

MAINE STATE LEGISLATURE

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*To the Honorable Senate and House of Representatives
of the Eighty-Eighth Legislature:*

Your Committee, appointed in pursuance of the Joint Order of the Senate and House of Representatives of the 88th Legislature passed on October 28, 1937, for the purpose of examining into "the relations between the United States of America and the State of Maine in respect to loans or grants by the Federal Government, or any agency thereof, which have been made or are now being made or which may be or become available to the State, or to any agency or subdivision thereof the amounts thereof, the use and usefulness thereof and the manner and expenses of the administration thereof, together with such other facts as may be necessary or convenient in obtaining complete information regarding such matters" respectfully submits the following report:

The Committee held its first meeting on October 28, 1937, and has held very many meetings since that date and has devoted much time to investigation along the lines set forth in the Order creating it. The Committee voted to confine its inquiries as to the amounts of money received from the United States, or any agency thereof, and the expenditure of the same, to the fiscal years from July 1, 1932, to June 30, 1937.

Only a portion of the Federal funds expended in Maine was expended, or the expenditure reported, through the office of the State Controller, and a still smaller percentage was either wholly or partially under the direction or control or administration of State agencies.

During the above named five fiscal years, the total amount of Federal loans or grants which passed through the State Treasury or were vouched for through the office of the State Controller was \$28,910,208.63, and, of this amount, more than thirteen million dollars was expended by the Federal Emergency Relief Administration in Maine without any vouchers returned therefor other than the vouchers of the Administrator thereof; the system being that the money was paid to the then Governor of Maine, Governor Brann, by the Federal Agency disbursing the funds and paid by the Governor to the F.E.R.A. Administrator

who deposited the money in the State Treasury and expended the same by checks against it drawn by him.

Information as to the amount of Federal sums paid into Maine by departments or agencies of the Federal Government had, therefore, to be sought, in large part from other sources than the records of the State Controller, namely, through the various Federal departments or agencies. This was not always easy to obtain, even by personal inquiry in Washington. In some cases, there seemed to be confusion in the records; some times there was reluctance or refusal to give the information. For instance, it required daily inquiry in Washington for a period of four days to get the figures regarding certain grants, as reported by the Department, to agree with figures previously given to the Committee by a former official of that same Department. In another matter, the Department representative first denied having the information, and, later, acknowledged having it but refused to divulge it.

The attention of the Committee was first directed to learning how much Federal money had in fact been expended in Maine and how much was an outright grant and how much was held to be a loan. This proved to be no simple matter. At the time of the appointment of this Committee, the Reconstruction Finance Corporation carried among its assets a sum of approximately two billion dollars as loans to the various states, and the law originally provided that such loans could be deducted from the allotment of Federal funds for highway to the states. Thereafter, Congress enacted a law providing that such loans should not be deducted from highway funds, but did not provide that the debts of the states be cancelled; and the Reconstruction Finance Corporation continued to hold the sums loaned the states as an asset and subject to repayment by the states. The amount was not charged off as a Federal expenditure or added to the Federal deficit. In spite of repeated inquiries, your Committee has not been able to learn the exact status of the sums listed as loans to the states, nor the amount, if any, charged to Maine and subject to repayment. Your Committee hopes that there will be further legislative effort to obtain such

information.

From reports from the various departments of the Federal Government it appears that the total amount of Federal grants expended in Maine from March 4, 1933, to June 30, 1937, was \$84,270,588.00. This amount is, of course, exclusive of loans to corporations and individuals, which are subject to repayment by such corporations and individuals, and which, to a large extent have already been repaid. The amount does include the amounts, totaling \$6,914,858.00, spent for purely Federal purposes, namely, for naval and military purposes and for the Coast Guard, which are for national defense and not for the benefit of Maine alone. It also includes \$14,022,990.00 for C.C.C. camps, many of the beneficiaries of which are young men brought here from other states. Subtracting the amount spent for military and naval purposes, and leaving in the amount spent on C.C.C. camps, though they are not exclusively for the benefit of Maine, and also including the matched sums for highways and for other purposes for which Federal grants have been received for many years, the total amount of grants expended in Maine, during the above named years, amounts to \$77,355,730.00, a very different sum from that which has at times been claimed. Also it must be remembered and emphasized and re-emphasized that such sum is far less than the proportionate part of Federal expenditures which Maine has been called upon to pay and will, now and in the future, be called upon to pay through taxes levied both directly and indirectly.

