

# Some Paradoxes in State Finance

EDITOR'S NOTE: *Sooner Magazine* presents the first of a series of articles explaining some of the state's financial difficulties, particularly as they affect the state's institutions of higher education. Figures used are taken from official reports. Statements made represent the composite opinion of experts in this field.

**A** STRIKING development in Oklahoma's financial situation during the last three years has been the steady increase of total state revenues, accompanied by a marked relative decline of the general revenue fund.

The general fund includes those revenues that are regularly appropriated by the legislature for the support of state departments, agencies, and institutions. These appropriations are made biennially under the critical examination of legislative debate.

All other tax-derived revenues are earmarked for special purposes, such as highways, common schools, and old-age pensions.

The proportion of tax-derived revenue that went into the general revenue fund in 1935-1936 was 48.8 percent, in 1936-1937 it declined to 46.2 percent, and in 1937-1938 it dropped sharply to 37.7 percent.

During the latter fiscal year, a total of \$61,718,991.61 was collected under the revenue laws of the state. Little more than one third of this sum was appropriated under the usual procedure which governs the enactment of appropriation laws. Nearly two thirds escaped legislative scrutiny because it was automatically earmarked for special purposes.

Ear-marking state revenue for specific purposes is a practice to be followed only with caution. In general, it is highly advisable to submit the purposes and objectives for which public funds are expended, to periodic and critical examination. Probably once each biennium is none too often, since the needs can change rapidly.

The limitation of the ear-marking practice to a minimum is held desirable by most tax authorities for two important reasons. In the first place, ear-marking is likely to bring about unscientific and unbalanced expenditures, resulting in wasteful or excessive spending by some agencies, and financial strangulation for others. The needs as well as the demands for governmental services are constantly shifting. Oklahoma, due to a rapidly maturing population, is already witnessing a marked decline of elementary school attendance. On the other hand, it faces increased enrollment in both highschools and colleges, a trend that promises to continue for a number of years.

Wise financial planning cannot ignore such trends; and probably the best way to insure that they will receive due consider-



Most of the water is caught behind the dam.

ation is to require an act of appropriation by the legislature.

Not many of the services performed by governments today will be regarded as easily dispensable, tax reduction associations notwithstanding. But it becomes important, in view of present financial stringencies, that these services, and their costs, be made subject to the steady scrutiny of the legislature and the public. Placing a few governmental services in a sheltered financial position is an effective means of avoiding close examination. All service agencies of the government, with few exceptions, ought to compete on equal terms for legitimate financial support.

In the second place, shunting public revenues away from the general fund, under the ear-marking practice, leads to popular misunderstanding concerning the financial resources of the state, and the extent to which they have been allocated for particular services. Probably the average

Oklahoman believes that state aid for common schools, in 1938, amounted to the much discussed figure of \$12,800,000. Actually the sum was considerably larger. Thanks to ear-marked revenues, it totalled \$15,965,605.91.

During the biennium, 1936-1938, the State Tax Commission administered twenty-two tax laws, from which approximately \$62,000,000 was derived. The accompanying table shows the distribution between the general fund and other funds, of revenues that were produced by twelve of the most important of these laws.

A glance at this table will reveal some of the reasons for the decline of the general fund. Past legislatures, in response to public demand, have added to the state's list of social services—common schools, old-age security, conservation and others. At the same time, the problem of financing these services has not been faced frankly and systematically.

As a matter of fact, in the face of this increase of costly functions, the state surrendered (via constitutional amendment) the general property tax, one of its most stable sources of income. And as an additional gesture toward future insolvency, general property was further relieved by law (and partly by county assessors) of its responsibilities to local government. This seems rather like burning the candle at both ends.

We abolished the state ad valorem tax and adopted homestead tax exemption to save the home owner, when scarcely more than thirty-nine percent of Oklahoma families owned their homes. We wanted to save the farmer, when a few more than a third of the farmers of this state owned their farms.

