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FISCAL STRUCTURE OF OKLAHOMA, AN OVERVIEW.

BY- SANDMEYER, ROBERT L.
OKLAHOMA STATE UNIV., STILLWATER, RES. FOUNDATION

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THE REPORT WAS DIVIDED INTO THREE MAJOR SECTIONS--(1) THE PRODUCTION POSSIBILITY CURVE WAS USED TO DEMONSTRATE THE PROBLEM OF RESOURCE ALLOCATION BETWEEN THE PUBLIC AND PRIVATE SECTORS, (2) STATE AND LOCAL REVENUES WERE EXAMINED IN TERMS OF FISCAL CAPACITY AND TAX EFFORT, AND (3) EXPENDITURES ON SELECTED FUNCTIONS OF GOVERNMENT IN OKLAHOMA WERE COMPARED WITH EXPENDITURES OF SELECTED STATES AND WITH THE NATIONAL AVERAGE. OKLAHOMA WAS FOUND TO HAVE A RELATIVELY LOW FISCAL CAPACITY BUT A STRONG TAX EFFORT. FINDINGS FURTHER INDICATED THAT (1) EXPENDITURES ON EDUCATION WERE BELOW THE AVERAGES FOR THE FOUR-STATE REGION INCLUDING ARIZONA, NEW MEXICO, OKLAHOMA, AND TEXAS AND THE NATION, (2) EXPENDITURES ON HIGHWAYS WERE ABOUT EQUAL TO THE NATIONAL AVERAGE AND SLIGHTLY BELOW THE AVERAGE FOR THE FOUR-STATE REGION, AND (3) PER-CAPITA STATE AND LOCAL EXPENDITURES ON PUBLIC WELFARE WAS HIGH. A MORE THOROUGH STUDY OF THE STATE'S FISCAL STRUCTURE WAS RECOMMENDED. (HW)

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Section I

INTRODUCTION

The purpose of this report is to provide the Oklahoma Public School Research Council with a general overview of the fiscal structure of Oklahoma. Time and budgetary limitations prevented an extensive analysis of Oklahoma's public finance problems. Therefore, this report is no substitute for a thorough study of the fiscal structure of the State. A comprehensive tax study, similar to the one done in Michigan in 1958, is long overdue in Oklahoma.[1]

This report is divided into three major sections. In the first section a short discussion of the problem of resource allocation is presented. The production possibility boundary is explained and, in turn, this tool of analysis is used to demonstrate the problem of resource allocation between the public and private sector.

The second part of the report is concerned with state and local revenues. In the first part of this section the concepts of fiscal capacity and tax effort are developed. A tax effort index is computed for each of the fifty states and each state is ranked with respect to the magnitude of this index. Next, the problems associated with earmarking are briefly discussed. In the last part of this section state and local revenues in Oklahoma are compared to selected states and the national average. Comparisons are made for 1962 for the very practical reason that this is the latest year

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[1] Michigan Tax Study: Staff Papers (Lansing, Michigan: 1958).

for which detailed revenue data are available for both state and local governments.

In the last section of this report expenditures on selected functions of government in Oklahoma are compared to selected states and the national average. Caution should be exercised in interpreting interstate comparisons of state and local government expenditures because states vary with respect to the type of expenditures included in each of the selected categories.

Section II

THE GOVERNMENT SECTOR AND RESOURCE ALLOCATION

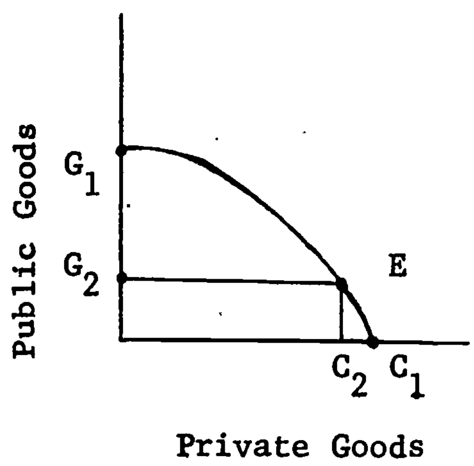
The purpose of this section is to present a discussion of the role of government with respect to resource allocation in our economy. The first part is devoted to an explanation of the production possibility boundary. In turn, this tool of analysis is utilized in discussing the role of government in the allocation of scarce resources.

The Production Possibility Boundary

Even the strongest advocates of laissez faire support a certain amount of governmental activity. As a minimum, societies demand that governments be established to: (1) insure honesty, (2) insure non-fraudulent and non-violent behavior, (3) insure freedom from theft and external aggression, and (4) guarantee the legislated rights of property. Beyond this there is a great deal of disagreement regarding the proper role of government. Whatever the reasons are for government activity, once a society is committed to a particular level of government expenditure a portion of its scarce resources will be devoted to public goods rather than private goods. As the role of government expands more resources will be devoted to public goods and fewer to private goods, other things equal. In order to illustrate this point economists often use the "production possibility boundary."

