.

Further School Needs

In fact, the Commissioner of Education informs me that there are three other factors requiring additional funds besides the estimate presented to the Board of Budget in October, which will come before you for consideration. They are: (1) the deficiency for the biennium of 1945-47, (2) the revised estimate which the Territorial Board of Education must present, and (3) the increase in teachers' salaries.

The Commissioner of Education estimates the deficiency for the current biennium, 1945-47, at \$282,099, made up of \$214,784 for city schools, \$31,602 for rural schools, \$21,129 for tuition, and \$14,582 for transportation. He writes me, and I quote:

"There are a number of factors responsible for, this sizable deficiency. However, the chief causes were the increase in teachers salaries (Chapt. 8, S.L.A. 1946) and an increase of 5% refund paid to cities (Chapt. 12, S.L.A. 1946) by the Extraordinary Session without making an appropriation. The Department of Education had enough funds already appropriated to operate under the new laws until April 1, 1947 so the legislature thought it wise to wait until the regular session in 1947 to make the deficiency appropriation. Other causes are the increased number of rural schools and the increased number of pupils for whom transportation must be furnished and tuition paid. During the current school year approximately 25% of all children attending city schools live outside the city limits.

"The enrollment in the city schools has increased which makes it necessary to employ more teachers and purchase more supplies and equipment. During the current school year, we have opened 7 new rural schools, one a four teacher school. Ten other applications for rural schools are on file, pending final approval by the Territorial Board of Education. Almost every item purchased for school use costs 20 to 30 percent more than it did two years ago. For example, wood which a few years ago cost \$8.00 to \$10.00 per cord, is now \$25.00 in most communities, and school desks formerly \$12 each are now \$20; the janitors union at An-

chorage recently demanded a 20% increase in wages to become effective immediately. An excerpt from a letter dated January 8, 1947 from the Seldovia School Board will indicate what is happening in all of the schools of Alaska.

"The Board found after all accounts were in for the first semester that the expenditures made and expenses for the remaining part of the year will exceed our approved budget for this year. An additional \$1,000 is needed to meet these expenses. The reason for this need is that in making our estimate for this year we made no allowance for the higher costs that are taking place. Our textbooks and school supplies have exceeded the budget by \$500 and there will be a few more things we need before the school year ends. Oil alone has gone up 1½ cents. No increase was included in our 1947-49 estimate for teachers' salaries but if the high cost of living persists they should have a substantial raise."

After five years with no construction due to the war there are urgent needs in this direction. I quote further from the Commissioner of Education:

"\$350,000 has been requested for rural school building construction and repair. Very little construction has been done in the last five years and the amount requested is about one third of the amount needed. House Memorial No. 2 of the 1945 Legislature requested that the Territorial Board and the Commissioner of Education take appropriate action to construct school buildings and gymnasiums at Naknek, Teller, Ninilchik, Aniak, Bethel, Seldovia and Homer."

The net result is that there is an increase of the October budget estimate of \$912,866, of \$464,201, which, with the deficiency appropriation previously discussed, brings the total increase requested to \$1,659,166.

Need of Increasing Teachers' Salaries

But there is still more. Although teachers' salaries were raised by the Legislature in '43 and again in '46, retaining these teachers at present salaries with the increased cost of living apparently presents a serious problem to the Department of Education. On this subject the Commissioner of Education has written me further as follows:

"The prospect of replacing these veteran teachers with new recruits from Universities and Teacher Colleges is very slim. At no time in the history of teacher education has there been such a rapid decline in the number of persons preparing for teaching. The trend is nation wide. The unprecedented enrollment in universities and colleges does

not mean that there will be more teachers in a few years. Unless we do something to hold our good teachers and to attract young people to the teaching field, the schools of Alaska will be in a bad way next year and the years following. Teachers are human beings who are happiest in their work when they have some financial security and when they hold the respect of the better and the more highly cultured citizens of the community of which they are a part. As soon as we provide the types of salaries for all teachers commensurate with their training and with the importance of their work, we will retain and attract persons into the teaching service of Alaska who will build a better generation with the youth of today."

