President Watson then presented Governor Elthon, who delivered the following address:

Mr. President, Mr. Speaker, Members of the Fifty-sixth General Assembly, Ladies and Gentlemen:

I am very fortunate indeed to be permitted to appear before you on this occasion to report to you on the condition of our great state, and to make certain recommendations that I believe should be considered by the Fifty-sixth General Assembly.

You and each of you are greatly honored, by your respective districts, in being sent here to speak and to act for them on the many matters that will confront you in the next one hundred days. You are the voice of your people. To you they have delegated the power to write into law their desires. They have entrusted you with the obligation of guarding their freedom. They expect you to promote the general welfare of this great state.

I congratulate each one of you upon your election, and because you are capable and willing to accept these responsibilities. I have no fear for the future of Iowa and for our republic so long as men of your caliber are willing to sacrifice your time and energies for the welfare of the citizens of Iowa.

Our nation is at peace and we are truly thankful to our God for His Grace and for delivering us from the scourge of war. In return we pledge our every effort to maintain the peace and humbly pray for His guidance toward the end that peace and righteousness shall prevail in Iowa, in the nation, and in the world.

Since you last met here in joint session, Iowa has suffered a tremendous loss in the accidental death of Governor Beardsley. Mrs. Beardsley is slowly recovering from injuries suffered in the same accident. We pray that her recovery will be complete. We extend to her and to the family our sincere sympathy.

In the past two sessions, Iowa has been very productive. Generally it has produced at a very high level. Prices have been good. Business has been above average. Labor has been well employed at good wages. Hardships have been experienced by only a few through unusual circumstances.

Iowa government has been carried on and developed in accordance with the laws and within the limits set out by the Fifty-fifth General Assembly. There have been a few instances where the appropriated funds were not sufficient to carry out the proper functions of government. In these cases the interim committee has come to the aid of the particular department in need and sufficient funds were made available.

Our road building program which was adopted by the Fifty-third General Assembly, and improved in the following sessions, has progressed well. This program is a “pay-as-you-go” program and is generally accepted by the people of Iowa. Under this program the pavements are widened, the curbs are removed, and curves are lengthened, and many miles of new pavement are constructed. Our secondary road program is progressing satisfactorily although there are certain parts of the state that because of rough terrain conditions need additional assistance. Any of these improvements can be accelerated, of course, if the citizens of Iowa wish to furnish more funds for this purpose. Building roads is a continuing program and will never be completed. We will always want better roads. We shall continue to build the best and the most roads possible with the funds made available for that purpose.

The matter of a toll road should be considered seriously but should in no way interfere with our present road program.

There has been a marked improvement in the operation of our institutions under the board of control. A larger proportion of those treated in the state hospitals are returned to normal, useful lives. These encouraging results have come about: first, because the legislature has supplied increased appropriations needed for improvements in housing, equipment and care; second, because more and better doctors, more nurses and attendants have been provided; third, because a united effort has been made through a definite program of rehabilitation. The board of control, together with the legislature, should be commended. However, there is much yet to do.

Conservation of Iowa’s natural resources is very important to the welfare of the state. Great strides have been taken in preserving Iowa’s soil and water resources. In parts of the state where soil erosion was neglected too long steps have been taken to prevent the further washing away of the top soil. This development must be continued. The work of soil conservation districts should be encouraged. We are fortunate in Iowa in having all of our state in a soil district. Water resources must be conserved and protected against pollution and depletion.

Our state parks and beauty spots should be preserved and maintained for the recreation and pleasure of the citizens of Iowa as well as those who visit us from without the state.

Our native birds and animals that seem to have difficulty surviving the changing conditions will have to be further protected. Iowa should never again lose its deer population.

In looking to the future of Iowa we cannot overlook the fact that Iowa is primarily agricultural. The Creator endowed Iowa with the most of the best land compared with any similar area. Because of this resource and because of the type of people who dwell in Iowa, agriculture has been developed to the highest level of any spot in the world; and we shall maintain that position ever mindful of any improvement that might be made.

Our industries should be further developed because we are situated at the crossroads of the nation where plant sites are cheap, where adequate power is available, supplies of raw materials are close at hand, and there is a constant supply of good reliable labor. I think we should keep in mind that Iowa is agricultural and any advancement of industry that would be detrimental to agriculture would be adverse to the best interest of the State of Iowa. Let’s not forget that agriculture is basic in our state.

Iowa labor should have every right and privilege compatible with the general welfare of the state. Unemployment insurance and workmen’s compensation should be increased and adjusted to meet present day living conditions.

