

# GOVERNOR GARDNER OPPOSES SALES TAX

(Continued from first page)

Assembly could, within the realm of reasonable taxation, find the revenue to sustain the MacLean bill, I was ready to give my full support to it.

For these reasons I have remained silent on this subject and given my energies to other matters of legislation which I deemed of great importance to the State, while those sponsoring the MacLean bill prosecuted their inquiries to find new sources of taxation to sustain it.

It is never a pleasing responsibility for the Governor to become a champion on either side of a question on which there is deep-seated division of opinion in the General Assembly and in the thinking of the people of the state. But I cannot shrink from the responsibility which the high office that I hold imposes. I am thoroughly convinced of the wisdom of the adoption of the policy of levying any form of sales tax.

My opposition to sales taxation as a means of state revenue is based on the deep conviction that it is not a sound or just principle of taxation, and that the commerce clause of the constitution of the United States renders it impractical as an important source of state revenue.

As to the principle involved in sales taxation: No matter how often it has been said, it should never be discarded from our thinking on this subject, because it is fundamentally and ever-lastingly true, that sales taxes take no measure of ability to pay taxes. They are based on human needs, and not on ability to pay. It is my profound conviction that we would do a serious injustice to the great body of citizenship in our state, immediately and for the future, if we should establish this basis of taxation, fundamentally unsound in principle, and should incorporate it into the revenue system of the state. I do not see how we could justify a tax reduction on the factory by imposing a tax on the purchases of its labor. That is the distinctive characteristic of sales taxation. It assuredly offers no average relief for the average property owner. It relieves those whose ownership of property is well above the average and gathers from those who are below the average or who own no property at all. I am unalterably opposed to that principle of taxation, and to any legislative program that finds it necessary to sustain it.

As to its practicability: If the sales tax were not fundamentally objectionable and unsound in principle, it would still be impractical for use in any large way in a program of state taxation, because no state can police its borders against interstate commerce. This point has no doubt been well argued in your discussions of this question, but we should not permit our extremities to dull our understanding of it, and its important relation to taxes on sales. There is at all times a delicate balance as between purchase within and without the state as to many articles and commodities. Any tax that we add to sales within the state helps to turn the scale against business in North Carolina and in favor of business outside of North Carolina. I cannot favor any system of taxation that imposes this additional burden on the retail merchants of North Carolina, and that penalizes business within and encourages business without the state.

The same reasons that condemn a general sales tax have their application to the selection of articles of common use among the whole body of citizenship of the state, and the designation of such articles as luxuries, and the imposition of extreme rates of tax upon the retail sales of such articles. This is but a little more ingenious method of imposing taxes to relieve wealth, and without regard to ability of those who are taxed to pay the tax. It seems to me a narrow comprehension of the subject to designate such articles as luxuries. The use of such articles recognizes no rank of nobility or fortune. Their use is as common among the poorest as among the wealthiest classes. And a twenty per cent tax upon their use is in fact as essentially a tax upon those who can ill afford to pay it as is a small percentage tax upon general sales. It is contrary to my conception of a fair tax in that it is a perversion of the doctrine of ability to pay. In the last analysis, it is not paid by the producer of the article taxed but is passed on to the consumer and is in fact a tax on poverty. It is the very opposite of the income tax, the fairest and justest tax any government imposes. It violates every tenet of the Democratic Party in that it taxes the weak to relieve the strong. Luxuries defined in any proper sense range upon a higher level than this and can only be reached by taxing property or income that furnishes the basis for their indulgence.

May I be pardoned if I illustrate this principle by reference to a somewhat good-humored criticism of my position which I read in yesterday's paper. A distinguished member of the Senate, discussing the present legislative situation in foot ball parlance, calls on the Governor to take the ball and score a touchdown for the team of "the little man." The trouble with my friend is that he wants me to make the same mistake with deliberation that a famous foot ball star, in a game in California made a few years ago, when in the excitement of the game he lost his sense of direction and after a magnificent field run carried the ball over the wrong goal line and scored a touchdown for the opposing team. No forms of sales tax can be levied upon articles consumed by the little man that will not increase his difficulties in playing the game of life. The right of the little man to live is not related by blood or marriage to any form of sales tax.

