



## Oregon State Archives

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## GOVERNOR ROBERT D. HOLMES ADMINISTRATION

January 14, 1957 to January 12, 1959

### Biographical Note

Holmes was born in Canisteo, New York May 11, 1909. After he graduated from Rochester's West High School in 1925, his family moved to Oregon. He graduated from the University of Oregon in 1932 and married Marie Hoy in 1934. After some newspaper experience on The Oregonian and the Oregon Journal he went to Astoria and managed radio station KAST.

Holmes showed an interest in improving education and served on the Gearhart City and the Clatsop County rural school boards before 1948. He changed his party affiliation from Republican to Democrat and was elected to the State Senate in 1948 and reelected in 1952. In 1953 he was named chairman of the Senate Education Committee by Republican Governor Patterson and won statewide recognition for his efforts to strengthen the state's system of education. Just days after Governor Patterson's death in 1956 Holmes declared his candidacy for the Democratic nomination. He defeated Elmo Smith in the general election.

In his two years as governor Holmes worked at revising state government to make it more efficient and responsive. He created the first Department for Economic Planning. He reduced taxes by 16% and was instrumental in creating new social welfare and education laws. He pressed for improved conditions and wages for workers, for public power development, and the abolition of capital punishment in Oregon.

After he was defeated by Mark Hatfield in the 1958 general election, Robert Holmes returned to consulting, public relations, and public service. He conducted Portland's KOIN-TV program, "Let's Face It", which discussed issues of the day. He was named to the State Board of Higher Education in 1969 and resigned in 1974. He served on the commission to draft a revision of the Oregon Constitution during 1961 and 1962. Holmes died of cancer June 6, 1976.

### Inaugural Message, 1957

Source: INAUGURAL ADDRESS OF ROBERT D. HOLMES GOVERNOR OF OREGON TO THE FORTY-NINTH BIENNIAL LEGISLATIVE ASSEMBLY JANUARY 14, 1957 SALEM, OREGON

Ladies and Gentlemen of the Assembly:

With humility and gratitude for the high honor bestowed on me, I address you today. Eagerly I accept the challenges ahead. For ahead is the opportunity for a bold, imaginative, vigorous course, with unlimited vistas of growth and progress.

This is the direction I propose to take. I propose to take it because I think that the people of Oregon voted for such a change of course. I think that they expect me as the chief executive, and you as legislators, to take a fresh, new, forward look at our state government.



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In charting the course successfully to meet the great challenges facing up --- challenges of our children, challenges of opportunity, challenges of money, challenges of brotherhood --- I think they want daring, not dullness; faith, not fear.

We must fly, not founder. There can be no turning back.

And I say to you that we can meet these challenges. The answers are here. We must face them eagerly. "Seek and ye shall find", says the scripture. Not may find: but shall find. And we can find them in a manner that is exciting and exhilarating and eventful --- not dreary, and despairing and dull.

To accomplish the task we need certain structural changes in government. And, of course, as we sail boldly forth into new adventure, we shall naturally want to select key members of our crew. During the next twenty-four hours I shall begin the personnel changes contemplated.

These are my suggestions for structural changes:

#### LIEUTENANT GOVERNOR

We should provide for a lieutenant governor. The man who succeeds the governor should be elected by all the people, not by just one district. A lieutenant governor can lift many of the social and governmental burdens from the chief executive, freeing him for the conduct of state business. I hope you will make such provision in a constitutional amendment to be submitted to the people.

#### BOARD OF CONTROL

The Board of Control should be abolished. This hydra-dreaded manager of our state institutions diffuses executive responsibility. It can become a political merry-go-round. Sound management practice dictates direct responsibility vested in the chief executive. In place of the Board of Control the office of Director of Institutions should be created, with salary status commensurate with the responsibilities such a qualified individual would assume.

#### ANNUAL SESSION

Legislative business of Oregon has far outgrown the orderly confines of a biennial session. In the twenty months between sessions, wholesale handling of the state's vital problems through the emergency board, as is done now, is an abrogation of legislative responsibility. Too, our present long sessions bar many qualified citizens from service as legislators. Farmers, who might serve during January and February in an annual session, now cannot participate because of the heavy springtime demands on men of the soil. Younger people who have not attained economic sufficiency may not now serve --- with a shorter annual session they might also participate. I believe government closet to the people with roles for all the people would result from an annual session. I urge you to give attention to this problem at this session.

#### LIQUOR COMMISSION

Operation of a 55 million dollar a year business, the largest retail business in Oregon through a part-time, non-paid commission is in my opinion a violation of sound business practice. To continue to administer Oregon's liquor monopoly through such unsound practices is folly. I ask that you enact into law provision for a full-time paid administrator appointed by the governor.

#### FULL-TIME PAROLE BOARD

Operation of our parole system through a non-paid part-time commission is also a violation of sound business and humanitarian practices. It costs \$1,054 a year to keep a man in the penitentiary. It costs \$156 a

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year for a man on parole. From a taxpayer standpoint alone, with no consideration for the humanitarian aspects of rehabilitating human beings, we should have a system that keeps parole hearings up to date.

Waiting beyond his just time --- thirty, sixty, ninety days and even longer --- because of the present commission's inability to keep on schedule produces a man embittered against society, more susceptible to the lures of his crime-hardened cellmates. In the interest of tax savings, and in the greater interest of savings for lawful society, I hope this legislature will bring into being a full-time, paid parole administrator.

## BOARDS AND COMMISSIONS

With respect to Oregon's overall structure of Boards and Commissions, we need a complete re-evaluation. Without question many of such existing agencies can be regrouped on the basis of similar function and placed under the jurisdiction of existing departments. Such structural changes will tighten legislative and executive control and will unquestionably save tax dollars. Within the Management Research Division of the Department of Finance we have the personnel to make such re-evaluation and to bring to the next legislative session a blueprint for such change. As Governor, I am asking that this work be carried out, beginning immediately.

