

Analyzing the State Deficit

There Are Many Factors To Consider Before Branding the State "Bankrupt"

EDITOR'S NOTE: This is a second article in a series devoted to analysis of the state's current financial difficulties. Last month, an article pointed out how the growing practice of earmarking state tax revenues for special purposes has caused a sharp reduction in the proportion of revenue going into the general fund. The article below presents information indicating that the state is basically in sound financial condition, despite the threatened deficit in the general fund.

BECAUSE a considerable deficit appears likely in the state's general fund by the end of the present fiscal year, some observers have shouted with alarm that Oklahoma is close to "bankruptcy." There appears to be some justification for the charge when the situation is viewed superficially, since most informed persons agree that general fund revenues for this fiscal year will not be sufficient to meet the appropriations made by the Legislature for the year. Governor Leon C. Phillips, seeking to reduce the prospective deficit in the general fund, has made substantial slashes in the budgets of state educational institutions, which in most cases forced reduction of salary scales.

But to assume that this condition indicates anything like general "bankruptcy" in the state government of Oklahoma would be to overlook several important factors.

The general fund, in which the deficit is developing, receives little more than one third of the state's tax-derived revenue. The various state funds such as the highway fund, pension fund, and others that are supported by earmarked revenues are on a cash basis and are not affected by the general fund deficit. In other words, only about one third of the state budget is in serious financial difficulty—while two-thirds of the budget is on a more or less flourishing cash basis. The highway maintenance and construction fund, for example, has cleared a debt of about \$5,000,000 since the first of 1939.

The general fund deficit is due, in some measure, to increases in expenditures for state aid to public schools, but it is also explained in part by the abolition of the state ad valorem tax levy, which was the general fund's most reliable revenue producer. The general fund, although supporting the fundamental state government-

TABLE I
HOW THE STATES RANK IN
PER CAPITA DEBT

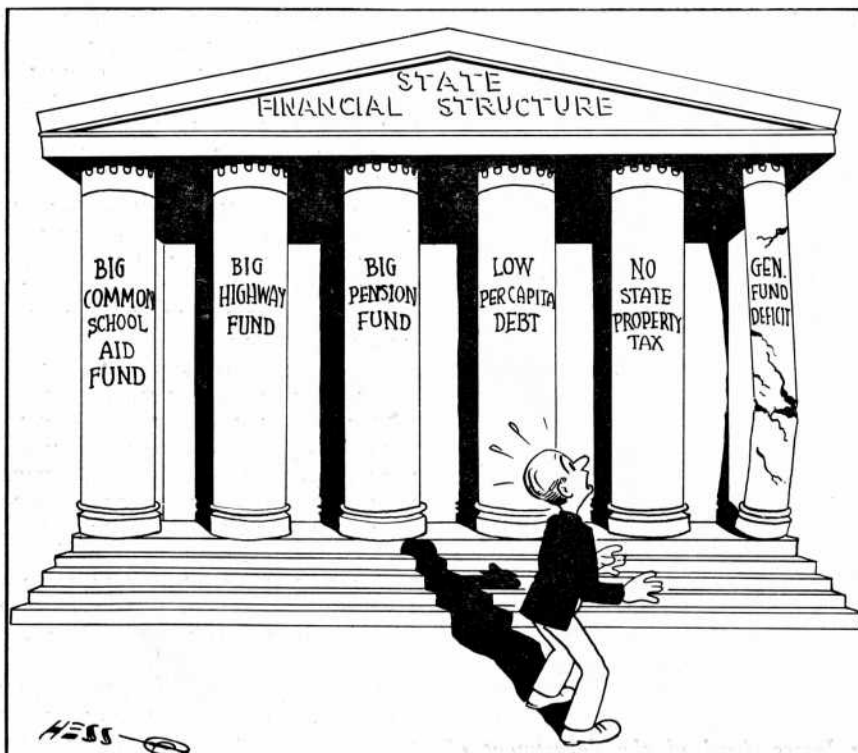
(Total of State and Local Government Debt)			
Georgia	\$26.62	Miss.	84.77
Kentucky	30.66	Del.	85.20
Indiana	46.79	Wash.	89.48
OKLAHOMA	49.40	Ohio	93.03
Virginia	49.60	S. Dakota	95.25
Nebraska	49.85	Texas	100.16
Wisconsin	51.87	N. Mexico	100.44
Vermont	51.94	Ark.	103.83
New Hamp.	52.69	Tenn.	104.82
Nevada	57.25	Illinois	106.81
Utah	58.64	Arizona	108.56
Maine	59.31	Penn.	109.24
Kansas	61.73	Michigan	117.45
Alabama	61.78	Minn.	120.00
S. Carolina	66.90	N. Carolina	122.78
N. Dakota	67.06	Wyoming	127.60
W. Va.	68.08	Oregon	129.45
Idaho	76.06	Maryland	130.81
Conn.	78.90	Calif.	139.49
Mass.	79.08	Louisiana	144.42
Montana	79.75	R. I.	151.18
Iowa	80.25	N. Jersey	200.03
Missouri	83.26	New York	266.06
Colorado	84.15	Florida	274.05