Of this sum, as stated above, only some fifteen million dollars was, in any degree, subject to the direction, control of, or administration by State agencies, even when the State was obliged to match Federal funds, such administration by state agencies being subject to restrictions and requirements on the part of Federal authorities, as a condition of any portion of the expenditure being met by Federal grants. This is true in respect to the administration of relief, of old age assistance, of aid to the blind, to dependent children and for other purposes under the Social Security Act, so called.

During the above years, the sum of \$53,437,049.08 was loaned to banks and trust companies closed by order of President Roosevelt in March, 1933, and whose difficulties in many cases have been due to such indiscriminate closing. By November, 1937, by the report of the Federal authorities, all but \$407,330.73 of this sum had been repaid with interest, a record of which Maine may be proud.

It was possible, from the records of the various state agencies expending Federal funds and from the office of the State Controller to learn the uses to which such funds were put. Such information, however, could not and cannot, be had as to the use of Federal funds by purely Federal agencies. Such records are not open to state inspection. Some expenditure of Federal money apparently received no oversight by any agency, State or Federal. For instance, your Committee was informed by the acting Administrator of E.R.A. that a large sum of Federal money, granted to Fishermen's Relief Corporation and Maine Coast Fisheries, two Maine Corporations, was not under the jurisdiction of the Federal Government, and that the Committee should make its inquiries of the officers of the corporations. The Committee, in its attempts to get such information, was hampered and delayed and put to great expense. The officers of these corporations not only refused the information sought, but they attempted to secure an injunction to prevent the Committee from pursuing its investigations along this or any other line and denied the authority of the Legislature itself to authorize a Committee to make such investigation. This matter will be discussed in detail hereinbelow, but it is proper to say at this point that approximately one half of all the money spent by the Committee was spent in opposing these suits brought to declare the Committee without authority and its appointment void.

FEDERAL FUNDS FOR RELIEF

The only real and detailed knowledge as to the expenditure of any Federal funds, not under the semi-control of state agencies was furnished by the records in the trial of an officer of F.E.R.A. in Maine indicted with 17 others for misappropriation of Public funds;

and that information became available because the Presiding Justice of the state court ruled that the matter was within the jurisdiction of the state court. As a result of that ruling the case went to trial in the Superior Court sitting in Kennebec County, and evidence was presented.

While the evidence presented at the trial is a matter of Court record, which is the source of the Committee's information, the facts brought to light are of such vital concern and show such gross misuse of public money and ^{are} so little known to the general public, that the Committee deems it advisable to embody certain fundamental points in this report that there may be a more widespread knowledge on the part of the members of the Legislature and of people generally so that they may realize how the hard earned money of the taxpayers was wasted and misappropriated under Federal administration of relief money in this State.

Briefly the situation was as follows: Federal agencies, first, the Reconstruction Finance Corporation, and later, other Federal agencies, paid to the then Governor of Maine, Governor Louis J. Brann, during the years from Jan. 1, 1933, to December 31, 1936, more than twelve million dollars for relief in Maine. The sum probably exceeded thirteen million dollars, but it is difficult, if not impossible, without very extended investigation, to learn from Federal reports figures which can be quoted as absolutely correct. Put conservatively, however, the amount was in excess of twelve million dollars which was paid to Governor Brann. All of this sum except \$206,428.00 (the disposition of which will be discussed hereinbelow) was turned over by Governor Brann to John A. McDonough, who was acting as administrator of F.E.R.A. in Maine and expended by said McDonough and his assistants. Because of certain facts which came to light in regard to such expenditures, indictments were brought in Kennebec County against eighteen of the officials and assistants of F.E.R.A., including McDonough; and one of these officials, George W. Martin, indicted for bribery and for misuse of public funds, was brought to trial in the Superior Court of Kennebec County. At the trial Governor Brann was

questioned about the more than \$12,000,000.00 received by him from Federal funds for relief in Maine, and, upon oath, testified that he turned over this vast sum to John A. McDonough without even knowing whether or not McDonough had authority to receive or expend a cent of it.

