

Faults in State Financial Policy

By Findley Weaver

A deficit from current operations has become a regular feature of state finance in Oklahoma during recent years. Funded indebtedness arising from the accumulation of these annual deficits has already imposed an important burden for payment of principal and interest. But the most distressing fact is that our fiscal system is so designed as to breed a current deficit and that little has been done to correct basic faults in financial policy.

It is well known that the revenue of the state from taxes, fees, licenses, oil income, school land earnings, and federal aid is substantial and is not highly fluctuating from year to year. True, the gross production and income taxes dropped sharply in 1939. But increases in revenue from other sources, especially that from the motor fuel tax, which is the state's largest item of income, offset declines in other items of revenue, while collections of numerous other taxes, such as the sales tax, remain nearly constant. Consequently, total revenue from state sources, amounting to \$66,300,000 for the fiscal year ending June 30, 1939, was only 1.99 per cent less than the figure for 1937, although in the intervening year of 1938 there was a gain of 10.21 per cent over 1937.

The year of 1937 is useful as a basis for these comparisons because this year was one of abundant crops, a high rate of industrial activity, and generally the highest level of economic welfare and business profits reached during the past ten years.

After including federal aid for highways and other purposes of state expenditure, total revenue of state government is raised to \$80,200,000 for the fiscal year ending in 1939, which is one-half of one per cent less than the amount received in 1937.

Why is it, then, that the state has not lived within an income of this size and, at the same time, financed all functions of government in proportion to their relative need without creating a deficit?

The answer cannot be found in the burden of old-age pensions and unemployment compensation added in recent years, because additional taxes have already been levied sufficient to meet the cost of these new functions of the state. Neither can a satisfactory answer be found in the business recession of 1938 and 1939, because we have a deficit every year, good and bad alike. But the conclusive answer is found in the unsound policies of financial management that have developed over the course of years, particularly over the course of the last decade.

This article is based on material prepared for a booklet to be published September 5 by the University of Oklahoma Press, under the title *Oklahoma's Deficit*. The booklet will be a report on a factual research project conducted by Dr. Weaver, and copies will be available at 50 cents.

The most outstanding of these policies are referred to as: (1) earmarking revenue for special purposes; (2) spending without appropriations; and (3) lack of an effective budget.

Total revenue of state government, instead of going into one fund, is apportioned to innumerable funds. There are approximately 180 special funds, each of which can be used for its particular purpose only. Taxes and other revenues aggregating over two-thirds of the total received by the state (70.36 per cent in 1939, to be exact) are earmarked for these special purposes. The remainder (29.64 per cent for 1939) goes into the general fund from which many of the most important functions of government are supported. For example, 70 per cent of the gasoline tax is earmarked for state highway construction and maintenance, 5 per cent is returned to cities and towns for roads, 22 per cent is returned to county government for roads, 3 per cent goes into the Oklahoma Tax Commission Fund, and none of the gasoline tax goes to the general fund. Ninety-seven per cent of the consumer (sales) tax goes to the state assistance funds and 3 per cent goes to the Oklahoma Tax Commission fund, with none going to the general fund. All

driver license fees go into the Public Safety fund. Of the beverage license and tax, 95 per cent is returned to school districts and 5 per cent goes to the Oklahoma Tax Commission fund. Parts of only two of the most productive taxes are allocated for the general revenue fund. These two sources of income for the general fund are 78 per cent of the gross production tax and 95 per cent of the income tax.

These examples illustrate that receipts of the state do not go into one purse from which all objects and functions of government are supported, but go, instead, into many separate purses. Money in one purse cannot be shifted to pay any cost except that arising for a specified purpose. Consequently, abundant support is available for those objects of government that have earmarked funds, and surpluses exist in these special funds collectively, while at the same time, other important divisions of government that are maintained from the general fund are handicapped in performing their functions and a heavy deficit accumulates in the General Revenue Fund.