This table shows how high Oklahoma ranks in the smallness of its per capita debt. The figures include both state and local government debt. Nebraska—often cited for its thrift and economy—has no state debt, but has such a large per capita debt for local government that it compares unfavorably with Oklahoma when the whole picture is considered.

tal agencies, such as the departments and institutions, now receives its revenues from sharply fluctuating types of tax levies. Revenues from the most stable tax levies (those based on transportation and consumption), go into special earmarked funds.

One of the best indications of a state's financial soundness, or want of soundness, is found in the condition of its debt. The adequacy of this standard will depend of course upon the manner in which the state debt is understood. All debts, state and local, are obligations upon the public. They are, largely, met through the collection of taxes. Any other interpretation of the public debt leads to serious misunderstanding. The total state debt is the state debt proper plus the combined debts of all political subdivisions—counties, towns and cities, school districts, and townships.

Table No. I shows the over-all per capita debt in Oklahoma, \$49.40, and the rank that Oklahoma holds in a list of states rated according to the total per capita debts. This information, collected by Dun and Bradstreet in 1937, may be subject to some correction over the past two years, but the change will not be very great, according to the Research Division of the Oklahoma Tax Commission.

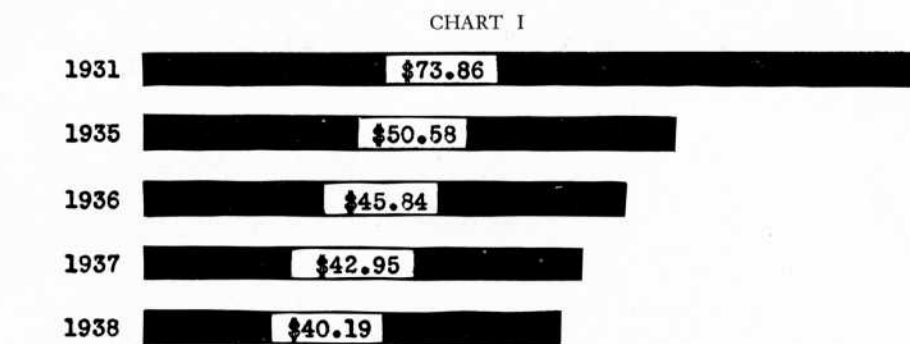


Most of the structure is sound, but the weak pillar gets the attention.

Oklahoma stands well up in the list, and it is interesting to note, well above Nebraska which has frequently been held up to the citizens of this state as an example of economy, good government and sound finance. Nebraska has no state debt, but the debts of its political subdivisions exceed both state and local government debts in Oklahoma.

One of the surprising facts about Oklahoma's financial condition is the rapid decline of the total debt since 1929. It is surprising because the decline has occurred during years of the state's greatest financial stringencies. Chart No. I shows graphically what is happening to the per capita debts of local governments. From a total of \$203,453,000 in 1931, they have been reduced by almost fifty millions to \$154,861,375 in 1938, a decline at the rate of \$7,000,000 per year.

The per capita debt of New York is more than five times as large as that of Oklahoma. Florida's exceeds ours almost six times. Texas and New Mexico per capita debts surpass Oklahoma's by the ratio of two to one. Arkansas's obligations are relatively larger, and even the per capita debt of frugal Kansas exceeds our own by



This chart shows how steadily Oklahoma's per capita debt (including both state and local government debts) has declined in recent years

more than a ten dollar bill. If the public debt is a standard of solvency or insolvency, Oklahoma is farther from bankruptcy than most of the forty-eight states.