We quote the following questions and answers from the testimony of Governor Brann, as found on pages 10 and 11 of the transcript of evidence taken at the trial:

Q: You turned the money over to him? (McDonough)

A: Yes. I did.

Q: I ask you again do you know whether he had authority or not?

A: I don't know whether he had authority or what.

.....

Q: Have you ever seen his appointment, his Federal Commission?

A: No. I have not.

Q: Did he take any Federal oath?

A: I don't know.

Q: Do you know whether Mr. McDonough had any commission or not?

A: I don't know whether or not.

Governor Brann further testified that the State never established any bureau or department for the adequate supervision of the F.E.R.A. money. (Page 1 of the transcript of evidence)

The jury found George W. Martin guilty of the crime for which he was indicted. On appeal it was held that the State Court had no jurisdiction to try the indictment returned by the Grant Jury against him or against the seventeen others, including John A. McDonough, and the indictments were quashed on the ground that the prosecution would have to be had in the Federal Court.

➤ All of the evidence in the case in which George W. Martin had been convicted by the jury, together with a special report compiled from affidavits by a Federal investigator, William H. Kinler, giving additional evidence concerning the misuse of F.E.R.A. funds was turned over to John D. Clifford, United States District Attorney for the District of Maine. A copy of the report was also sent to the W.P.A. in Washington. Upon

inquiry at the W.P.A. offices in Washington, the Chairman of this Committee was informed that the report had been sent to the Department of Justice. At an interview with Mr. Brien McMahon, Assistant Attorney General of the United States, at the Department of Justice, the Chairman of this Committee was informed that the Department had had a copy of the report but that it had disappeared. The Chairman then requested one of the Maine Congressmen to make inquiries about the report, with the result that he was told that the Department did have a copy of the report, but that he could not see it.

Later, the County Attorney of Kennebec County found another copy of the report and the copy of the report attached to a preliminary report by the Committee, heretofore filed, was secured from him.

Although more than two years have elapsed since these matters were referred to the Federal authorities, no action of any kind has been taken by the Federal authorities to prosecute these men. It is significant that Mr. McMahon of the U. S. Attorney General's staff inquired of the Chairman of this Committee whether or not the people of Maine resented the failure of the Federal authorities to prosecute.

In its study of the sums of money reported by the Reconstruction Finance Corporation as having been paid to Louis J. Brann as Governor for relief in Maine under the Emergency and Relief Acts of 1932 and 1933, your Committee found a discrepancy between the amount reported by the Reconstruction Finance Corporation and the amount paid out by the Federal Emergency Relief Administration in Maine through the office of the State Controller, or through any other of the financial agencies of the State of Maine. This discrepancy amounted to \$206,428.00. In checking up on this discrepancy, the Committee learned that the said sum of \$206,428.00 received by Governor Brann from the Reconstruction Finance Corporation for relief had been deposited by him in the Augusta Trust Company and the Depositor's Trust Company in a separate account, payable upon checks drawn by Governor Brann personally as Governor of Maine, and no part of said sum passed through the office of the State Controller. And the State Controller informed your Committee that he

had no knowledge concerning the expenditure of this sum.

The Emergency and Relief Acts above referred to required that the Governors receiving money under said Acts "should file with the Corporation (R.F.C.) and with the Auditor of the State or Territory (or if there is no Auditor, then with the official exercising comparable authority) a statement of the disbursements made by him under this section." The instructions issued to Governors by the Reconstruction Finance Corporation recited the provisions of the Federal Law. As stated, the State Controller had no knowledge concerning the expenditure of the above sum. The State Auditor and the State Treasurer also signed affidavits stating that no report of such expenditure had been filed in either of their respective offices.