And the Commissioner gives his recommendations, saying:

"I believe that the minimum salary in each judicial division should be raised about \$600. This will give a salary range in each of the divisions as follows:

1st Division \$3,000 to \$4,400
3rd Division \$3,240 to \$4,640
2nd, 4th Divisions \$3,400 to \$4,800

"The suggested increase will require about \$456,000 for the biennium."

So, to sum up, the educational requirements as presented by the Commissioner of Education, total \$4,313,100, or an increase over the last biennium of \$2,115,160.

So much for primary and secondary education.

University of Alaska.

Then there's the University of Alaska. It's a grand little institution. It's an institution that every Alaskan has a right to be proud of. We naturally make free use of the word **pioneering** in Alaska, and that's proper, for ours has been in Alaska a pioneering existence since the beginning of recorded history. But I doubt whether there is a better, a truer, a more valid example of pioneering, than the University of Alaska. It is our one institution of higher education. It is the center and focus of the culture of the Territory.

It hasn't had much to do with. You look at its buildings and they are plain and simple almost to the point of ugliness. There's not a frill on the campus. The University started as a land grant college and has been entitled thereby to certain Federal funds annually. It has gotten some of these funds but not all of them, wholly due to the fact that we are a Territory and not a state. And the

major appropriations through the years have come from the Legislature.

Dr. Bunnell has now recorded twenty-five years as the University's President. Without him it would probably never have originated, and without him it certainly would not have continued. Along with his devotion and hard work he has exercised unceasing thrift in the expenditure for the University of public funds. He has never hesitated to spend his own money for the University, or to help deserving and needy students. But as far as our Territorial appropriations are concerned, they have, I know, been stretched as far as it was humanly possible to stretch a dollar.

University Facilities Inadequate to Care for Alaska's Own Students

Now, at the close of the war, after five years in which the University has had no new construction, has suffered somewhat physically from an Army occupation and withdrawal, there is a great demand for admission to its halls. These facilities are not adequate. They cannot begin to take care of the hundreds of Alaskan students who want to go there. The University cannot even take advantage, for the people of the Territory, of that outstanding provision of our Federal Veterans' legislation which gives the boys and girls who served in the armed forces the opportunity with Federal funds to complete or continue their education. Our University has been obliged to turn many of them away, and so those Alaskan boys and girls will get no higher education. In the states the universities and colleges are also turning away returning servicemen eager for an education, and quite naturally in each state giving preference to their own and generally managing to take care of them. But Alaska is not able to take care of its own.

The University of Alaska is presenting for the first time in many years a few humble items of new construction. They are:

To complete the Eielson Building	\$100,000
School of Mines Building	100,000
Dining hall, kitchen and Coop	100,000
Infirmary	50,000

A total of \$350,000.

In view of the fact that the University was partly closed during the war, its appropriation had been reduced for the last two bienniums—in the one just past to \$359,340. To enable it to resume and, for these modest construction demands, a biennial budget of \$1,321,530 is asked, something under a million dollars more than last time.

Considering what the University has already achieved, but considering even more what it could be in the life of Alaska, considering these hundreds of boys and girls who will be denied the opportunity which they have well earned and seek, this is a very small request, and not even adequate to the University's requirements.

Southern Branch of the University Needed

It had been the hope of many Alaskans that the needs of the times and Territory and the ambitions of our youngsters would have brought about the establishment also of a Southern Branch of the University. A Southern Branch would in no sense be a competitor to the plant at College. It would be a supplement, taking care of such boys and girls in southeastern Alaska who cannot conveniently arrange to go as far as Fairbanks for an education, and who in the past have gone "outside" for it, but can no longer do so because those doors—the doors of outside universities—are now largely shut. It would have been a supplement also to the present University, in offering courses basically important to Alaska in forestry, fisheries, marine engineering and architecture, and other subjects related to the sea, particularly appropriate in Southeastern and not taught in the interior. I still do not give up hope that the Territory will have the vision to establish such a branch, at least to make a start of it now when it is so much needed. Dividing the University in such a manner to meet the requirements of geographical distribution of the student population would, in my judgment, strengthen and not weaken the whole institution. To do so would follow the precedent set in California, Idaho, Oregon, Montana, Indiana and other states of much lesser dimensions than Alaska.