We have good schools in Iowa, and our people are literate. We rank first among the forty-eight states because we have the least illiteracy of any state in the Union. This seems to contradict the general opinion expressed by many educators in the state.

Our state schools of higher learning are each outstanding in its field and the people of the state can well be proud of them. The State Board of Education should be commended for its leadership and for its continued efforts to improve and advance the standing of these institutions.

The private colleges have done a wonderful job in their field and have certainly taken a large financial load off the state in maintaining schools of high type where many of the young people of the state have been educated at no expense to the State of Iowa.

The elementary schools and the secondary schools of Iowa are numerous and every child in the state is provided schooling at public expense.

It would seem that nothing could be wrong with such a fine system. However, I am convinced that there is much room for improvement.

In the rural areas of our state many of these school units are so small that the expense per pupil is entirely too high. This certainly can be corrected through a continuation of effort toward reorganization. The problems of reorganization are difficult and should be considered in this session. I recommend that some financial encouragement be given to those schools that comply with and meet the standards set up by the legislature. These standards should be reasonable and local conditions should be considered.

There should be the best of relations and a feeling of mutual trust and understanding between the legislature and the board of education for I am sure that we all have the same ideals and the same desire to make our schools the best we can afford for we realize that the education of our youth and the training of our children, the developing of our young people into the best and the most capable men and women of tomorrow is without doubt our greatest and first ambition.

We point with pride to the outstanding educators we have in Iowa. Our colleges are well staffed with capable men and women. The funds must be provided to keep them and to add from time to time others of outstanding ability.

We must face the fact that there is need for larger facilities to make room for the enormous crop of youngsters who will soon be knocking at the door of our secondary schools and a little later at the doors of our colleges.

Seemingly every effort has been made to promote safety in Iowa. Safety at home, on the farm, in the factory, and on the highways. These efforts have not been sufficient. The deaths on our highways are tragedies. There is one bright spot, however, the driver training classes conducted in our high schools are showing results in better and safer drivers among those who have had the benefit of this training. These classes should be conducted in every school in Iowa. Our State Safety Department is making a sincere attempt to better the situation, but we have been unable to stem the tide. Some of the contributing factors are too much speed, too much liquor, recklessness, and the lack of attention to the job while driving. This session should consider this problem and attempt the solution. One of my friends from Worth County sends me this slogan, “Drive to stay alive in ’55”. It will take the cooperation of the legislature, the Safety Department, press, radio, and television agencies, and the public to lick this problem, but lick it we must.

I would like to devote the remainder of my message to what I feel is the most important problem facing this legislature, and that is the matter of state finance. In recent years we haven’t had to worry too much about the financial condition of our state—we had a reserve and our revenue collections were sufficient to meet the cost of services and expenditures deemed necessary by the recent legislatures.

During the last biennium, however, our expenditures exceeded revenue by some 18 million dollars. This is a serious situation and we must face it.

When I first came into the legislature twenty-two years ago our state was in a similar situation. The members of the Forty-fifth General Assembly were faced with a deficit of nearly twenty million dollars. At that time our state expenditures amounted to some 62 million dollars annually. Economic conditions at that time may have justified deficit spending—agricultural commodities were at a very low price level.

It is difficult for me to justify deficit spending during these current good times when our state income is at an all time high.

The members of the Forty-fifth General Assembly faced the financial problem of the state by adopting a broader tax base in a special session, and enacted the three point tax program which forms the basis of our state financial support today.

Incidentally, the rates established in the Forty-fifth General Assembly have been little changed. Over-all increased revenue over the years has come from the increase in income and from economic activities of the citizens of Iowa.

While I can understand the need and desirability of deficit spending at the national level, under certain conditions, this is not applicable to our state government. We have no choice but to live within our income.

On the national level we have seen a trend towards greater dependency on government. Many people and organizations look to the federal government for the solution to many of their problems. Are we having the same tendency in Iowa to look to our state government for assistance when the individual might well take care of himself and be better off in the long run? Incidentally, it is interesting to note that over fifty per cent of the general fund expenditures are various aids to the counties, cities, school districts and to individuals. This, of course, does not include road funds. In other words, the state is collecting large sums of money which are returned to the individual taxpayers through various forms of aids. We generally accept that some programs are and should be the responsibility of the state, but have we increased the state responsibility beyond the reasonable point? I raise this point because it is the responsibility of the legislature to adjust these policies in line with the common good.

Now as to the current situation. During the current biennium total appropriations amounted to 244 million dollars while total income during the same period is estimated at 226 million dollars. This means that we are deficit spending at the rate of nine million dollars per year. At this rate our “rainy-day fund” established six years ago will be exhausted with this coming biennium. That, gentlemen, is the situation on this—the opening day of the Fifty-sixth General Assembly.