Later there was paid to Governor Brann the sum of \$9,500.00 by the acting Administrator of Federal Emergency Relief in Maine, which said sum was deposited in said above named separate account, making the total of the sum deposited in said account \$215,928.00. All of this sum was paid out upon checks drawn by Louis J. Brann as Governor of Maine. Some \$5,600.00 was afterwards paid into the State Treasury.

The Committee was unable to find in any of the files turned over to it either receipts or cancelled checks for a part of this sum of \$215,928.00. It did find vouchers for the payment of a considerable portion of said sum signed by the mayors of various cities and by chairmen of selectmen of towns. From the Committee's investigation in reference to several of the cities whose mayors were paid these sums, it learned that in each case investigated, the money was deposited in a separate fund to the account of the mayor as mayor and that no record of the receipt or expenditure of these sums appeared in the city books of account. In the case of one city a sum of at least \$20,000.00 had been paid to the mayor as mayor. There was no record in the city books of the receipt or expenditure of this sum. The mayor was dead and nowhere was there a scintilla of evidence of how or for what this money was spent. In another case, it was learned that the sum of more than \$5,000.00 paid to the mayor as mayor had been deposited in a separate account to the order of the mayor and expended by checks

drawn by the mayor, there being no record in the books of the treasurer of the city. The mayor, himself, could not furnish to the Committee any receipts or cancelled checks showing for what or to whom the money was paid, though he said it went for the pay-roll for some project, and that the receipts and cancelled checks were probably sent to Augusta but to whom he did not know. The Committee found no receipts or cancelled checks for this sum in the files turned over to it.

The Committee is convinced that the mayor last referred to was personally perfectly honest and did not knowingly expend any of the money improperly. The facts, however, offer evidence of the loose way of handling money wrung from the taxpayers-- so loose that it invited fraud and grafting.

A considerable part of this special fund of \$215,928.00 (more than \$20,000.00) was not accounted for by the payments to mayors or selectmen. Some cancelled checks of payments to individuals were found, but a substantial portion of the amount was not covered by receipts or cancelled checks. The Committee, therefore, called Governor Brann to testify before it for the purpose of inquiring into the expenditure of this sum and also to ask if he could furnish the Committee with either receipts or cancelled checks for the balance of the sum. Governor Brann stated under oath that he paid this money (more than \$20,000.00) to individuals determined upon by himself alone; also that he could not supply any receipts or any other cancelled checks. He further testified that, so far as he knew, no statement of the disbursement of any of this sum of \$215,428 had ever been filed with the State Auditor or State Controller or State Treasurer. As stated above, no statement ever was filed with any of these officials although the law under which these payments were made to the Governors of states required the filing of such statement.

FUNDS FOR RELIEF OF FISHERMEN. MAIN COAST FISHERIES, INC.

In the course of its investigations, your Committee learned from the Acting Administrator, under the Federal Government, of E.R.A. that a large sum from Federal Funds had been paid to a Maine corporation,

the Fishermen's Relief Corporation, for relief of needy fishermen in Maine, and that a portion of said funds had been advanced as an unsecured loan to another Maine corporation, namely, Maine Coast Fisheries, Inc. Upon request for detailed information concerning the terms upon which these grants had been made and concerning the expenditure of the public funds granted to them, your Committee was informed by said Acting Administrator that he was unable to supply such information, as (to quote his exact words) "neither of these corporations are subject to the supervision of the Federal or Maine Emergency Relief Administration. ~~x x x~~ For details regarding the financial status of the Maine Coast Fisheries, Inc., I would have to refer you to the Governor or Rufus H. Stone, Executive Director of the Maine Coast Fisheries."