Earmarking of school land earnings is required by provisions of the Enabling Act and the State Constitution. Likewise, the payroll tax paid by employers, according to provisions of federal law, must be used for unemployment and compensation benefits. But revenue earmarked by the Constitution and federal legislation, together with a smaller amount set aside by court decisions to pay interest and principal on dormitory bonds, constitute only 11 per cent of total revenue. Most earmarking, therefore, arises merely from enactments of the State Legislature.

The outstanding explanation of this financially unsound policy of earmarking is found in political expediency and a disregard of the fundamental nature of taxation.

Political expediency appears in various aspects. The setting aside of the sales tax collections provides an illustration of one of these aspects. The scheme of earmarking the sales tax tends to head off a raid on the treasury in behalf of the aged. Attempts have been made in several states, but most notoriously in Colorado, to pay high old-age pensions regardless of the ability of the state to bear such a burden and with complete disregard of the disastrous effects on state finance. One way for the legislature to avoid an unreasonable demand for pensions is to earmark all of a certain tax for this purpose, with

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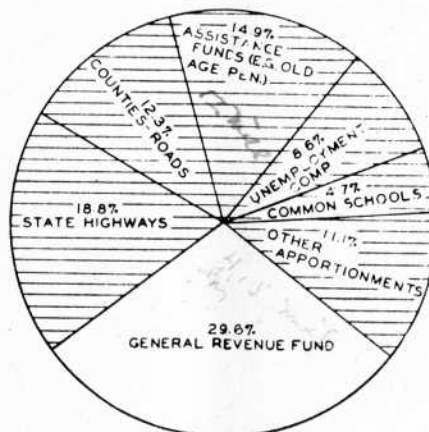


Chart showing revenue earmarked for special purposes as compared to revenue going to the General Fund, for the fiscal year ending June, 30, 1939 (exclusive of federal aid)

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the hope that this method will satisfy the demand for old-age assistance without endangering the performance of other necessary services by the state.

Another political explanation for earmarking appears in the interest of special groups or even departments of government in securing a fund from which expenditures can be made without the necessity of going through the process of obtaining a legislative appropriation.

Coupled with various political causes of earmarking, is a disregard of the true nature of taxation. A tax is a compulsory contribution levied for the support of general government without regard for benefits received by the taxpayer. The state is under no obligation, legal, or financial, to use the petroleum excise tax solely for the Oil Compact and Conservation Funds. This tax (all of which is now earmarked for proration) is levied upon one of the state's chief natural resources and should be used for the general support of government and not for a particular purpose. Likewise, the gasoline tax need not be used for roads alone as is now the case. Surely a car-owner has more interest in government than just the use of roads provided by the state.

Still further, it is inconsistent with the nature of taxation to set aside the beverage license and tax for common school aid.

Sound taxation dictates that all taxes as well as other revenues, with comparatively minor qualifications, such as school land earnings, for example, go into a general fund to be used for the common support of all divisions of government.

It is imperative from a financial point of view that earmarking be abandoned because continuation of this policy robs some agencies and functions of state government to the enrichment of others. All agencies and functions should be financed alike on the basis of their relative need. Moreover, the deficit in the general fund that arises, in the main, because of earmarking is steadily increasing the funded indebtedness of the state that has already reached \$25,000,000.

A second important financial abuse in Oklahoma is the practice of spending from special funds without legislative appropriation. Such expenditures in 1939 amounted to \$52,600,000 or 61.6 per cent of total governmental costs. This means that authorization of only 38.4 per cent of total expenditures was subjected to legislative scrutiny resulting in appropriations. The major part of expenditures was spent on the authority of the State Highway Department and other governmental agencies. The Legislature should not give up its control over expenditures in this manner and leave to the judgment

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Services for Alumni

University of Oklahoma alumni and former students visiting the campus during the summer . . . for any of the numerous short courses and other special attractions . . . are cordially invited to make full use of the Union's facilities. These include the large main lounge and reading room with current magazines, the Cafeteria, recreation rooms, rest rooms, and dining rooms that may be reserved for groups ranging from a dozen to five hundred persons.