The education of our boys and girls, of our young men and young women, is the most important responsibility of a democracy. If there is one thing above all others which distinguishes a free society like ours from those which are not free or less free, it lies in providing equal opportunity through education for the Americans of the next generation. I do not know how we can better invest our dollars than in citizenship. The virtue of our America lies not in its natural resources, nor in its material wealth, nor in the great weapons—armies and navies—which that material wealth has enabled us to forge. It lies in the intelligence, the devotion and the character—in short, in the quality—of its citizenry. And no duty is more inescapable for any one generation than to see that the next generation is at least as well, if not better, provided to carry out the task of perpetuating American ideals, American ideas and American institutions. Education is the indispensable way to achieve that end.

Territorial Veterans Act.

No group in our community is more deserving of consideration than our veterans. These young men who left their Alaska homes in early manhood and sacrificed long years, often under conditions of extreme hardship, are entitled to whatever our nation and Territory can do for them to enable them to compensate for their months and years in the armed forces. Both the Federal government and the Territory of Alaska have moved far to acknowledge this obligation. But with over eleven millions in the armed forces, the task is a stupendous one and cannot be achieved by one Act or in one legislative session, either of the Congress or of a state or Territory.

Here in Alaska it developed that there were certain aspects of veterans' needs which were not adequately taken care of by Federal legislation. It was, you recall, a long and hard pull to get a regional office of the Federal Veterans Administration established in Alaska, long after some of our veterans had returned from the war. It was not until a little over a year ago that the organization of such an office began: up to that time inadequate efforts had been made to take care of them from a branch office in Seattle, 700 miles south of our southernmost point. The organization of the Alaska Federal Veterans Administration office has proceeded during the last year. However, up to that time, the Administration seemed to be unable to carry out, in any appreciable measure at least, one of the major provisions of the GI Bill of Rights, under which veterans were entitled to a loan of \$4,000 of which \$2,000 would be guaranteed by the Federal government.

In order to meet this situation, the Territorial Legislature, assembled in special session a year ago, passed an excellent veterans' bill. This veterans' bill provided for bonuses or loans to Alaska veterans. The bonus was fixed at \$10 a month for every month in the service, and the opportunity was provided to secure a loan up to \$10,000 for starting a business or for building or buying a home. The rate of interest on these loans was fixed at the hitherto unobtainable rate of 4%, the same as the rate fixed by the Federal government. The bill was to be administered by a board of five, appointed by the Governor and subject to confirmation, first by the Board of Administration, and next by the Legislature. They, in turn, were to select and did select the Commissioner of Veterans' Affairs, who would be the executive of the Board. The Board exercises full responsibility for the execution of the policies outlined by the Legislature, delegating such powers as it deems fit to the Commissioner.

To finance this program, the Legislature appropriated an initial \$350,000 and levied a special tax of 1% on the gross revenue from all retail sales and services and $\frac{1}{2}$ of 1% from the gross revenue of wholesale sales and exports. The proceeds go into a revolving fund, and the tax was to terminate when the fund reached \$3,250,000.

Under the provisions of the Act, the Board functioned effectively, having, as of January 20, some eight months after the establishment of the office, made loans and paid bonuses to 896 Alaskan veterans, the loans totaling \$1,539,358, and the bonuses totaling \$226,090. Five hundred and eighty-eight men chose to take the bonus; 308 veterans chose to take the loans. The act provides that when a veteran takes the bonus, he cannot have the loan unless he first repays the bonus with accumulated interest. This was a very wise provision, because it enabled the veteran just out of the service and often hard up, to secure the cash of the bonus, but does not estop him from getting a loan later if he wishes to go into business or buy a home, provided he first repays the bonus.