Before seeking information from the Governor or from Rufus H. Stone, as recommended by the Acting Administrator of E.R.A., your Committee gathered certain facts relative to the above named corporations. Through the W.P.A. in Washington, your Committee learned that the sum of \$210,000.00 was paid by the F.E.R.A in 1934, to the then Governor of Maine, Louis J. Brann, for relief of fishermen and was by him turned over to the Fishermen's Relief Corporation. Of this corporation, the only members and directors were John A. McDonough, Administrator for F.E.R.A. in Maine, Rufus H. Stone and William J. Salter, also connected with F.E.R.A. in Maine. The same persons were also members and shareholders of the Maine Coast Fisheries, Inc., a private corporation, which, according to its articles of incorporation was organized for profit, Peter A. Isaacson acting as attorney.

As directors of Fishermen's Relief Corporation, the above named gentlemen turned over at least \$50,000.00 of the \$210,000.00 to themselves as members of Maine Coast Fisheries, Inc. This was an unsecured loan of public funds. With this and other money the Maine Coast Fisheries, Inc. bought fish which they canned and sold to the F.E.R.A. to the amount of \$175,599.00 for distribution to the poor people of Maine and elsewhere. Each fisherman from whom fish was bought was required, as a condition of such purchase, to buy a share

of stock in Maine Coast Fisheries, Inc. at a price of \$10.00. This stock carried no voting power; and, so far as the Committee could discover, the fishermen who purchased such stock never heard anything further about the stock--not even when the company was petitioned into receivership, with Fred H. Lancaster as receiver.

Although it was stated in the Articles of Incorporation that the Maine Coast Fisheries, Inc. was organized for profit, a letter signed by Rufus H. Stone as Manager was sent to fishermen along the east coast on letter sheets which carried the heading: State of Maine, Emergency Relief Administration. Division of Maine Coast Fisheries. Later, in his petition for a restraining order brought by Rufus H. Stone to prevent your Committee from investigating the affairs of Maine Coast Fisheries, was the following statement: "That the said Maine Coast Fisheries, Inc. was "a private corporation duly organized by law engaged in the business of processing fish and fish products for profit and for its own benefit."; and again it was stated "that the said Maine Coast Fisheries, Inc. is not and never was an agency or subdivision of the State of Maine, nor an agency or subdivision of the United States."

During the Spring of 1938, there began to come to your Committee reports from various persons concerning the operations of Maine Coast Fisheries, Inc. and evidence was given the Committee in the form of affidavits concerning its operations.

In these affidavits, it was alleged that the Maine Coast Fisheries, Inc. purchased fish along the coast of Maine which were for the most part haddock costing from six to thirteen cents per pound, that the haddock were delivered to parties other than Maine Coast Fisheries, Inc. and a cheaper grade of fish costing much less, such as pollock, cod and devil fish, so-called, were substituted for the higher grade fish and that said inferior grade of fish were canned and sold to the F.E.R.A. for distribution to the poor people of Maine and elsewhere; that the fish so substituted and canned was, at times, stale, old and of foul odor and that many of the poor people of Maine to whom such fish were

distributed were made violently sick thereby; that much of the fresh fish was shipped to New York, rather than canned for consumption by the needy people of Maine, and sold in the open market in New York at a profit to someone of approximately \$5.50 per hundred.

Your Committee, in order to give the persons concerned with the operation of Maine Coast Fisheries, Inc. an opportunity to appear and answer the charges made, and also to determine the use to which the public funds paid to said company were put, summoned to testify before it Rufus H. Stone, Manager of Maine Coast Fisheries, Inc., to whom the Committee was referred for information by the Federal Acting Administrator of E.R.A., as stated above; Peter Isaacson of the law firm of Brann and Isaacson, who organized and acted as attorney for the company, Fred H. Lancaster who had been appointed Receiver for the defunct corporation and George H. Ratcliffe of the Portland Fish Company, who, the Committee believed had knowledge of material facts concerning the operations of Maine Coast Fisheries, Inc. in respect to the canning of fish.