The right of the little man to live is not a figment of my imagination. It is a fundamental issue in North Carolina. If my party has stood for anything through its long history, it has stood for the democratic doctrine of shielding the weak and repressing the strong, and yet we have here a new and strange brand of democracy proposed. Instead of taxing the strong to aid the weak, we plan to tax the weak to relieve the strong. I do not hesitate to say that this theory of taxation violates every principle of Thomas Jefferson and outrages every teaching of Andrew Jackson.

The application of the convictions I have stated to the results of the labors of your Finance Committees, and the conclusions reached by them, lead me irresistibly to the recommendation that some other and more certain method of relief should now be sought than that embodied in the revenue bill now before the House. The conclusion has been reached by the sub-committee representing both the House and Senate that the MacLean bill cannot be effectuated without a sales tax. I earnestly hope that no sales tax in any form will be imposed on the people of North Carolina. I am quite certain in my own opinion that the people we are all trying earnestly to help will not be helped by any revenue raised through sales taxation; and I therefore recommend that so much of the purpose of the MacLean bill as cannot be carried out without a sales tax be eliminated from its scope and purpose.

This position of opposition to the sales tax I take as a definite fiscal and economic policy, and as a matter of principle. In taking it, I have no desire to invade the responsibility of the legislative branch of government by attempting to set up your revenue measure in detail, except that I do wish that no policy and no line of action be adopted which is inherently unfair on the one hand to the consuming public, or on the other to any legitimate and helpful business or industry that is making its contribution to the welfare of our state.

I have arrived at these conclusions after mature deliberation and after conference with the Tax Commission, the Advisory Budget Commission, the State Educational Commission, the State Superintendent, and the State Board of Equalization. I have not reached this decision lightly or quickly. It reflects my conscientious conviction for the welfare and future prosperity of the people of my state, for whose welfare my highest ambition is to continue to make some contribution—be it large or small—as the years go on and as I have the power to work for North Carolina.

I recommend that you enact so much of additional taxation as you find to be reasonable outside of the sales tax field, and that, after taking care of the necessities of the state government such additional sums be used for direct reduction of the public school tax levy.

In making this recommendation I am not unmindful of the sum total of contributions that will be made by this General Assembly to the cause of relieving property-taxation in North Carolina nor of its constructive legislation to provide more efficient and economical government in its state and local units.

When I came in as Governor two years ago, the state government was appropriating the sum of \$3,250,000 for the support of the six months school. I recommended an increase in this fund and urged recognition of the necessity for making some provision for state aid to the extended term where the tax burden was heaviest. The General Assembly acted on this recommendation and increased the equalization fund from \$3,250,000 to \$6,500,000, with \$1,250,000 set aside for the extended term. I felt then and I feel now that this sum sent by the state to the relief of the eight months term was the most helpful tax reduction measure passed during my administration.

In order to bring about unity and agreement of purpose in the place of our present contending confusion, I recommend that you go to the utmost limit without injustice in the pursuit of this policy.

Not forgetting for a moment the statement in my biennial message that taxes on property must be reduced, let us review the reduction that will have been accomplished by this General Assembly if this policy

is accepted and this program carried out.

The road bill, which has been enacted into law, will on a conservative estimate mean an average reduction throughout the state of at least 15 cents.

The Local Government Commission will provide for a reduction of at least 10 cents on the \$100 of assessed value through readjustments and defunding which will be permitted in the bonded indebtedness of local governments maturing within the next two years.

This Commission will save an additional 10 cents in taxes by reason of the control that it can now exercise over the budgets of the counties and the cities throughout the state. As you know, city government has heretofore been wide open without any state supervision or restraint and last year increased 11 1/4 per cent in cost. This, the local government bill corrects.

These several reductions, together with the adoption of this school policy, will total in the aggregate, I estimate, an average of 50 cents on the \$100 of assessed value in more than 90 counties and an average of 42 cents state-wide. If this estimate is correct, North Carolina will next year receive a reduction of \$12,500,000 in property taxes or an average reduction of 20 per cent.

When we provide through all of these constructive acts a tax reduction equal to the reduction anticipated in the MacLean bill, I am confident your action will meet the expectations of, and the approval of, your constituents—especially when they understand it is as far as we can go at this time without adoption of new forms of burdensome taxation.