More Funds Necessary to Carry Out Obligation to Veterans

At the time the bill was passed, there was virtual unanimity on the general provisions of the bill, the only difference being as to the means of raising the funds. That is past history now and important only in that the funds levied for the purpose are not sufficient. A brief analysis of the number of veterans and their prospective needs will demonstrate that fact clearly. On the record to date, the gross sales and services tax to defray the expenses of this veterans' bill produces about an estimated million and a half dollars annually. It would permit, therefore, under the terms of the law, only the disbursement of that amount in loans or bonuses each year. The fact that the Commissioner has been able to lend at least \$800,000 in excess of the amount actually received to date is due to an excellent arrangement he has succeeded in making with a number of the Territorial banking institutions, under which they make the loans with their funds on the basis of a Territorial guarantee, and actually repay the Territory $\frac{1}{2}$ of 1% for this guarantee. Even so, it is apparent that only a relatively small number of veterans will, under the present income provided under the Act, be able for some years to secure its benefits. On January 20 there were pending 353 loan applications totaling around two and a half million dollars, and 664 bonus applications for a quarter of a million dollars—a total of two and three quarters millions. At the present rate of income from the gross sales tax, it will require two more years before the applications already on hand are satisfied. That will mean that at the end of the third year about 1,900 veterans will have been served. Originally the Selective Service figures estimated that about 5600 Alaska veterans were eligible for the benefits of this Act. They later informed the Veterans Affairs Office that the correct figures are at least eleven hundred more, or some 6700. It will require nearly six years to take care of their needs. Moreover, the provision of the Act terminating the tax when three and a quarter million dollars have been collected would prevent the enjoyment of this act by the majority of those entitled to its benefits.

If, therefore, the Legislature wishes to carry out its financial obligation to the veterans, undertaken in 1946, it is clear that it should both increase the rate of income for this purpose and also make the total sum destined to be available substantially larger. If one may judge by the figures on hand at present, the rate of income into the revolving fund should be at least doubled and the tax continued until such time as the total fund reaches, not three and a quarter million, but perhaps ten million dollars. Certainly no criticism should attach to the inadequacy of the financial provisions made a year ago. It was a new measure and a good one. Those who participated in drafting it are entitled to the appreciation of the veterans whom they sought to serve. It was anticipated that the regular legislative session that would follow the special session, in less than a year's time, could cure any deficiencies in the original bill. Nine months' experience in administering the Act has shown what some of them are.

Of course the loans will be repaid to the Territory, and apart from the great service that this Act renders the veterans, it will be of inestimable benefit to the economy of the Territory. It will prove a ready source of capital for nearly seven thousand of our best citizens, who in turn will invest it in development, and eventually the capital from the repaid loans will revert to the Territory.

"Where Is the Money Coming From?"

We now come to the question that I have heard asked many times before and is no doubt being asked now. That question is, "Where is the money coming from?"

The Legislature will have no difficulty in answering that question if it desires to find the answer. It has been readily available to the Territory for years. Nine years ago, in 1938, some time before I became Governor, the Alaska Planning Council, created by an earlier Legislature, issued a preliminary survey of taxation in Alaska with a revised edition two years later. Many of the answers to this question, "Where is the money coming from?" can be found there. This survey, and the tax studies of others, reveal the great gaps in Alaska's revenues. They reveal that there are numerous activities which are taxed in some way in every state and in our sister Territory, but are either totally untaxed in Alaska or so lightly taxed as to be negligible.

Let us take, for instance, construction. The construction industry pays no taxes to the Territory. Late in 1939 the Federal government initiated defense construction the cost of which before the war ended ran well into ten figures. Hundreds of millions of dollars of this were expended through private contractors; not one cent of this unprecedented bonanza reached the Territorial treasury. That might seem hard to believe, but it's a fact which we all know. Had we at that time levied a reasonable tax on it we would not have the problems we have today. We would instead have a fine surplus in the Territorial treasury. It would have been painless taxation too, because all the war construction contracts were written on a cost-plus-fixed-fee basis, which means that the contractor would have merely passed on the tax as a part of the cost of operation to Uncle Sam. But the Territory would have gotten the revenue. At the same time, while these contractors were in a short time making enough to retire for life, thousands of construction workers came up to the Territory at wages two or three times as high as they had ever enjoyed before. A moderate withholding tax—I think 2% was the proposal made at the time—would scarcely have been missed by them individually but would, in the aggregate, have meant a great deal of income to the Territory.