On the date set for the hearing, and upon the arrival of your Committee at the place set, namely, the House Locker Room in the State House at Augusta, the members of the Committee were met by a deputy sheriff who served upon each member of the Committee a Court order restraining the Committee from conducting any hearing and from examining any witnesses whomsoever in connection with the affairs of Maine Coast Fisheries, Inc. Furthermore, the bill for the restraining order alleged that the Order passed by the 88th Legislature for the appointment of your Committee was "wholly illegal, void and unconstitutional" and "that the Legislature of the State of Maine had no power or authority to appoint said committee and to give it the power attempted to be given under said Order", thus denying the very powers and authority of the Legislature itself and of the State of Maine. This restraining order was dismissed after a delay of ten days, because brought in the wrong county. Meantime the Committee was at a standstill. After the dismissal of this restraining order, but before the persons summoned

to testify had been served with a further summons, another similar restraining order was obtained in the proper county, by Mr. Stone through his attorneys, County Attorney Powers of Androscoggin County and Peter A. Isaacson of the law firm of Brann and Isaacson, in which it was alleged that the Committee intended to again summon Mr. Stone to testify. After another delay, this bill was dismissed.

The Committee felt it to be vital to oppose these restraining orders since the entire authority of the Committee to investigate the matters which it was directed by the Legislature to investigate and the authority of the Legislature itself, by legislative order to provide for the appointment of a committee of investigation, was disputed; and therefore, under the authority given it by the terms of the Order creating it, employed counsel to represent it in the Court proceedings upon the two restraining orders. Thus the State has been put to considerable expense due to the action taken in order that the persons in charge of Maine Coast Fisheries, Inc. and under whose management and direction the money of the taxpayers, granted for the relief of needy fishermen was spent, might avoid any account of their use of these funds. After the Committee had been twice stopped by Court order from holding any hearings or examining any witnesses concerning the operations of Maine Coast Fisheries Inc., further efforts to obtain their explanations, if any, seemed unnecessary and provocative of further delays, Court proceedings and expense. If the relief moneys were properly spent for relief, it would seem that the persons involved would have been ready and eager to make full disclosure of their records and actions. They preferred, however, to argue that the State Legislature had no power to investigate the use of Federal money, which came out of the pockets of the taxpayers, even though such money had been turned over by the Governor of the State of Maine to Maine corporations, and refused to testify. Your Committee believes that the evidence obtained by it justifies an investigation by the proper prosecuting officers, whether State or Federal.

SOCIAL SECURITY AND RELIEF

Under the social security program of the Federal Government, in order to receive Federal grants, the State in many cases is obliged to make appropriations to match the Federal grants, the percentage paid by the State being fixed by the Federal Government or by some agency thereof; and the expenditure of such sums are subject to rules, regulations and restrictions fixed by Federal agencies even when such expenditure is under the direction or supervision of State officials.

SOCIAL SECURITY PROGRAM

The first Federal grants under the Social Security Act were received by the State Treasurer in February, 1936. During the remainder of that fiscal year, that is, prior to July 1, 1936, and during the fiscal year ending June 30, 1937, the following grants were received:

	<u>1936</u>	<u>1937</u>
Old Age Assistance	\$88,593.75	\$358,215.90
Aid to Blind	56,880.07	121,974.57
Aid to Crippled Children	12,057.36	70,655.81
Maternal & Child Health	19,496.95	36,999.27
Public Health	21,043.33	60,609.00
Child Welfare Service	66,987.22	13,719.56
Aid to Dependent Children	<u>1,881.63</u>	<u>133,494.25</u>
Total	\$266,940.31	\$795,668.36

Each of these services is believed to be of value to the people of this State, and the amount of service performed or aid rendered has been increased by the use of these Federal funds. The 88th Legislature endorsed these grants by the passage of acts providing for the receipt and use of Federal funds for each of these services in a manner conforming to the Social Security Act. Federal requirements in some cases seem to your committee to make unduly large the amount of funds spent on administration and a considerable amount of dictation from Washington accompanies the acceptance of these grants.

How completely the Federal Government regulates and controls certain

important activities within the State, even when Federal funds are matched by State funds, is illustrated by the procedure in respect to grants for agricultural purposes and in the administration of the Social Security Act.