Certainly there are broad general policies on which we agree and they will guide our thinking during the next one hundred days. First, we must strive for greater efficiency in our state government. Second, we must strive to eliminate over-lapping and duplication in our state government. We must plug all leaks in tax collection. With the need for money as great as it will be for the next few years, tax collecting agencies must administer their responsibilities and get maximum return, and any loopholes in the state tax law should be corrected by this legislature.

Now it seems to me that the legislature faces three choices. First, we can decide to live within our present income. This would mean an actual reduction in state expenditures and it would, of course, mean a reduction in the services of the state. Is this a practical route to follow at this time? Our second choice then is to collect sufficient revenue to meet current expenditures. This would involve no expansion in state services but rather a hold-the-line policy for the biennium. Our third choice then would be to collect more revenue and expand the services of the state in the public interest. Certain appropriations are meritorious. In the educational field, for example, our state institutions of higher learning need additional financial support to meet the increase in enrollment that they will be facing in the next few years. If we are to provide reasonable educational opportunity to all children in the state, increases in state aid for equalization purposes are desirable. And, in my opinion, the appropriations for the Agricultural Land Tax Credit law should be increased in order that all claims may be paid in full.

Now, if the legislature in its wisdom decides to increase state expenditures, they then face the real problem—where is the money coming from? Let’s discuss these income sources for a moment—property taxes are a stable source of revenue. This tax base fluctuates little from year to year and property tax is an acceptable method of raising revenue. This tax, however, in Iowa is the sole support of the many county, city and local governmental functions. Property taxes of this last year amounted to over 240 million dollars in Iowa. This represents a forty per cent increase since 1950, and this was practically all local taxes. In addition, ownership of property is no longer an accurate method of determining a person’s ability to pay taxes. In my opinion, the property tax is an inequitable method of raising additional revenue. Incidentally, if the legislature does not provide needed revenue from other sources, we will by operation of law have a state property tax whether we like it or not.

So, what do we have left as a source of state revenue—we have the three point tax program which has been in effect for over twenty years. As I mentioned before, over this period there has been relatively little change in the rates of these taxes. The income tax is a fair method of raising revenue because it is based on ability to pay. However, in my opinion, there is one major drawback to an increase in individual income tax, and that is the fact that this field has been preempted by the federal government. Our federal income tax rates are high and any increase in individual state income taxes would be burdensome to say the least.

The corporation income tax amounts to a little over two million dollars annually. A major increase in the tax rate would be necessary in order to bring in any significant increases in state revenue.

This leaves the matter of sales tax and use tax, which have been the backbone of our state financial structure. Last year collections from these taxes amounted to approximately 63 million dollars. This tax has a broad base. Everyone who makes purchases in Iowa makes a contribution to the support of the state government. It is an accepted tax and one which raises a considerable sum of money. This, it seems to me, is a possibility for increasing state revenue. An additional one cent sales tax, for example, will raise about 25 million dollars annually.

Now, there are other sources of revenue which the legislature could consider. Recently the congress reduced the federal luxury tax from twenty to ten per cent. A ten per cent state luxury tax would raise about two and one-half million dollars per year. There is also a possibility of expanding the sales tax to services—which are not presently included. The sales tax could also be made to apply to purchases of beer and cigarettes. In addition, consideration could be given to the elimination of certain exemptions of the present sales tax law which could produce substantial additional revenue.

Thus, this matter of state revenue, in my opinion, is a most serious problem. To borrow a phrase from my good friend, Gus Kuester, “We have reached the bottom of the barrel.” Deficit spending cannot be continued. Within the coming biennium we will exhaust our reserve or surplus. We will be derelict in our duties if we do not solve this problem during this session.

There are a number of other problems that will come to your attention during the next one hundred days. There are many decisions that you will be called upon to make. These decisions should not be influenced by selfish motives, nor should they be based upon purely local conditions. We should always keep the welfare of the people of the whole state in mind, and let us remember that under our republic and in the Great State of Iowa that every citizen has every right and freedom guaranteed under our constitution and under our laws.

Let us remember that God is, and that He rewards good and evil, and that He is no respecter of persons. Let us, therefore, submit our lives and our thoughts to His will. Our nation was founded by men who were not too proud to bend a knee in prayer, who were willing to accept divine guidance, and who daily gave thanks for the blessings showered upon them. Let us follow their example in faith and obedience. Let us take advantage of every advancement in knowledge. Let us bend every effort to make a better, a richer, and a greater state. A state in which justice prevails for all, whether he be rich or poor, great or small.