## EDUCATION

In examining the challenges I have mentioned, the most important it seems to me, is the challenge of our children.

Oregon's children are her greatest natural resource. Here are our future scientists to successfully cope with this revolutionary atomic age, our planners, our doctors, our lawyers, our farmers, our economists, our teachers, our answers to the manifold problems that save us, our taxpaying citizens. Their proper education then becomes our most important task. The success of any state, country, civilization rests on the enlightenment of its citizens.

In the field of education, Oregon has made substantial gains during the past decade. On the basis of comparison with other states we stand high in many educational aspects. But we dare not let smugness nor complacency bring about an educational recession.

We must continue to seek improvement in the field of training better teachers, of elevating the teaching profession to a status equal to that of any other in our society, so that we can attract the best of our youth into this field.

Teacher's salaries in our public school system must be raised.

With rising school sects demanding at least half of local tax dollars, we must provide for more state aid from basic school support. I recommend that basic school support be raised from the present 80 dollars per census child to 120 dollars per census child. And our method of distributing basic school support funds must be revised. Originally designed to equalize educational opportunity by providing the poorer districts with extra dollars, this formula is not now operating in such fashion. You will have before you a proposed new formula to bring the original intent of the law into operation. I urge its adoption.

So that children in small, inefficient school districts will not be penalized in the field of teaching, administration and curriculum, reorganization is needed promptly. I urge that you enact legislation now to bring about sound well-planned reorganization of school districts.

Many school districts are now bonded to capacity and still do not have needed facilities to properly house their school children. I urge the establishment of a fund of five million dollars at the state level, to be used for building relief for these distressed districts.

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## HIGHER EDUCATION

In order to successfully meet our educational challenge of the future we need a program of federal aid to education. Here is the logical way for children all over America to share educationally in our national wealth, extending the principle of taking the money where it is to educate the children where they are. I urge you to memorialize Congress to enact a program of federal aid to education now!

The foremost problem facing higher education, in my opinion, is retaining the recruiting high quality faculty members. Because of unwise action by the higher education subcommittee of ways and means in the last legislative session, salary schedules for the faculty members of our colleges and universities were thrown completely and unrealistically out of competitive balance with other such institutions and with industry. We have lost faculty at an alarming rate. Unless such a trend is reversed we are in grave danger of relegating our whole higher educational system into second class status. I urge that the salary requests as presented by the Board of Higher Education in the budget be fully granted, and that any cuts recommended by the outgoing governor be resorted.

Another pressing need in higher education is the maintenance and expansion of the physical plant. At present there are 18,500 students in the state system of higher education, a 25 percent increase in the biennium with the prospect that within the next ten years the enrollment will surpass 30,000. The Board of Education's long range plans are well conceived. Their requests for a capital outlay program of 14 million dollars for projects should be granted. These needs can and must be met.

## ECONOMIC DEVELOPMENT

The challenge of opportunity is an area where education to the facts can, I think, lead us out of the economic wilderness.

Oregon's elected officials in past years have too often refused to look realistically at our economic picture. They have been content to drift, wistfully optimistic about the future, hopefully silent about any storm signals ahead, and hopelessly ineffective in leadership toward economic progress.

Any successful enterprise, including the economy of an entire state, needs realistic appraisal of the facts, realistic planning in the light of those facts, and realistic action taken on those facts.

As governor, I shall do my best to inform the people of Oregon, candidly and truthfully, about the economic facts confronting us. Because these facts constitute part of the urgent business of this legislature, I propose to start now.

The state of Oregon, indeed the whole Pacific Northwest, stands at a critical point in its economic development. Instead of continuing the economic momentum gained in the phenomenal growth and prosperity of the 40's, we are losing ground by comparison to the rest of the nation.

IN the decade 1940 to 1950 we in Oregon became accustomed to leadership --- leadership in population growth, leadership in jobs, leadership in the size of our weekly pay checks.

Our public officials looked upon what our resources has wrought, and thought that it was good. And it was good. But it wasn't good enough to last without encouragement. Complacency is the spoiled child of abundance and prosperity. While our officials stood complacently by, Oregon lost time and industry, lost abundance and prosperity.

Federal wartime production programs in the northwest tapered off or, as in Oregon, came to an abrupt halt. This can be replaced with solid consumer industries.

## PUBLIC POWER

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Time, however, is irretrievable lost, particularly in our vital low cost power development program. Policies of private utilities, with the aid and comfort of the state and national Republican administrations, have delayed the needed construction of power facilities. Their policies have cost us now four precious years. We must not lose more.

Research has pointed out, and we should recognize, that most of our new employment opportunities in the northwest were due directly or indirectly to low-cost power --- sold at Bonneville industrial rates. Nothing is changed. It is still true. But we have no reserve supplies of kilowatts to recharge our economy.

We must give every encouragement to our Congressional delegation to urge immediate construction of John Day Dam, and a full control program calls for construction of big upstream storage projects such as Hells Canyon. Oregon needs all the benefits from comprehensive use --- flood control, year -round navigation, improved fish propagation, and additional low-cost power.

Because the Northwest Governors' power policy committee has not been sympathetic toward these objectives, I see no purpose in continuing Oregon's representation in it.

Because the interstate Compact does not serve the purposes outlined, I see nothing for Oregon to gain in further attempts to develop it.

Because of our common interests in this field, I intend to meet in the very near future with the governor of our sister state, Washington, to discuss action to meet the pressing problems of river development. Both of us, I am sure, will work with the other states of the northwest and with Canada to promote maximum development. Nor would I want to neglect the smaller dams of Green Peter, Cougar and Hills Creek in our own Willamette Basin. These should go forward at once.

Our greatest opportunity today lies in converging the multiple waste of floods and unused power to multiple use for jobs and income.

Industrial development can be encouraged for Oregon by low-cost power, a healthy labor and consumer market, and by a healthy tax structure.