It should be remembered that the MacLean bill itself does not purport to take all tax off property, even for the constitutional term of public schools. Based on last year's expenditures, it would be necessary to levy for the total support of the six months term an average rate of nearly 25 cents in every county, after receiving the full benefit of the revenue provided to carry out the MacLean bill. To meet the total cost of current expense alone, it would be necessary to levy an additional rate in many counties. This phase of the problem is not generally understood by the public. It should be clearly understood by each of you.

The tax reduction and the economies that will be provided by this General Assembly will be distinctly helpful in promoting a return of real estate values to a normal level. But there will be no marked movement until we make another crop. Values then will be influenced largely by the prevailing prices for tobacco, cotton, and grain. But, gentlemen, it should be remembered that land values have been more profoundly influenced by other factors than by taxation. If something does not happen by which North Carolina agriculture is able to recover a large part of the 80 million dollars lost in declining prices of 1930 over 1928 and 1929, our efforts here are futile even though it were possible to lift every dollar of taxes from land and property in this state.

From the day I took office and for years before, I have devoted the greater part of my thinking and planning to the program of working out a leadership and direction to the relief of the economic insecurity and distress of the North Carolina farmer.

Taxes are high in this state and taxes must be reduced; but the man who tells you that the tax policy of North Carolina is the proximate cause, the responsible reason, for the condition of the real estate market, that taxes are responsible for the prostration of eighty per cent of our people, that taxes are responsible for our army of unemployed, that taxes are responsible for stagnated industry—that man's either uninformed or is trying to spread political propaganda for inflammatory purposes. In every civilized country today the epidemic of real estate depression prevails. The condition is no worse in North Carolina than it is in Virginia, South Carolina, California, or New York. It is my mature judgment that we must face this situation without prejudice, passion, or politics, and in recognition of all factors involved, and go to the utmost limit to reduce the property tax. But let us remember that there is another day, and that the future of North Carolina lies with gravest responsibility largely in our hands as we struggle through this period to make more productive the sweat of honest toil and more effective the result of scientific management.

It was a difficult task in 1929, when we thought North Carolina was perpetually endowed with prosperity to raise general fund revenue in the amount of 15 million dollars. What we are trying to do now in hard times and business adversity is to raise the 15 millions we raised in 1929, which was found to be inadequate, and which necessitated my cutting appropriations more than three million dollars, to meet the first shock of the on-coming depression. We are now not only planning to raise this fifteen mil-

lion, but we are struggling to raise an additional twelve to fourteen millions. I say frankly that in my judgment, this is an operation too drastic, too precipitate, too burdensome to be accomplished at one time. I say it with grave concern, but with full knowledge of the fact that with possibly two exceptions North Carolina's agriculture, industry, labor, occupations and professions are suffering from the most acute prostration of any period in modern times. We are more than blind if we ignore this economic truth in the proceedings of this Assembly.

I have a definite philosophy about the needs of North Carolina, and every recommendation I made to you and every bill presented by me for your consideration was motivated by only one definite purpose: namely, economy, efficiency, and tax reduction on property. I have not pressed a single measure before you that did not have a terminal in this objective.

Every major recommendation in my biennial message was in harmony with the realization of this obligation and drove in the direction of this goal. My recommendations with this respect to education, highways and roads, fiscal problems, state reorganization and consolidation, and local government were integral parts of a maturely thought out pattern of action to reduce taxes on land and property. I have never for a moment departed in my policies or in my thinking from my message in which I emphasized that taxes on property must be reduced.

They will be reduced and when this General Assembly returns to the people who sent them here with the program of this administration written into law, you will carry with you the greatest tax reduction on land and property of any General Assembly in the history of North Carolina. And you will do this without imposing a new burden of nine or ten million dollars in the form of a sales tax on the backs and stomachs of two and one-half million of our people who through adversity, poverty, and misfortune have never been able to own a home or possess a tract of land.

I am ready to stand on this record and as a leader of my party in this critical hour, I accept the responsibility and will go forward against all opposition in the next campaign confident of the approval of this great majority of the citizens of this State. In my judgment neither of the proposed sales tax bills would receive one-third of the votes of the citizens of this State if submitted to a referendum.