The Oklahoma Memorial Union

University of Oklahoma, Norman

After serving 15 years as president of Oklahoma University, and 30 years as a university president, Dr. W. B. Bizzell will retire next year to become president emeritus, head of the sociology department and director of the semi-centennial celebration. During the 15 years with the University, Dr. Bizzell has greatly endeared himself to the people of Oklahoma. His acquaintanceship and friendly contact extends into thousands of homes in the state. No president of the University has ever risen to such great rating as a scholar and educator. Dr. Bizzell has blended the best years of his life into the University and his good work and attainment is appreciated by Oklahomans everywhere. The announcement that Dr. Bizzell will remain with the University in special and technical assignment will be pleasing and assuring to the patron and alumni alike.

The *Wewoka Daily Democrat* commented as follows:

For many months there have been rumors that Dr. W. B. Bizzell would resign as president of the University of Oklahoma. The president did not get along well with Governor Murray and he and Governor Phillips have had differences of opinion.

The solution which the Board of Regents worked out is eminently satisfactory. Dr. Bizzell stays on the campus, does what he likes to do best and a new administrator takes charge in some 13 months.

Dr. Bizzell will leave his mark on the University of Oklahoma and the entire state. It will be the mark of a scholarly gentleman.

The names of Dr. Linscheid of Ada and Dr. Bennett of Stillwater are certain to be mentioned when a successor to Dr. Bizzell is discussed. Both these men are happily situated and are doing valuable work where they are. It is extremely doubtful if either will raise a finger to get the University position.

Either Dr. Linscheid or Dr. Bennett could handle the University situation. But if either of them is selected it will mean a loss to the Ada or Stillwater school. We hope the board of regents selects an outstanding educator from outside the state.

The *Duncan Banner* expressed satisfaction that Dr. Bizzell would remain on the University staff:

President W. B. Bizzell will retire as head of the University of Oklahoma in another year, and become president emeritus. At 65 he says he would prefer to be relieved of arduous duties and let a younger man carry on.

The thing we like about that is that Bizzell's decision is a perfectly natural thing for a man to do, and yet he doesn't plan to become inactive. Bizzell, as president emeritus, will not be laid on a shelf so to speak, and that part is good. We need, in this country, men mellowed in thought and judgment.

The University won't lose President Bizzell, whom it loves and respects. He will still be there where he can continue to be of value to his state, and to education. And he will have the courtesy that is due him, the reward of less strenuous work after 30 years as an active man in his chosen profession.

The *Oklahoma Daily*, student newspaper at the University, was the most outspoken in editorial criticism of the political difficulties faced by President Bizzell in his administration and expressed confidence that he will be remembered for his achievements long after the politicians who attacked him have been relegated to obscurity:

President Bizzell has resigned, and the petty politicians who have dogged his footsteps for the past 15 years may now rest easy. Those who have been closest to him during his presi-

dency have often wondered how he has managed to contend with the state's political harpies for as long as he has and still remain above them. Only an individual of unusual perspective and tolerance could have held off the statehouse gang with one hand, directed a great university with the other and still managed to maintain his equilibrium. A job like that demanded rare talent, and Bizzell came thru.

President Bizzell is known among the nation's leading educators as the man who operates a university more effectively on less money than any other college president in the country. To his credit let it be said that Bizzell has never understood the political motive in a state where the holding of any responsible position is almost entirely dependent upon possession of the ability to play ball with the state administration. Bizzell has never known how to contend with the verbal mud-slinging that passes for statesmanship in Oklahoma; he has never kow-towed to the back slapping, penny-ante incompetents who at various times have been in control of state affairs; he has never for an instant forgotten his position and its obligations.