#### DEVELOPMENT DEPARTMENT

And it can be encouraged more directly. A good deal of money has been spent, and many of the leading citizens of the state have volunteered their time and energy to the task. So far we have very little to show for our effort.

IN the past five years many states have found that a development department within the state government, directly responsible to the governor, utilizing the authority and power of the office, and administered by a technically competent staff, is the most effective tool for this purpose.

My studies have convinced me that this is the direction in which we should go. I am convinced that such a program can be initiated and staffed for a sum not substantially greater than that appropriated for the present Oregon Development Commission. In terminating the assignments of the commission I want to express to them the gratitude of the people of Oregon for their efforts to solve our common problem.

There are other goals for development. Nothing has been done about the moral and economic unfairness of overland freight rate structures. Nothing is more disadvantageous to Oregon's economy than this discrimination which prices Oregon products out of eastern markets, strangling Oregon manufacturers.

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Another of our great natural resources is not, in my opinion being fully utilized. As I have indicated in my remarks about education, the most important single resource we have is people. We do not wish to attack industry as an end in itself, but as a source of additional opportunities for the people who live in Oregon.

At present, many of our best-educated and technically trained younger people are leaving Oregon to seek opportunities elsewhere. This means that we are subsidizing the more industrialized states by exporting our most brilliant and expensively trained youth. We must correct this situation in fairness to our young people and to ourselves.

#### AGRICULTURE

Continued efforts must be made at our state level to improve the economic lot of our farmers. During the past four years, the net incomes of Oregon farmers have been drastically reduced. During the Substantially the property tax burden of this industry. I propose to ask the Tax commission to conduct a series of hearing throughout every sector of the state covering every agricultural commodity and interest so that we may have body of sound factual information upon which to base necessary law revision.

#### FORESTRY

I urge you to give the utmost consideration to every aspect of Oregon's forestry program. Every state program designed to advance research and development of the forest products industry should not only be maintained but expanded. Special consideration should be directed towards the development of processes and the location of plants for the newer products of wood and fiber technology. I shall do everything in my power to secure more federal funds for these purposes as well as for more access roads. We must have state and federal timber sales policies which will allow the smaller operators to purchase a rightful share of our timber thought competitive bidding.

And I shall add my efforts to those of our congressional delegation to persuade the Federal government to real the disastrous tight-money policy on housing credit which have done so much damage to our Oregon forest industries.

#### RECREATION

Development of our resources means protection of our resources. The beauty of Oregon, the intrinsic value of its recreation areas to our citizens and the dollar value through our visitors are irreplaceable. This value of primitive areas, of forests, of waterfalls, of fishing holes, of campgrounds, of wildlife, of God's country must be preserved for all time.

#### LABOR

A successful program for developing our resources and increasing the state's industrial capacity depends, of course on a well-trained, well-paid, well-adjusted and stable labor force.

It is my hope that Oregon may enjoy many years of understanding and peace between industry and labor. To this end I prefer that our state rather than the Federal Government take those legislative steps necessary to improve and modernize workmen's compensation laws, unemployment compensation and minimum wage standards. I also favor establishment of a realistic mediation and conciliation service and I strongly urge repeal of the 1953 anti-picketing bill as a prerequisite for working out a proper conciliation procedure.

With respect to the field of employment, I ask this assembly not to forget that the salaries of state employees need further adjustment. I urge that a start be made toward institution along-range salary increase program for those on whom we depend for the day-to-day operation of state business and services.

#### ELECTION LAWS

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Broadened activity on the part of all the people in the public affairs of the community, the state, the nation and the world must be encouraged, not frustrated. I urge immediate steps to make election laws more efficient and democratic, at the same time maintaining sufficient safeguards to prevent fraud. Simplification of voting processes recommended by the interim election committee merits support.

I urge also a re-examination of regulations which restrict some people, because of their jobs, from full participation in public affairs. There is no justification for any such restrictions. There is no place for second-class citizenship within our state.

## GENERAL WELFARE

Nineteen hundred fifty-seven should mark the date our state accepted as a moral principle the concept that we are our brother's keeper. First, we should abandon the idea that we are bestowing charity through our old age assistance and general welfare programs. Second, we should forsake the idea that we are merely custodians for the physically handicapped, the ill and the mentally sick; and finally we should put away the notion that we are guards at the point of no return over those we just of necessity hold in corrective and penal institutions. We must accept the challenge of the idea of brotherhood.

There are immediate and long-range corrections to be made with respect to each of these areas. For example, the relative responsibility law has not served the purpose for which it was enacted. On the contrary, it has created awkward and cruel paradoxes in the administration of old age assistance. I recommend the immediate repeal of this law.

I reserve judgment on the budget and program of the state public welfare commission until they have been more carefully analyzed.

However, there is immediate need for us to expedite the placing of adoptable children in permanent and stable homes. I recommend at this time that legislation be passed to enable the public welfare commission to add an adoptive service to its other duties.

## HOSPITALS

As you study the problems of our state hospitals, I urge that you keep always in mind that the chief function of hospitals --- state as well as private --- is the care, comfort and cure of physically and mentally ill. Let us never again regard hospitals as mainly places of custody. We must of necessity think in terms of beds and building programs, but also of necessity, we must think constructively of the sick human beings for whom we are providing the beds and buildings. I am convinced that we must cease to be satisfied with short-range plans for institutional programs.

Building costs are so high and staff needs are so great, we dare no longer ignore the need for long-range, expert planning. Therefore, I ask that this Assembly appropriate sufficient money for the governor to have made a thorough, unbiased survey of the status and condition of our institutions and their services.

I hope also you will give attention to the need for comprehensive, over-all study into the problems we must face with respect to mentally retarded children.