If this plan is adopted and carried through, I bespeak here and now the whole-hearted cooperation and assistance of each of you in persuading your people to practice economy and accept smaller expenditures when your county and city budgets are being made up next summer. Ladies and gentlemen, we may as well face this issue. Here, in Raleigh, today, a tax reduction is popular, is demanded, is right. At home, in June, when the budgets are being prepared, tax spending is equally as popular. There must be found a sound middle ground to stand on throughout the year if North Carolina is to save herself. We must make up our minds that no matter how much resentment is aroused, taxes cannot be reduced

unless the cost of government is reduced. This is absolutely fundamental and we might as well make up our minds to adopt it.

I ask you this question: Do we not all recognize that we rarely get all that we aim for in life? Some one has truly said that life is a compromise between what one wants and what one gets. This is particularly true in legislation. Edmund Burke, the great British Statesman, said that in last analysis the essence of all legislation is compromise. If we accept this as a progressive North Carolina compromise, and go home with a tax reduction of as much as fifty cents in many cases, we can trust to a fair-minded people for vindication of the wisdom of our action, because our action will be deserving of vindication.

Another aspect of the property tax question is deserving of our thoughtful understanding. The present property tax bill of more than 60 million dollars per year was not attained in sudden flight. It did not come in a single year. And, my friends, it cannot be completely repudiated and written off of the books in a single year. Beginning with 1923, each year through 1928 saw an average increase in the total amount of property taxes levied in the sum of 4 1/2 million dollars per year. One year it was eight millions, another year two millions. But for the six-year period, it averaged 4 1/2 millions. Think of it! In the rapid expansion the increase in property taxes was 8 million dollars. Enact the recommendations I have made and you effectuate the unprecedented reduction of 12 1/2 million dollars in one year.

One of the constructive accomplishments of the 1929 General Assembly was to check this upward trend in property taxes. It not only checked the trend; it actually bent the line downward. Last year saw a reduction of nearly a million dollars in the property tax burden in this state as compared with the year before. If we adopt in its entirety the policy that I have outlined, if we are as conscientious in June as we are in March in our determination to ease this burden, we will still further and in larger measure than ever reduce this burden, whose weight on our industries and our citizens has in truth become well nigh intolerable. Property tax reduction, yes, property tax reduction in the biggest amount in the history of this state! And property tax reduction achieved through a sane, conservative program of action without saddling on the masses of our people another tax that in its injustice, and its effect is more intolerable and more throttling of the welfare of the common people than is the burden which we are determined now to take in large part off of their shoulders.

Our tax grievance is in part an utterance of the woes and the heartaches growing out of the present misfortune of our people who find in this an expression of the multitude of the miseries of these times. Our people cannot liquidate their debt to the land banks by legislation. They cannot satisfy their mortgages by legislative resolution. But when people do get caught in the barbed wire entanglements of economic depression, their one outlet of resentment and discontent is uttered vocally against government and especially against the taxing power of government.

If for this we can substitute the psychology of patience, together with real economy and real savings; if we can as governments and as individuals become willing to live on less, to live hard if you will; if we can raise more of the consumption goods that we now purchase; if we can do more work, economize, cut here and cut there, a little less here—and a little less there, we will emerge from this period a chastened but a conquering people.

North Carolina is in essence a progressive state. The masses as well as the leaders, possess a high average intelligence; and I submit that we do not have the right to expect their approval if at one blow, and without previous warning, we place nine million dollars of tax burden on the least able of its citizens to pay taxes.

You may differ with me, and I know some of you will; you may doubt the wisdom of my recommendation, and some of you will; you may question my leadership, and many of you may; but you cannot in truth say that according to my conception of my duty and according to my conception of the welfare of the three million people that we are planning to serve, I have faltered in conscientiously facing this issue.

One word more, I find myself the close of this message with the same feelings, the same hopes and wishes multiplied many times, the same hopes I owned as I stood at the end of my message to you when this General Assembly convened. Will you pardon me for using the same words in this attempt to carry over to you today a picture of the inner man who stood before you then and who stands here now. I feel more deeply this sentiment now than I felt then. This message into the preparation of which I have thrown the utmost of my energy and ability is the unselfish concept of my duty to the whole people of North Carolina. There is not a line in it or a reservation unexpressed but that is prompted by the very best impulse and the clearest thought of the man I am. I have not considered myself, I have not considered friendships, I have not considered politics in any narrow sense, but have endeavored to the completeness of my capacity to subordinate every person and every interest to the welfare of my state as a whole and to the three million North Carolinians, high and low, by whose grace and confidence I have the honor to bring you this message.

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