DEPARTMENT OF AGRICULTURE

According to the testimony of the Commissioner of Agriculture, Mr. Washburn, no Federal moneys have been paid direct to the State Department of Agriculture between the years 1932 and 1937, and the only indirect payments have been the funds paid by the Federal Government direct to the farmers for condemned cattle.

The system has been for the State Department of Agriculture to make recommendations to the Federal Government for payments and the checks have been sent from the Federal Government direct to the farmers.

The following amounts were paid between 1932 and 1937, to wit:

1932	\$6301.36
1933	2791.07
1934	1982.62
1935	122939.80
1936	39684.12
1937	<u>14701.49</u>
Total - - - - -	\$ 188,400.46

These funds were matched dollar for dollar by the State except that during the year 1935, because of the emergency, the State did not completely match the Federal money.

It should be noted that the National Emergency Council represents expenditures of Federal money in Maine through the Agricultural Adjustment Administration from March 3, 1933, to June 30, 1937, as \$520,623.00.

Apparently, these moneys were not handled through the State Agricultural Department but through the Extension Service, so called. The Extension Service is a branch of the College of Agriculture and is administered by a director who is appointed by the Trustees of the University of Maine, subject to the approval of the Secretary of Agriculture in Washington.

This director has no connection with the Maine State Agricultural Department and he is, apparently, answerable to the trustees of the University of Maine and also to the Secretary of Agriculture in Washington.

Although your committee did not make a detailed investigation into the activities of the Extension Service it might be noted that the director has under his supervision at least forty agents who are in no way under the control of the trustees of the University of Maine or any other State department and who are, apparently, appointed by the director with the advice and consent of the Secretary of Agriculture in Washington and whose salaries are paid partly by the Federal Government and partly by the various counties in the State.

Your committee recommends a further investigation into the expenditures in this department.

SOCIAL SECURITY ACT.

Over a great period of years the National government has gradually augmented its powers. This process has been accompanied by a corresponding gradual decline in the powers and the independence of the several States. Since 1933 that process is no longer gradual. A deliberate effort to control the States has been manifest. Your Committee finds that since 1933 there has been almost no field of State activity in Maine which has not been the object of Federal invasion. Allotments of Federal funds, abuse of the taxing power, Federal legislation either patently violating, or stretching to their utmost limits, the provisions of the Constitution have been the weapons of that invasion, accompanied by the use of subterfuge, indirection and threats to withhold from the people of Maine funds raised by taxation within our own borders.

The enactment of the Maine Unemployment Compensation Act is an instance in point. By means of the Social Security law the Federal government imposed a drastic tax upon the people of Maine. Under that law none of the funds so collected would be expended for unemployment

in Maine unless the Legislature of this sovereign State would, as an alternative, impose a similar State tax and pass such legislation for Maine as the Federal government should direct.

Acting under such coercive influence the 87th Legislature in the Special Session of December, 1936, enacted a Bill substantially drafted by Federal authorities, creating the Unemployment Compensation Commission as a department or agency of the State of Maine. Funds collected by the State of Maine from Maine taxpayers for distribution by an agency of the State of Maine among the unemployed citizens of the State of Maine were required to be transmitted forthwith to Washington. Such funds will not be returned to the State of Maine in the future unless the Legislature of Maine shall obey the mandate of the Federal government with respect to unemployment legislation. Annual approval of the Maine law by the National government is indispensably required under the Social Security Act.

That this department of the State of Maine is subject to complete control by the Federal government is demonstrated beyond the slightest doubt by the sworn testimony of Mr. Clifford A. Somerville, Chairman of the Maine Unemployment Compensation Commission, at a hearing held by this Committee at the State House on December 1, 1937. We commend a thorough reading of the testimony of ~~Mr.~~ Chairman Somerville from pages 22 to 48 of the official stenographic record of said hearing.

Your Committee finds that the Maine Unemployment Commission, though a State department, is completely controlled from Washington as to matters of general policy, finances, purchases, accounting, legal interpretation of State laws, and even in many matters of the merest minor detail.