## CAPITAL PUNISHMENT

It is my feeling that state government has an obligation to be civilized, even in the exercise of its obligation to protect society from desperate and murderous criminals. And I find nothing enlightened religion or the ethics of modern civilization that justifies an "eye for an eye" philosophy. Thus, inasmuch as capital punishment neither prevents murder, nor edifies and refines the society that exacts the death penalty, I recommend strongly the immediate repeal of the capital punishment law.

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## GENERAL

It should be our constant aim to improve all services designed to train physically inconvenienced people and to encourage them to lead useful and productive lives. This, I ask this Assembly to act with sense and sympathy on all proposals that will further assist the blind and help the physically handicapped.]

The whole social and economic climate of Oregon will likewise be improved when we can say of this state that it is a place where discrimination because of race, creed, or place of national origin is unknown.

To the end that we may achieve this distinction, I ask that you look with favor on all legislation presented to extend our civil rights program and to improve it.

## TAXATION

The challenge of money, which faces every legislative body, presents one of the more difficult problems. It is not an insurmountable one. The proposed budget for the coming biennium is before you. It was not prepared under my direction, as you know. I explain this because you labors in this field will not be limited to balancing the proposed budget. Other proposals which will necessitate raising additional revenue will undoubtedly be made by individual members of the legislature. I have suggested others which I believe to be fully justified economically and in the best interests of the people of Oregon. In formulating a tax program, I urge, first of all the repeal of the surtax imposed by the 48th Legislative Assembly. I ask that you restore the \$600 personal exemption and dependency deduction which it dropped to \$500.

Next I urge that, as you consider tax matters, you keep in mind that a shift from the income tax to a sales tax or other excises would not alter the fact that taxes must be paid out of income. Such a shift would merely mean that individuals would be supporting their state on the basis of goods they must purchase rather than on the incomes they have earned. Such a method would be flagrant violation of the first canon of justice in taxation.

The second principle to be remembered is that direct taxes are to be preferred to indirect taxes. Direct taxation permits progressive state scales which are altogether impossible in forms of indirect taxation. Considerations of equity alone justify direct taxation, and certainly one of the major problems in taxation is that of acquiring funds in a way that is fair and just to everyone. Direct taxes allow both the taxing authority and the taxpayer to realize the extent to which each individual contributes to the support of his government. Hidden taxes are apt to be concealed in price rises. Thus if we are to know how tax burdens are distributed, we must rely primarily on direct levies.

The third principle to which I invite you attention is the economically sound "ability to pay" principle. In the days to come you will hear many times that the "benefits received" and "ability to pay" principles are both basic in tax structures. However, the benefit principle has only limited application. Fore example, the selective excise tax on motor fuels can be defended on grounds of benefit only as long as the revenues from that source are used exclusively for the building and maintenance of highways. The ad valorem taxes for support of units of local government are in accord wit the benefit principle to a certain degree. In general, however, a tax system must be geared to the concept of the ability to pay. In final analysis, net income is the best measure of ability, and that fact alone provides sufficient justification for the use of net income taxation as the fore of our state tax structure.

As you consider our net income tax, I shall also ask you to bear in mind that one of the other very important requisites of a good tax system is convenience. Convenience is often cited as an argument in support of sales tax. But convenience is largely a matter of tax administration. Realistic withholding of income taxes will enable the mass of taxpayers to meet their obligation as they earn income during the year. A well planned withholding program makes it possible for the income tax to be paid and computed conveniently.



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Any discussion of the respective merits of the income tax as opposed to the sales tax can be carried to an exhaustive length, whether in this message or in the deliberations of this assembly. But such discussion, in my opinion, is purely academic. Surely no member of the legislature can any longer entertain the slightest doubt as to the desires of the public in the field of tax legislation.

On five more occasions the people have, by increasingly large margins, voted down the sales tax. Only a few weeks ago the citizens of Oregon, by an overwhelming majority, refused to allow the legislature to affix the emergency clause to tax laws. This refusal was clearly and in my opinion correctly, based on the belief that use of the emergency clause would result in a sales tax. Therefore, the vote of the people can only be interpreted as a sixth defeat of the sales tax.

If this legislative body is to be regarded as truly representative of the people, it must accept that decision and proceed in accordance with it.

I urge that you find the major part of the necessary money to balance the budget within the framework of Oregon's traditionally fair income tax structure.

#### CORPORATION EXCISE TAXES

While you are considering adjustment to our personal income tax laws, I recommend that you also revise the corporation excise tax law. I recommend the repeal of the personal property tax offset and repeal of the differential rate between utilities and other business corporations. Since the state has not collected any ad valorem taxes for many years, any reasonable basis for the personal property tax offset has long since disappeared.

At the same time you consider those revisions, I recommend that you also make whatever revision in corporate excise tax rates you deem to be proper in order that those rates may be brought into line with the increased demands upon personal incomes enacted into law by the 1955 assembly.

#### PROPERTY TAXES

I also commend to you a restudy of the whole state property tax law. I am opposed to a state levy on real property. The property tax law has put a terrific burden on many aspects of our economy, but has penalized particularly the agricultural portion of it. We must not lose sight of the reasons farmers till land and we must consider whether our tax laws are in fact penalizing farmers who have made the highest economic use of their land.

And let me add one final word in this area. The citizens of Oregon want many services from their state government. These same citizens are aware that services cost an increasing amount of money. I urge that no attempt be made to deceive the people, that they be given facts and figures. But I want them to have actual facts and real figures. Let us not deceive people with either over-optimistic financial statements, or equally over-gloomy scare stories.

#### HIGHWAYS

As a crucial part of the state's development program, our highway system must continue to be built and improved. We must also plan to coordinate our projects with the great federal highway program. However, I want full and realistic attention to be paid to our system of secondary and access roads, for these constitute the local network of our farm and forest economy.

#### HIGHWAY SAFETY

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I also urge that serious attention be given to that greatest killer of our people --- the highway accident. I intend to see that the work of the Governor's Safety Commission goes forward to implement and assist the many private agencies working toward the solution of a tragic and costly problem.