In any event, steps have been taken that jeopardize not only the general fund, but the entire financial structure of the state. With the new state services pressing for additional financial support, the general

## Disposition of Major State Revenues

	% Going to Gen. Fund	% Going to Other Funds	Revenue Derived	% of Total State Revenue
Gasoline Tax	100	100	\$15,323,152.65	24.83
Corporation License	98	2	624,171.45	1.01
Gross Production	78	22	12,976,519.53	21.03
Inheritance-Estate	95	5	351,015.43	.57
Income	92	8	8,538,549.90	13.83
Motor Vehicle Mileage		100	1,393,562.06	2.26
Motor Vehicle License		100	5,161,250.42	8.36
Consumer (Sales) Tax, 1937		100	10,707,338.60	17.35
Use Tax	97	3	610,711.00	.99
BEVERAGE				
License and Tax		100	1,050,709.71	1.70
CIGARETTE				
License and Tax	95	5	2,166,057.24	3.51
MOTOR				
Vehicle License Tax	49	51	1,331,579.25	2.16

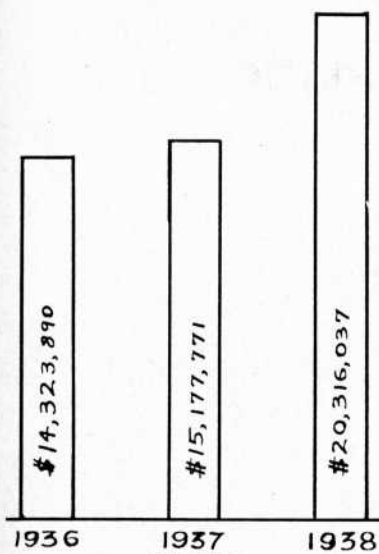


CHART I

Allocations of state-controlled tax revenues for all highways, state and county.

fund has not fared well in the struggle for a legitimate share of state funds.

It is important to observe the type of taxes ear-marked for special purposes, and those that serve the general fund. In the first place, five of the state's most productive taxes—gasoline tax, sales tax, motor vehicle license tax, motor vehicle mileage tax, and the beverage license and tax—contributed not one cent to general revenue. These four taxes produced approximately 54 per cent of all tax-derived revenues of the state.

In the second place, these taxes are five of the most stable producers of revenue in the entire list. All are based upon consumption or transportation, types of activities that are least affected by a downward trend in business volume. Men must live from day to day, and a tax upon necessities, whether a loaf of bread or a tank of gasoline, is the surest means of providing a steady stream of revenue.

Observe again those taxes that are the chief support of the general fund. Except for those revenues derived from cigarette licenses and the cigarette tax, the general fund is dependent upon taxes of maximum instability. The income tax is notorious in this respect, and the gross production tax is only moderately preferable. They are good producers of revenue in good times, and are likely to be poor or unreliable producers of revenue in bad times.

It is questionable procedure, to say the least, to impose upon the general fund the responsibility of maintaining the most fundamental and characteristic functions of government when the revenues that feed it rank relatively low in the quality of reliability. The administration of justice, the exercise of general police powers through such agencies as the attorney general's office, the commissioner of labor, commissioner of charities, commissioner of health, and the maintenance of state penal, eleemosynary and educational institutions are matters of primary responsibility in state governments.

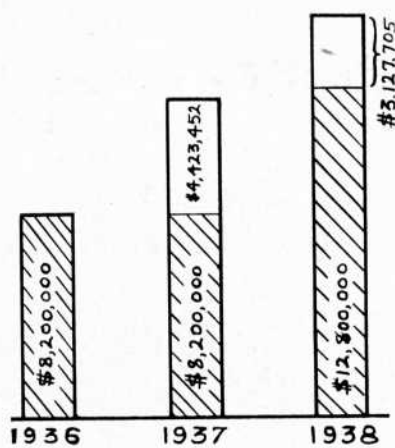


CHART II

Allocations of state-collected tax revenues for common schools. Shaded portions indicate allocations from general fund; unshaded portions, ear-marked revenues.