These defense contractors and workers built Fort Richardson and Ladd Field. They built other great bases, some of which have since been abandoned and others of which are being converted into per-

manence—bases at Excursion Inlet, at Sitka, at Cold Bay, at Port Heiden, at Kodiak, at Dutch Harbor, on Umnak, on Atka, on Amchitka, on Shemya, on Attu. On Adak they built a great city. It has been the largest city of Alaska, housing 30,000 men. The contractors built the airfields at Bethel and Naknek, at Homer, at Tanacross, at Northway, at Galena, on the spit at Point Spencer, at Cordova, at Lake Minchumina, at Nome and elsewhere. But out of all the hundreds of millions of dollars spent the Territorial treasury got nothing.

However, in this instance, although those hundreds of millions of dollars are gone beyond recall, opportunity in Alaska in this field has not, as in the proverb, "knocked but once," but appears to be knocking twice. A second defense construction program is under way. It is not at present as big as the previous construction program of the Second World War, but it is sizable. Actually, Congress has already approved War Department construction in Alaska totaling \$73,569,277. That is the War Department alone; it does not include the Navy Department. Well, \$73,000,000, if expended in one year, would make war construction temporarily by far the biggest industry in Alaska. We think of our largest industry, the fisheries, as a \$60,000,000 industry in a good year, and in poorer years a \$40,000,000 industry. Actually, the War Department has announced a program of two hundred million dollars. The Navy likewise has a construction program.

Well, that's one answer to the question, "Where is the money coming from?" and there are many others.

Taxation studies that have been made in the past, as I say, reveal that nobody is burdensomely taxed in Alaska. That is as it should be. Nobody should be burdensomely taxed. But these studies also reveal that individuals and businesses deriving substantial livelihoods from the Territory pay nothing at all. This is not as it should be. Every individual deriving his livelihood, wholly or in part, in the Territory should pay some tax for the support of the Territorial government and the public services which that government conducts. That is elementary, but it doesn't happen here.

A few of these categories which pay no taxes whatsoever, besides the construction industry, are the transportation companies. Steamship companies, all of which derive their income from Alaska, with but one outside port and numerous ports in Alaska, pay not one cent of tax to the Territory.

Airplane companies, including and especially the two great international carriers certificated for traffic between the United States and Alaska, pay not one cent of tax directly to the Territory.

Lighterage companies pay not one cent of tax to the Territory.

Banks pay not one cent of tax to the Territory. (Territorial banks pay a \$250 Federal license fee, which of course is a trifling

sum, and that is turned over to the municipality in which the banks do business.)

So one could go on through a considerable list, which would include oil companies, which do a really big business in Alaska, radio stations, newspapers, logging operations, automotive and marine repair shops, such as garages and service stations, and so forth. In no state of the union, and likewise not in the Territory of Hawaii, do these categories go completely untaxed as in Alaska.

Here is a further answer to the question, "Where is the money coming from?"

Other categories are extremely lightly taxed, and instead of a genuine tax, based upon the importance of their business, pay only an arbitrary and nominal license fee. There is no reason in this field. Just why it was determined that all lawyers, all "dealers in non-alcoholic beverages" and all undertakers in towns of less than 1,000 population should pay the same tax—ten dollars a year—is one of the mysteries buried in the earlier history of the Territory.

Laundries pay specific amounts according to the total volume of business, while dry cleaners and pressers pay not one cent.

Theaters pay only \$100 per year in Federal license tax, and nothing to the Territory. I can well remember how, during the war years, the GIs would line up four and six abreast and the line would extend around the block, waiting for the next show. But the tax was still unchanged.

These examples could be multiplied. In almost every case the fees are negligible and arbitrary.

Let us analyze from just what sources the Territorial revenues now do come. A breakdown of the anticipated revenue for the next year indicates that the salmon industry is the largest taxpayer, with \$514,000 or 32.90% of the total. Pressing salmon closely is liquor with a tax amounting to half a million dollars, a percentage of 32.07. (In other words salmon pays one third and liquor pays one third.) Next is motor fuel oil, estimated to net \$150,000, or 9.62%. Miscellaneous business interests, with \$115,850, yield 7.43% of the total. Mining, which we know is way down, is estimated to yield \$102,000, or 6.55%. Automobile licenses will yield \$100,000 or 6.41%. All other revenues in the Territory from taxation are \$78,150, or a total of 5.02%. Thus, we see that five activities—salmon, liquor, motor fuel oil, mining, and automobile licenses yield 87.55% of the total. Think of it; all the other activities together yield only 12.45% of our revenues! Does not this indicate clearly a lack of diversification and lack of flexibility in our tax system, if it can be called a system? Does it need much imagination to fill in from these data the missing non-taxpayers to answer the question, "Where is the money coming from?"