## CENTENNIAL

As executive and legislators we shall want to insure that a suitable celebration will be held to commemorate Oregon's centennial year, 1959. I hope that we shall have the full assistance of the Oregon Historical Society and other organizations in this field in coordinating all phases of the celebration to produce a program worthy of Oregon's rich historical heritage.

## SPECIAL MESSAGES

Because of the importance of specific details in several challenges introduced in this message, I plan to augment them by special messages to you during the next few weeks. In these messages covering resource development, taxation, and perhaps others, I propose to spell out my program in more detail.

## CONCLUSION

It is a matter of great pleasure to me and of great promise for our state, that we now have an alert, hard-working and effective congressional delegation in Washington, D. C. They are pledged to act in full cooperation with my office in the many endeavors which lie ahead. I shall do everything possible to insure that Oregon will receive the full benefits of harmonious teamwork as we face the tasks which must be accomplished.

Together we will do the job.

My heart is filled with gratitude to the people of Oregon, who by their vote have elected me to serve them in this high office. I urge every member of the assembly to join me in approaching the task ahead with courage, confidence and cheer. Boldly we shall set forth on our new course, buoyed by the scriptural enjoinder from the second chapter of Chronicles, fifteenth verse: "... Be not afraid nor dismayed by reason of this great multitude, for the battle is not yours, but God's"

### **Governor's Special Session Message, 1957**

Source: MESSAGE OF ROBERT D. HOLMES GOVERNOR OF OREGON TO THE SPECIAL SESSION OF THE FORTY-NINTH LEGISLATIVE ASSEMBLY OCTOBER 28, 1957 SALEM, OREGON GOVERNOR'S MESSAGE SPECIAL LEGISLATIVE SESSION OCTOBER 28, 1957

Mr. President, Mr. Speaker, Members of the Assembly:

You are here, because under the authority vested in me as Oregon's chief executive, and on the considered advice of your legislative leaders, the Chairman of the State Tax commission, and the Director of Finance and Administration, I have called a special session of the legislature to enact legislation that will give both income and property taxpayers of our state some relief, in light of the surplus the state will enjoy at the end of the present fiscal period.

Two bills have been prepared for your consideration. One puts into effect a cut of ten percent on personal income taxes for this year and next year. The other provides for a ten dollar per census child increase in basic school support.

Before I explain briefly the thinking that resulted in the two proposals contained in the bills, I wish to put the record straight.

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Your governor had exactly the same information regarding Oregon's tax situation that you had as legislators during the regular 1957 legislative session. This information was furnished by the State Tax Commission which, over the months between the day the former Governor's budget was prepared and the period just preceding adjournment of the regular legislative session, revised the estimates from time to time.

I had no special or private knowledge that the surplus would exceed the several estimates made, though I shared with many of you the general suspicion --- based on long legislative experience --- that the surplus would exceed by a considerable amount the largest estimates given all of us. I refused during the legislative session and after it to indulge in the surplus guessing game.

Mistrusting guesses, even intelligent ones, I invited the State Tax Commission which I had reorganized by the appointment of a new tax commissioner who is now the Chairman, to make an immediate and thorough investigation of the surplus situation, and I likewise asked the commission to take the unprecedented step of consulting with the experts available to the state in the Department of Finance and Administration.

The Tax Commission accepted the invitation and at once established direct and cooperative working relationships with the Department of Finance.

I announced this to the public, and I stated publicly that when the facts were forthcoming I would immediately inform the citizens of Oregon on the fiscal position of the state. I also stated on the record that if the surplus were substantial, I would seriously consider calling a special session of the legislature for the purpose for which I did ultimately call it.

When the Tax Commission advised me that the surplus would be considerably larger than any amount heretofore projected, I immediately called the President of the Senate, the Speaker of the House, the Chairmen of the Senate and House Tax Committees, the Cochairmen of the Joint Ways and Means Committee, the Director of the Department of Finance and Administration, and the Chairman of the Tax Commission into conference.

"Gentlemen", I said to the legislators, "you are the elected leaders of the legislative assembly. It is now clear that an error has been made in the estimates made of how much money our tax program will produce during the coming biennium. I am advised that at the end of June 1958, we will have a surplus of some 69 million dollars.

"The question of fixing blame for errors in estimates of our fiscal position in past years is not important. We are faced with the situation as it is. You are the leaders who met the necessity to balance the most realistic budget you could produce consistent with the programs necessary for the general welfare of the people of Oregon with a tax program that would raise the necessary money. In view of the new appraisal of our fiscal position, how much do you feel we could safely reduce the tax load without endangering the state's long-range needs?"

It was the consensus of your elected legislative leaders that we could do two things:

1. Reduce the income tax load by six millions dollars a year.
2. Increase the basic school support fund by ten dollars per census child, and thus, to a degree, offer property tax relief.

These two proposals were agreed upon only after the most searching discussion; for neither you legislative leaders, the Chairman of the Tax Commission and the Director of Finance and Administration, nor you governor had any desire --- either for political gain, or for passing public acclaim --- to offer the people a tax gift now that would have to be paid for in 1959 by increased tax burdens. In short, we felt that prudent management of the surplus could result in tax relief without depleting reserves to the point where future tax rate raises would be inevitable.

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A look at not so ancient Oregon history reminded us that Oregon's recent tax plight was caused in considerable part by the careless disposition of tax surpluses during the peak income tax collection years of World War II. At that time we returned surpluses to the people in such generous amounts that they have been paying the piper ever since. We had no wish to repeat this kind of fiscal foolishness.

Since the time of our first deliberations on the problem of the surplus, your legislative leaders have held subsequent meetings. As a result of these subsequent conferences they have recommended that the legislature authorize a straight 10 percent cut in personal income taxes.