Nevertheless, examination of the state's expenditures indicates that the state devotes a surprisingly large share of its resources to financing local government and highway construction.

Charts I, II, III, and IV illustrate this. Chart I shows the increase of state-collected revenues that have been disbursed during the last three years for the construction and maintenance of state highways and county roads.

Chart II discloses the total appropriations from the general fund and ear-marked revenues disbursed by the state for the support of the common schools.

Chart III indicates the total revenues that have gone into the general fund during this period, and chart IV shows the decline, in terms of percentages, of general revenue compared with the total tax-derived revenue collected by the state during this three-year period.

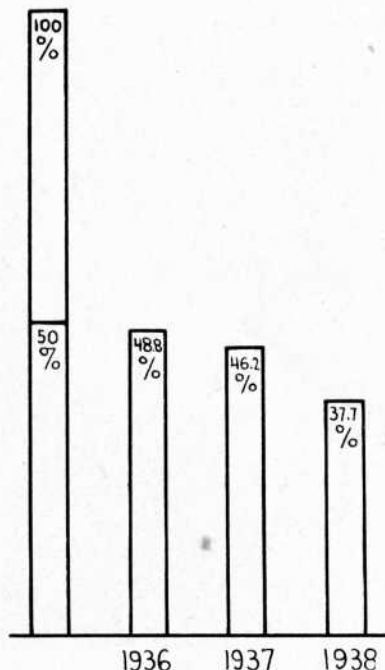


CHART IV

Percentage of tax-derived revenues received by the general fund.

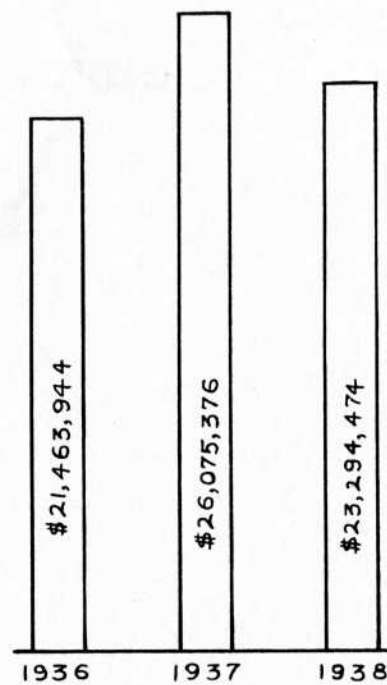


CHART III

Total revenues going into the general fund.

In 1938, slightly more than 58 percent of the revenue collected by the state was disbursed for highways (county and state), and the support of common schools.

Without attempting to minimize the importance of these services, it is still startling to see that more than \$36,000,000 of state revenue went for these purposes—slightly more than \$20,000,000 going to roads and highways, and almost \$16,000,000 to common schools.

In the same year, the state put into the general fund to be appropriated by the legislature for the primary governmental functions, a total of only slightly over \$23,000,000. Of this, \$12,800,000 was appropriated for common school aid.

The ear-marking of certain revenues, such as the gasoline tax for highway purposes, has some common-sense logic to it. But when the ear-marking covers nearly two-thirds of the state's revenues, the legislature's hands are pretty well tied in trying to adjust revenues to needs.

If ear-marking of taxes for some particular state service is necessary to "keep it out of politics," then why not ear-mark funds for every agency of the state government? And when that theoretically happy status is reached, why not abolish the legislature, since it would have no funds to appropriate?

The legislature is elected to legislate and appropriate. It is the body elected by the people to study the needs of the various agencies of the state government, to levy taxes to meet those needs, and to appropriate the funds to be spent. The ear-marking of a large proportion of the state's revenue doesn't help this process.

The decline of the general fund, in proportion to total state revenues, means the decline of the legislative responsibility. Is that what Oklahoma really wants?