It should come from the many individuals and businesses in Alaska that either pay no taxes or are taxed negligibly and should be fixed not arbitrarily, but based on capacity to pay.

Incidentally, while we are on motor fuel, Alaska had no tax on it until two years ago, when at the regular session, a tax of one cent per gallon was levied. Gas and other fuel taxes have been levied in the states for years, and today no state has a tax of less than 2¢ a gallon, and there is only one such state. Eight states levy a 3¢ tax, 20 states a 4¢ tax, eight states a 5¢ tax, six states a 6¢ tax, one state a 6½¢ tax, three states a 7¢ tax, and one state a 7½¢ tax. Thus the average for the 48 states is 4½¢ a gallon, in contrast with Alaska's 1¢ a gallon.

There is another category of the untaxed. I refer to those who live outside of incorporated towns. Their number is increasing. They utilize the town facilities, schools, streets, etc. They constitute—these people who live outside incorporated towns—a part of the serious financial problem with which our schools are confronted, of which I spoke earlier.

Is it fair to our Alaskan city dwellers that they should pay municipal taxes, varyingly between 15 and 20 mills for the support of municipal services, including schools, while an increasing number of other Alaskans, just outside the city limits, who utilize these facilities to the point of saturation, pay nothing?

Does that not give another hint as to where the money might come from?

Still another large category that goes virtually untaxed is the thousands of seasonal workers who come up here every summer from down below to work in the fisheries, and, in normal years, in the mining camps, and are at present working in defense construction. To a very mild degree they are reached through the five dollar school tax, which is merely an annoyance and a relatively slight revenue producer.

In this category could be found a further answer to the question, "Where is the money coming from?"

Financial Situation Called to Legislature's Attention Six Years Ago

The fact of the matter is that the situation which now confronts Alaska was bound to come. It might have been foreseen. It was foreseen. Six years ago, in my message to the Legislature, I recommended tax reform, pointing out, and I quote:

"The economy of Alaska, as hitherto constituted, rests none too securely on just two industries . . . gold mining and salmon fisheries. . . . Should any possible unforeseen train of events seriously impair either of these major industries, the consequences to the economy of the Territory . . . will be serious."

Well, it has happened here. The gold industry is virtually suspended, owing to conditions beyond the control of Alaskans. It was suspended in 1942 because of the war. But the public of Alaska did not suffer because the greater war construction industry took its place, and from it a golden stream flowed through the tills of retail business and every other service activity. We all remember how fearful were the people of Fairbanks as to what would happen if gold mining were to be suspended. Nevertheless, the war years were bonanza years for Fairbanks and for Alaska, that is for the public. But not, unfortunately, for the Territorial treasury, since, when the revenue from gold was reduced to almost nothing through the suspension of gold mining, no war construction tax was there to take its place. Actually, a tax on war construction, to say nothing of incidental taxes on the greater profits in business during those boom years, would have compensated many times over for the loss of gold revenue.

Likewise canned salmon, our major industry, taxed principally on a case basis, will furnish diminished revenues this year because of the smaller pack. So it has happened here, not merely to one of our two major industries, but to a certain extent to the other also. And what we confront in the Territory is no sudden extravagance, no artificial inflation of the needs of our Territorial services, but the inevitable consequence of lack of foresight when times were good and when great sources of potential tax revenue, easily available on every hand, were not touched.

The times are still good, except that Alaska suffers from the continuing suspension of gold mining—which, however, as I have pointed out, could be more than compensated for by defense construction—but principally, Alaska suffers, momentarily, because of the prolonged shipping strike. The strike has done us substantial economic damage, although the damage was uneven. A few merchants benefitted and were able to charge higher prices. Far more suffered. The entire public suffered in higher prices. There were further intangible damages which cannot be fully appraised. But the fact that the times may be temporarily not quite as good as they were, merely points to the folly of not preparing for a rainy day, or at least for a cloudy day, when the sun was shining brightly.