In last analysis, Oklahoma's ability to finance a well rounded state program will depend upon its wealth. Table II is designed to give some idea, through the sampling technique, of the relative wealth of this state. Obviously, it is not complete, but a few reliable deductions can be made from the list. Items 1, 2, and 3 give a fairly good idea of the sources from which Ok-

lahoma derives most of its income, and contrary to the general assumption, agriculture is not the most important. The values of both manufactured products and mineral products exceed the value of agricultural products, the value of mineral exceeding agricultural wealth by approximately \$100,000,000.

As pointed out by the Brookings Institution Report in 1934, Oklahoma is not, by economic structure, a sales tax state. Yet more than half of the revenues of the state are derived from some manner of sales tax.

But even though agriculture has been a rather low third as a producer of wealth in Oklahoma, it is important to note that more people are engaged in this pursuit than any other in the state. The total accountable income of the farm family in 1938 was \$384.59. This does not compare too favorably with average accountable Oklahoma family income of slightly more than \$1,000.

Federal revenue collections in Oklahoma in 1938 (item 7) provide some interesting insights upon the economic structure of the state. In the first place, total collections indicate that Frank Kent was in error when, recently, he stated that Oklahoma congressmen were bought and paid for by federal payments in the form of state aid. As a matter of fact, Oklahoma got back approximately the amount paid into the federal treasury.

Analysis of this item further reveals that a large proportion of income taxes are paid by corporations which, very probably, are foreign corporations. It means that a large percentage of the wealth produced in Oklahoma is taken out of the state.

In general, the table indicates that Oklahoma is far from the wealthiest of the forty-eight states. Neither is it the most poverty stricken. It falls below the wealth of the average state when wealth is rated on a per capita basis.

The state appears to be able to support an adequate well-rounded program of public service, but that program will demand a careful husbandry of resources. It will call for some fundamental reforms in the revenue system, but particularly will it call for better balanced expenditures. That there is want of balance in this respect was pointed out in the first article in this series.

TABLE II
WEALTH IN OKLAHOMA

1. AGRICULTURAL INCOME (1938)			
Crops and Livestock	\$209,918,000	surpassing	32 states
Crops	80,855,000	surpassing	30 states
Crop benefit payments	20,996,000	surpassing	43 states
Livestock and products	106,042,000	surpassing	33 states
Livestock benefit payments	2,025,000	surpassing	37 states
2. VALUE OF MANUFACTURED PRODUCTS (1935)			
Oklahoma manufactured products	\$282,658,470	surpassing	19 states
Value added (in Oklahoma)	78,758,877	surpassing	17 states
3. VALUE OF MINERAL PRODUCTION (1936)			
Oklahoma	\$305,152,000	surpassing	44 states
Crude Petroleum Produced (barrels) (1937)	228,924,000	surpassing	45 states
Natural Gasoline (gallons) (1937)	486,704,000	surpassing	45 states
4. VALUE OF FARM LAND AND IMPROVEMENTS (1935)			
Owner, tenants, managers	\$784,394,241.00	surpassing	33 states
Average value of farm	3,676.00	surpassing	12 states
Average value per acre	22.50	surpassing	12 states
5. SALES (1935)			
Wholesale distribution (net)	\$404,465,000	surpassing	25 states
Retail distribution (net)	434,973,000	surpassing	25 states
6. BANKS, FINANCIAL CONDITIONS (1937)			
Capital, surplus, reserves	\$ 49,700,000	surpassing	22 states
Deposits, total	444,900,000	surpassing	28 states
Savings; other time deposits	77,900,000	surpassing	16 states
7. FEDERAL REVENUE COLLECTIONS IN OKLAHOMA (1938)			
Collections, total	\$ 62,661,773	surpassing	28 states
Total Income Tax	21,586,628	surpassing	28 states
Corporation Income	13,019,179	surpassing	29 states
Individual Income	8,567,448	surpassing	22 states
8. MOTOR VEHICLE REGISTRATIONS (1937)			
Oklahoma	547,263	surpassing	32 states
9. RAILROADS (1936)			
Mileage	6,628	surpassing	34 states
Assessed, class 1 carriers	\$ 3,823,000	surpassing	26 states
Value per mile	586	surpassing	13 states
10. TELEPHONES (1932)			
Miles of wire	1,173,051	surpassing	35 states
Number of phones	241,453	surpassing	30 states
Phones per thousand	99	surpassing	18 states

This table shows how Oklahoma compares with other states in various kinds of wealth. It indicates, in general, that Oklahoma is neither unusually wealthy nor unusually poor. Some readers may be surprised to find how manufacturing ranks along with oil and agriculture as a wealth producer for Oklahoma. Figures used above are taken from latest available official government reports.