And because of all this and much more Bizzell will be considered superior as an educator and as an individual long after his enemies have been forgotten and the state of Oklahoma will be his debtor long after the blatant, self-seeking politicians have been relegated to the obscurity they so richly deserve.

The *Sapulpa Herald* commented as follows:

O. U.'s NEXT HEAD

The resignation of President Bizzell of the University of Oklahoma, effective in 1941, gives heads of this institution time to look around for a successor who may carry on the work of the retiring prexy.

But any educator who follows Bizzell will have quite a record to live up to. He will have not only the elements of education to meet if he compares favorably with Bizzell, but he will face other attributes possessed by the retiring university head that go to make up a strong leader of an institution of the magnitude of the University of Oklahoma.

Dr. Bizzell, despite political juggernauts rolled his way, has given a good account of himself on all occasions. He has made the University he has headed stand out in the way of progress, educational advantages and scholastically. Bizzell rather epitomizes the educator idealist. The genus is coming to be rather rare. He has withstood political meddling and muddling—that in itself is a feat. But Dr. Bizzell has done more. He has carried on an outstanding university program.

He rounds out a number of years of important service to the major intellectual school of the state. His successor faces not only this keen record to equal or break, but he is confronted with many of the same political hurdles to jump. Bizzell has not been a high jumper, but has moved down the administrative track in an enviable stride.

Former university students under Bizzell are loyal—they have been so even in the face of many of his most trying situations. It was not the grads who gave Prexy Bizzell trouble. To the contrary, it was political medicine makers.

His voluntary retirement is not only epochal in his own life but in that of the University. O. U. will write "finis" to a great educator, one who sincerely sought to do the best thing at the right time for the school he headed. He is in many respects a "Mr. Chips" who lent atmosphere, provided the school's transition period from a medium sized student body to a large university.

Bizzell goes out with an enviable and highly reputable record—one of which he can be justly proud. He leaves a genuinely fine legacy for the one who follows.

President Bizzell's resignation was de-

scribed by the *Duncan Eagle* as "a shock to his friends in the state."

THE PRESIDENT'S PLANNED CAREER

Announcement of Dr. W. B. Bizzell's resignation as head of the University comes as a shock to his friends in the state, altho everyone must admire him for his decision to retire from the strenuous life of heading a large school. Dr. Bizzell has been a "daddy" to thousands of Oklahoma boys and girls. His first graduating classes are now men and women of middle age, and many of them still counsel with him and seek his advice. His election as president emeritus is the least honor that can be paid this good man who has given so much to Oklahoma.

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and discretion of some department, board, or commission such an important decision as to how the income of the state should be used.

The third chief fault of our financial system is the lack of a complete budget and budgetary control. The law now provides for a budget director who is provided with the aid of a clerk and a stenographer and charged with the task of preparing a budget. One man with such limited assistance cannot study the needs of each department and institution for the coming two years, much less accurately estimate revenue that will be collected.

Consequently, the budget is no more than a compilation of requests submitted by different departments and institutions and transmitted without recommendation to the Legislature. But even more important is the fact that the budget does not cover all expenditures of government, but only those made from the General Revenue, New College, Section Thirteen and certain minor funds, and expenditures from most special funds are not budgeted for appropriation purposes.

To avoid recurring deficits Oklahoma must abandon earmarking, have all expenditures authorized by legislative appropriations, and operate under a real budget that will wisely allocate our revenue to each object and function of government on a basis of relative need. These reforms will not only lay a foundation that will bring about sound financial condition for state government, but will lead to greater governmental services at lower cost.

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Heads Medical Auxiliary

Mrs. W. A. Fowler (Virginia Tolbert, '14) took office as president of the Women's Auxiliary of the Oklahoma Medical Society at its state meeting in Tulsa last month. She will serve for a year.

She was president of the Cleveland County Auxiliary in 1938-39. Her husband, Dr. W. A. Fowler, is director of student health service at the University.