I think that this plan, mainly a ten percent reduction in personal income tax payments, plus increase of ten dollars per census child for basic school support is fiscally sound, prudent and wise for several reasons.

First, the proposed plan will balance receipts and expenditures within the biennium so that taxpayers will pay no more than the current costs of government. Taxpayers in the current biennium will not contribute to any material increase in the existing surplus; neither will they be given back surplus from previous biennium's which can better be retained for necessary future purposes.

Second, the plan will leave an approximate surplus for the 1959 legislature of 50 million dollars, a surplus that can be amply justified for the following reasons:

1. To bring the state's budget in line with a realistic tax program, the legislature of 1957 had to defer necessary capital outlay expenditures both for institutions and for higher education. Both institutional and school construction programs were put off, even though we all know that tremendously increased school enrollment at all levels in our educational system will force us to face up to building problems in 1959. Our situation with state institutions is exactly the same, the problem of going ahead with the Dammasch hospital being a case in point.

We were also obliged to refuse to expand personnel requirements for institutions, particularly in the case of our hospitals which will increasingly need staff. The 1959 legislature will be required to acknowledge and cope with these costly problems.

2. The major part of surplus should not be dissipated in view of the fact that without an ample reserve, the 1959 legislature would almost certainly have to raise tax rates. The uncertainty as to where such taxes might fall would have an unfavorable influence on business within the state. This points up the importance of establishing stable, long-range fiscal policies.

3. What burdens we may have to bear as our share of a possible national emergency we do not presently know. However, Sputnik has demonstrated dramatically that, in spite of protestations and disclaimers from high officials in our federal government, Russia has won an important lap in the international scientific and psychological race. If greatly augmented military budgets require economies in the federal budget that will be reelected in cut-back domestic programs, our state should be prepared to meet whatever needs face us, to the best of our ability. We can face those needs more fully if our state has not spent the greater part of the present surplus.

4. Estimated revenues may shrink considerably between now and January 1959, because of economic conditions in our state, we are acting at the state and on local levels to shore up our economy and to bring new businesses and industries to Oregon. But unless the federal government modifies its tight money policy with its high interest rates and thus removes the brakes that have brought building to a standstill, our great lumber industry will continue to suffer. And that means that all Oregon suffers, because basic to our economy is the lumber, which, as the greatest timber producing state in the country, we market on a nation-wide basis.

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Moreover, unless the present national administration changes its power policies, we shall be unable to offer industry the advantages it wants from abundant, cheap electricity.

In view of these facts, prudence will insist that we retain a large financial cushion against the threat of a depression, the prevention of which rests with the national administration.

These then are compelling reasons why we should not dispose of our surplus with a more lavish hand than has been proposed in the two bills that will shortly be before you.

In the past few months there has been a great deal of talk about Oregon's tax structure. There have even been those who would make us believe that our present economic slump is due to our tax structure rather than to the present federal policies that account for the depressed lumber market and the shortage of cheap power.

No one will argue that our tax laws cannot be improved. Fortunately we have the vehicle properly to evaluate our over-all tax situation --- namely the Interim Tax Committee created by yourselves. It can and should study carefully and objectively such matters as realistic depreciation, loss carry forward, capital gains and other tax considerations where improvement in our tax laws might improve the climate for existing and new industries. The findings and recommendations of the Interim Tax Committee should be presented at the regular legislative session in January 1959.

I am sure that all of you know that many suggestions have been made --- in fact, some have been offered by several of your own membership --- for legislation that will be helpful to segments of Oregon's economy. But I must in good conscience say to you that these should be presented at the next regular legislative session.

This special session was called for a specific purpose: tax relief prudently given in light of our surplus.

The people of Oregon want and are entitled to receive this relief. The people of Oregon are united in the opinion that this assembly should confine itself to action to accomplish this relief. The job can be done quickly. I am confident it will be done quickly.

In conclusion, let me say that I consider it to have been a deep honor and great privilege to serve in four legislative sessions. I think I know Oregon Legislators. I believe that they are desirous of performing in the public interest. The public interest will, I feel you agree, be served best if you provide tax relief by passage of the two bills prepared, and adjourn.

Several states have had special legislative sessions this year. These sessions have convened; have done the job assigned, and have adjourned. I know that you will complete your special assignment quickly, at the least possible cost to the taxpayers, and that you will put aside many other legislative matters in order properly to present them at the next regular session of the legislature.

My best wishes to you all. God speed you, and may you adjourn sine die before the week-end.

### **Governor's Message, 1959**

Source: BIENNIAL ADDRESS OF ROBERT D. HOLMES GOVERNOR OF OREGON TO THE FIFTIETH LEGISLATIVE ASSEMBLY JANUARY 12, 1959 SALEM, OREGON

Ladies and Gentlemen of the Assembly:

Again I address you with humility and gratitude, as I have been privileged to address two previous legislative assemblies: with humility nurtured by the challenging and awesome responsibilities that face a chief Executive, and with gratitude to so many people who have done so much for the State of Oregon and for me during the two years of my administration. I am grateful too, to the people of Oregon who bestowed the honor of the governorship on me.

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I have tried to keep faith with the people and to carry forward those ideas I suggested in my inaugural address two years ago. I have endeavored to meet every problem with boldness and bigger; I have tried never to equivocate, not to procrastinate. I have neither wanted to dodge responsibility, nor to shrink from doing my duty.

It has been gratifying to represent the people of this state in Washington, D. C., in Florida, in New York, in New Orleans, in Los Angeles, in the new state of Alaska, in Colorado and in Hawaii, and to carry the message of the scope and the richness of this great land to others.

Though we in Oregon have been beset by a national recession not of our own making, our promotion of Oregon, particularly though the work of our department of planning and development, has worked toward the broadening of our economic base. We have made progress.