A Million Dollar Annual Dividend

An example of how wise forethought in the matter of tax legislation pays dividends is at hand. To illustrate I am going to digress to propose to you legislation which will diminish the Alaska taxpayer's burden in a special field to the extent of approximately one million dollars for the next biennium, and probably to a greater amount in succeeding bienniums.

You may recall that in 1937 the Territorial Legislature in a Special Session established Unemployment Compensation. This was part of the Federal Government's social security program. Its legis-

lation, which covers various fields of social importance, is a cooperative program between the Federal Government on the one hand and the state or territorial government on the other. The Territorial Act adopted by your legislative predecessors provided for a contribution from employers of 2 and 7/10 percent of their payroll. This rate of contribution has been wisely maintained in our unemployment insurance law since its enactment 10 years ago. The fund amounted on December 31, 1946, to \$9,194,775. This fund is now, in my judgment, and I am confident that the Unemployment Compensation Commission concurs, sufficient to pay benefits at the present rate of average benefit payments to those entitled to receive them, and to meet the worst kind of period of unemployment in our Territory. It will be suitable, therefore, and I recommend, that this tax on the Territory's employers be reduced.

It is true that under the Federal Unemployment Tax Act it is not legally possible for the Territorial Legislature to amend the Alaska Law to provide for equal or blanket reductions in contributions to all employers. The Legislature can, however, amend the Alaska Act by inserting in it a so-called "employer's experience rating" provision. This will permit a reduction in the rate of contributions for employers who have been subject to the provisions of the Act. The problem of legislation is somewhat technical and has been carefully studied by the Unemployment Compensation Commission which will, if you desire, submit such proposed amendments to the Act, as it considers most equitable and adaptable to the Alaska economy. This amendment should, in round numbers save the employers of the Territory approximately a million dollars in the next biennium, and increasing amounts in subsequent bienniums, provided subsequent Legislatures see fit to continue this form of tax reduction.

I repeat that this is an outstanding and pertinent example, drawn from our own contemporary experience, of the dividends that are returned and of the beneficial consequences of a foresighted tax policy. Had previous Legislatures, when we were enjoying great prosperity, adopted as wise a policy in the matter of general taxation as they did in the matter of the Unemployment Compensation fund taxation, I could now happily and cheerfully, no doubt, recommend to you a reduction in other taxes as well. Unfortunately that was not done. And now, with times somewhat less prosperous, although by no means poor, the necessities of the people of the Territory, in my judgment, require that we seek additional revenue for the maintenance of our essential services and for the welfare and progress of Alaska.

Such revenue, if you decide to find it, need not, in my judgment, be burdensome, although it is of course regrettable that we do not have the big backlog that we would have had had this been done six years ago.

Consider this for a moment. We narrowly escaped a year ago having our steamship freight and passenger rates jumped 100%. The

best estimate of the total annual freight and passenger charges is 8 million dollars. A 100% increase would have meant an additional burden of 8 million dollars annually on the people of Alaska. Well, we escaped it, thanks to the action of the Development Board, but if it had been imposed upon us—and we are not yet free of the threat—I suppose we would have had to take it, just as always on previous occasions we had to take it. Well, that 8 million dollars would not have conferred an iota of benefit on anybody in the Territory. It would have been paid by the Alaskan consumer, and it would have gone wholly “outside.” But additional revenue of eight million dollars, not a year—but for the biennium, or only four million dollars additional a year—would come pretty close to taking care of all our needs—our schools, our university, our aged, our indigent, our mothers with dependent children, our tuberculous, our crippled children, our veterans, our roads and airfields, and the various departments which have been created to serve the people of Alaska, the business and professional men, the miners, the fishermen, the farmers and all the rest.

I am not going to presume on your time any longer, nor do I need to make any specific recommendations. The responsibility, as well as the opportunity, is yours. While your responsibility is a grave one, it is also inspiring as an opportunity. You have the chance, if you wish to grasp it, to plough some of the wealth, which collectively has for years been taken from Alaska, back into Alaska, for its health, for its welfare, for its education, for its growth, for its development, for its happiness. For that inspiring task, I wish you the best of success, and assure you of my willingness to cooperate with you to the fullest extent in every way possible.

ERNEST GRUENING,
Governor of Alaska.