We quote in part from Mr. Somerville's testimony, as follows:

" * * it is extremely difficult, I will say frankly, to administer the department in view of conflicts between state regulations and federal regulations as to all kinds of fiscal affairs - purchases or anything else where money is involved."
(Page 25)

* * * * *

"Under our state law, the Commission is supposed to establish its own policy of administration and its organization and its procedure, but, as a matter of practice, we find that there is not a great deal we do in the way of policy of any kind, whether it be a legal question, whether it be an organization question or purely administrative matter, but what, if it doesn't agree with what the Board (Social Security Board) would have us do, we have to change it." (Page 27)

* * *

"Q: You regard your Commission as a state Commission?

A: Yes, sir." (Page 28)

* * *

"Q: I am asking then or trying to get at what things, if any, you can mention offhand in which the federal authorities do not interfere but which things are left entirely to the discretion of the Commission?

A: I should have to think quite a while, and we have thought about that some ourselves, so that it is not a new thought to me at all." (Page 29)

* * *

"Q: What I am trying to get at is whether there is any function of the Commission that is free from federal control?

A: I don't see that there is, frankly. They tell you that in administering your department you are entirely free to follow your state law and conduct your own policies as a commission, set up your own organization and your own administration, but by constant suggestion, as they put it, in the form of letters and bulletins, you find that you pretty nearly conform to their ways of doing business." (Page 32)

"Q: In other words, then, you can't think at the present time of any activity that you can carry on that is not subject to direction from Washington?

A: No, I can't." (Page 33)

* * *

"Q: To put the whole thing in a nutshell, would you say that the Unemployment Commission is an agency of the State of Maine controlled by the United States?

A: I think that is true." (Page 35)

It should be understood that your Committee in this report is not opposing the policy of providing employment or benefits for the unemployed. It does, however, seek to make clear that the State in

this field is substantially a mere servant of the National government, exercising not its own will, but the will of Federal authorities.

If the methods by which Federal dominion was acquired and is exercised over this field of legislation are applied to other branches of State jurisdiction, State government will become extinct, save only as a form. Your Committee believes that while Maine should resist this tendency so far as it reasonably can, the only effective means of resistance lies in a change of policies in federal legislation.

RECOMMENDATIONS

Your Committee recommends that the 89th Legislature be urged to take appropriate action and enact legislation to provide:

1: That further investigation be made to learn what amount, if any, is charged against the State of Maine, as a debt subject to repayment, by any agency or department of the Federal Government.

2: That the President of the United States be requested to direct the United States Department of Justice to prosecute in the Federal Court the men indicted in Kennebec County for misappropriation of public funds, which indictments were quashed on the ground that prosecution must be had in the Federal Court.

3: That legislation be enacted providing that any and every official of the State of Maine entrusted with the expenditure of Federal funds shall file in the office of the State Controller a detailed report of the purposes for which such expenditures are made and the persons to whom such sums are paid, supported by proper vouchers, and fix the penalty for failure so to do.

4: That our Senators and Members of Congress be requested to seek to have enacted by the Congress laws adequately safeguarding the expenditure of public funds and requiring that specific detailed reports of the expenditure of Federal funds within the various States, whether matched by State funds or not, be filed with some specifically designated State authority and be open to public inspection.

5: That there be thorough investigation of the affairs of the Fishermen's Relief Corporation and Maine Coast Fisheries; that if fraud in the operations of these Maine corporations be uncovered, prosecution of those guilty of fraud be instituted; and if it be held that the fact that the funds granted to these corporations were Federal funds prevents action by State authorities, that then the Federal Department of Justice be requested to take action.

6: That the Senators and Representatives in Congress from Maine be urged to do all in their power to oppose Federal encroachments on the proper functions and powers of the States.

Gail Laughlin,
John C. Willey
George E. Hild
Donald W. Philbrick
George D. Varney

Office of the Clerk of the House
January 3rd 1939
Received.

Harvey R. Pease
Clerk of the House
88 Legislature