We have moved forward in other directions, too. Our whole system of public education has profited both in terms of increases in basic school support and in monies for increased salaries for the faculties in our schools of higher education. Our road building program has kept abreast of federal monies granted under the federal-state highway program. We have met welfare programs without lowering standards of service. We have continued, according to our means, to improve state institutional programs. Our attack on the problems of the aging has been vigorous and we continue to make gains in this field. The state administration in the past two years has worked more closely with our great agricultural economy than did any previous administration.

The Oregon Centennial celebration plans have taken definite shape and are in excrescent order. We have sought more equitable east-west freight rates as a boon to our lumber agricultural industries. Programs for the wise use of our natural resources have been expanded and the people's interest in these resource has been jealously guarded at all times. Departments in the executive branch have operated for the general interest and have not been agencies of special interests. Our fiscal position have remained sound, and in the past two years Oregon has enjoyed the unique position of being the only state in the Union to reduce taxes.

Through coordinated effort by all state agencies involved in the problem, we have stepped up the traffic safety program, reducing accidents and highway deaths. Our tourist business has increased percentage-wise by a greater amount than in many neighboring states. We are all, I know grateful for these things. But I know that the chief concern of this assembly and of the people of Oregon is with the program that my successor will outline. And so I shall make my remarks as brief as possible. I have presented for you consideration a general fund budget of 299 million dollars, a budget balanced without new taxes.

It will use the surplus estimated to be on June 30, 1958, \$30,500,000, and recommended new revenues of some \$16,700,000. Necessary bills for some of the additional revenues have been drafted for you consideration. The others can be put into effect by administrative action.

These budget figures have been, of course, public information for some time. The budget has been allied "an austerity" budget. But I feel that the people of Oregon clearly demonstrated last November, both by their actions on almost every measure involving new tax money, and by their approval of the economy platform of my opponent in the election, that they wished to live within existing revenues. I have tried to prepare a budget, then, which would translate their expressed wishes into action.

In order to live within revenues, to determine budget needs, I applied a yardstick of existing standards of service. Recommended increases are needed primarily to take care of growing state agency work loads measured by this yardstick. There is provision for modest salary increases for state employees, and for an upward adjustment of about 8 percent in teacher salaries for higher education. In some high priority areas, allowances have been made for stepping up standards, either because exiting ones are unreasonably low, or because early benefits can be secured from a small additional appropriation investment.

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To achieve these budget levels, requests from agencies for general fund appropriations were cut by \$62,000,000, 49 million of this being for building programs. But because of the backlog of need for building both for institutions and for higher education, I am recommending a bonding program for financing major building needs over the next six to ten years. This program, in my judgment, should be for not less than 70 million dollars nor for more than 80 million. I feel that only in this way can we actually meet expanding needs, especially with respect to higher education, and catch up with a program that has lagged in the past four years because of cuts made by succeeding legislatures in the overall building program budget.

I would urge that such a bonding program go to the people at a special election to be called at the earliest date practical. And I feel that if the people of Oregon have all of the facts with respect to the needs of the state, they will approve such a program. Moreover, I urge that this assembly memorialize the Congress in behalf of a realistic and sufficient aid to education program.

This general fund budget still calls for increases totaling over \$36,000,000, excluding building programs. And there is little reason to believe that growth requirements for 1961-63 will be significantly less. Furthermore, over \$40,000,000 for financing 1959-61, which consists of surplus and non-recurring revenues, will not be available for 1961-63. Thus, by 1961 the legislature may be faced with having to provide over \$70,000,000 in new revenues without considering major building fund requirements. The most careful tax study then is mandatory if this issue is to be resolved by this legislature.

Purposely I am not including recommendations based on the Sly report in my budget message. This report was available only after the budget was substantially settled and the members of the legislature have had no opportunity to study it carefully. As I have said, in my judgment, the people voted for a balanced budget without new taxes. My budget has been prepared on this basis.

Many of you heard Dr. Sly's comments on his tax report. You have all received copies. I urge you give it careful study. I particularly commend to you attention those portions of the report relating to the establishment of a better tax climate for business and industry. The proposal to reduce the income tax on capital gains would require, under the most optimistic budget outlook, a tax increase in other areas. The report suggests two sources to which this could be shifted: a real estate transfer tax or a cigarette tax, or a combination of both. I think it appropriate to point out that if my recommendation to the special legislative session had been followed, it would have been possible to reduce the tax on capital gains during the coming biennium without imposing new taxes.

Apart from Dr. Sly's study, the State Tax Commission, at my request, has been studying Oregon's tax structure and tax administration. Out of its studies have come the recommendations in my budget message to plug some loopholes in the utility corporation excise tax law and to eliminate installment payment of income tax.

But the major recommendation which the staff of the State Tax Commission is prepared to discuss without simplification and improvement of our Income tax laws outside of the context of revenue requirement, or of broadening the tax base. Our income tax laws have become more and more complex through legislation, administrative action and court decisions. The taxpayer is perplexed and his advisors are frequently uncertain as to the application of the laws. Their administration is also expensive to the state. Income tax simplification might save upwards of \$1,000,000 per biennium in administrative costs alone.

To my knowledge, there has never been a study of the state income tax form from the point of view of giving it direction, making it more workable and competitively more desirable. Legislation is being prepared to implement simplification and improvement. I commend it to your careful consideration.

So that you may have, for what it may be worth, by best judgment grown out of my experience as governor during the past two years, I would also make the following suggestions: 1) Oregon needs a compulsory liability law. 2) A fulltime, paid parole board, as recommended in the report that was made during the biennium by the National Parole Probation Association of the United States, would help our whole parole

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and probation program and would eventually save the state money. 3) The excellent legislative interim committee report on governmental reorganization has recommended several improvements for efficiency in state government.

I commend these to you, particularly the suggestion that the chief executive --- subject to legislative veto --- be giving broad powers to reorganize the departments, boards and commissions under his office; and, though the committee did not make this recommendation, I still feel that institutional management, both in the area of correctional institutions and hospitals, would be greatly improved by abolishing the Board of Control and establishing a Department of Institutions whose director would be appointed by the Governor, and who would function with advisory committees covering correctional, health, and child and youth services.

I am also convinced, after consulting with all of the governors at two Governors Conferences and two Western Governors Conferences, that the most effective way to obtain desired reorganization in state government is through constitutional revision. Certainly financial reorganization, clarifying the functions of the executive for financial management and control, and the creation of a post auditor function responsible to the state legislature cannot be achieved without constitutional revision.

Therefore, I urge this assembly to take appropriate steps to call a constitutional convention for this purpose.

One of the most important tasks assigned to any group was that tied to the experience and rating advisory council for the Oregon Unemployment Compensation Commission. Some 17 members representing industry, labor and the public worked diligently to re-evaluate the state of Oregon's unemployment compensation fund. I have been gravely concerned, as was the council, with the present insolvency of the fund. Since 1948 there has been almost uninterrupted decline of the fund balance. Each year since 1948 --- with the exception of 1951 --- more has been paid out in benefits than has been received in contributions, and in spite of diminishing fund no effective action to halt a parallel decline in the average tax rate was taken until the 1957 legislative session.

I commend the excellent job done by the distinguished Oregonians on the council in making this report and commend a careful study of the report to this assembly. Though time does not permit full discussion of all phases of the report, I do recommend that coverage be extended to employers of one person; that the unemployment compensation commission be separated from the industrial accident commission and be headed by a single commissioner; that the tax base be raised from its present \$3,600 to \$4,200, and that the so-called floor be increased, under which all employers would pay the 2.7 rate, from the present 3% to 6% of taxable payrolls; that an employer's tax be based on his ability to maintain a stable payroll from year to year, and that a claimant's benefits be based on his most recent earnings.

You have each also received a copy of the Western Interstate Corrections Compact developed by the Western Governors' Conference. This would permit participating state to send prisoners of various types to the state where the most specialized treatments and institutional care might be provided. I urge your approval of participation in such a compact.

I urge your understanding and approval of such needs as may be presented to you by the Oregon Centennial Commission. The celebration of our state's 100th birthday can, in my opinion, be the catalyst for moving our economic expansion ahead many years. With between 6 and 10 million visitors coming to Oregon during this historic year, it is of paramount importance that we provide whatever is necessary to make the Centennial worthy of our history, heritage, and our potential for the future.

I recommend that this legislature create an interim committee to study specifically the problems relating to our agriculture industry. We have never had such a committee, and in a state so dependent on agriculture, certainly we need to point up our problems with respect to the production, processing and marketing of agricultural commodities.



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While the highway program on the federal-state system has been moving forward, some of Oregon's other arterials vital to an expanded economy have lagged in improvement.

I would recommend that a bonding program be considered in sufficient amount to begin immediately to correct his situation. Highest on the priority list, in my opinion, is a modern highway to connect 99 with 101 in Southwestern Oregon. Immediate improvement of Highway 42 would pay rich dividends in an expanding economy for that whole area.

The work on Highway 101 should be completed, with the bottleneck at Astoria being removed through the cooperative effort of Oregon and Washington to build the bridge for Astoria and to the Washington side.

Other vital projects should be included, but it seems to me that these two have the top priority.

Since 1931 Oregon has been the only state in the nation which regulates its public utilities and agencies of transportation by means of a one-man commission there are distinct advantages to this system, which avoids the delays, buck passing and feuds so often observed in the commissions of other states. But with the growth of our state and its attendant utility problems, the burdens of the Public Utilities Commissioner have become almost impossible for one man to bear without some form of relief.

I suggest that the legislature should combine the best features of our present system with the best features of the system used in other states by providing a minimum of three deputy commissioners, without a normal vote on decisions of the office.

I also recommend that our utility laws should be changed to provide that appeals from decisions of the Commissioner may only be brought before one court --- the State Supreme Court. Under our present system many baseless and essentially frivolous appeals from PUC decisions are brought before a multiplicity of state courts by lawyers who are too often interested only in delay, and who are candidly in search of a judge who may be totally unfamiliar with the complexities of utility regulation and who is too busy to read a voluminous transcript of the original case before the P. U. C.,

And no one final work. . . As I have said to you, it has seemed to be the will of our people that we undertake no programs calling for new taxes or more taxes. To front this will is not in our natures, I know. But I would be less than honest were I not to say what I said so often during the months prior to November: we live in a more complex, not a simpler world; we live in a more dangerous, not a less dangerous world; our obligations are more, not less serious, and our choices are clearer, not less clear.

The amount of money we are spending for education is woefully inadequate now. We not only lag behind Russia, we lag behind our own faith in the value of education in a democracy. We are not providing the money necessary to strengthen community services in the areas of health and welfare and to revise old and costly programs of vast institutions centrally located for the care of the physically and mentally ill. We are not building the roads we ought to build to accommodate our own communities and our own economy. We are not facing up to accommodate our own communities and our own economy. We are not facing up to the fact that the preservation of our cultural and political freedom is costly --- terribly costly, and that it will cost us more and more for a long time to come.

I believe the budget I have proposed is one we can live with, but I do not claim that it is an ideal budget, or a far-seeing budget. Eventually we in Oregon will choose between paying the taxes we ought to pay, or of suffering a decline both in education and in all other state services. I recommend then, that you abide by this budget in order to keep faith with the voters' expression at the polls, but that you do it with your own eyes open and your voices clear to tell the people that sooner or later we must face up to our real obligations and our real duties as citizens.

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I want to say again to you that these two years have been a wonderful and a rewarding experience for Marie and me. I am proud that we were permitted to serve Oregon in the highest office in the state. The breadth and scope, the beauty, the majesty and greatness of this land of Oregon we so love is unlimited.

God's blessing on our state, on you, and on you deliberations in behalf of the people.