It should be obvious that, given the quantity and quality of resources and the degree of efficiency with which they are used, an economy can produce, at the maximum, a given amount of goods and services at any particular time.[1] If all resources are devoted to the production of private goods, there is some maximum amount of these goods which can be produced. On the other hand, if all resources are used to produce public goods, there is some maximum amount of these goods which can be produced. These limitations are depicted by points G_1 and C_1 in Figure 1. If these points are joined by a curve, as in Figure 1, the points along this curve reflect the possible combinations of public and private goods production given present resource limitations.

Figure 1
PRODUCTION POSSIBILITY BOUNDARY



Assuming that an economy is presently located at point E on the production possibility boundary, producing G_2 of public goods and C_2 of private goods, the foregoing analysis points out that in order to consume more of one type of good some of the other will have to be given up, other things equal. Now suppose that this society agrees that more of its scarce resources should be devoted to the public sector. How will this transfer be brought about?

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[1]For the time being we shall not be concerned with the possibility of economic growth which, over time, allows us to push the production possibility boundary outward.

There are three methods by which governments transfer resources from the private sector for public use: (1) printing money and using it to buy goods and services; (2) borrowing money and using it to purchase goods and services; (3) taxing society and using the receipts to purchase goods and services.

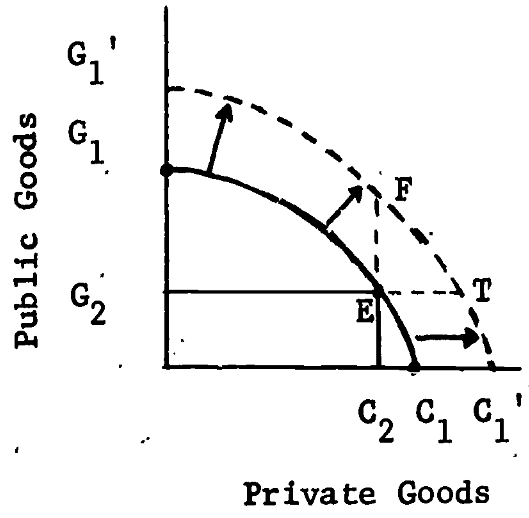
In our society the quantity of public goods to be produced is determined by the legislative process. The composition of public goods production is also determined by the legislative process and, once again, the problem is that of allocating scarce resources. In other words, the elected representatives must determine how much of a given budget shall be devoted to education, highways, health, etc. Presumably, the elected representatives reflect the desires of their constituents with respect to both the level and composition of public goods production.

Economic Growth

In the above analysis it was assumed that there was no economic growth. If public goods consumption increased, private goods consumption had to decrease. For example, if more was to be spent for education, other functions of government given, taxes had to be increased in order to provide the necessary income.

Economic growth is depicted in Figure 2 by the dotted production possibility boundary and arrows pointing outward from the solid production possibility boundary. In a growing economy more public goods production is possible without giving up private goods production and vice versa. This economy may also elect to have more of both private and public goods production within the range FT on the new production possibility boundary. In this kind of economy more public goods consumption is possible without

Figure 2
PRODUCTION POSSIBILITY BOUNDARIES IN A GROWING ECONOMY



raising taxes because income is increasing. However, even if an economy is experiencing economic growth, it still must decide how to divide the increasing wealth between the public and private sector.

The citizens of Oklahoma must solve four related problems with respect to taxation and public expenditures. First, a point on the production possibility boundary must be selected. Second, the allocation of resources between public and private expenditure must be decided upon as the production possibility curve moves outward. Third, a decision must be reached as to how the total public revenue is to be allocated between expenditures on education, highways, health and hospitals, welfare, etc. Finally, the responsibility for public expenditures must be divided between state and local governments.

A section of this report will deal with public expenditures in Oklahoma vis-a-vis other states. The question may be asked whether Oklahoma's relative position should be increased, decreased or simply maintained. In the final analysis, the answer must come from Oklahoma voters. In turn, the decisions which are reached relative to expenditures will have important effects upon the level and structure of taxes in Oklahoma.

Section III

STATE AND LOCAL REVENUES

It is misleading to look upon expenditures and taxation as though they are unrelated; however, in an effort to attract new industry, state after state will advertise low taxes relative to other states. On the other hand, they seldom associate low taxes with the sub-standard level of public services which often accompany this type of tax policy.[1] Given a level of public expenditure, it is necessary to raise an adequate amount of revenue. In turn, a state's ability to provide a quantity and given quality of public services depends on two things, (1) fiscal capacity and (2) the tax effort. Fiscal capacity measures the state's ability to tax its citizens, whereas tax effort measures the extent to which the state has chosen to exercise this ability.

Fiscal Capacity

How does the fiscal capacity of Oklahoma compare with other states? There are two approaches to answering this question.[2] One approach uses income in Oklahoma, out of which state and local taxes can be paid, and compares it with income of other states. The other approach uses the tax

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[1] One should not conclude that high taxes automatically bring about adequate levels of public services.

[2] The Advisory Commission on Intergovernmental Relations, Measures of State and Local Fiscal Capacity and Tax Effort, A Staff Report (Washington: The Advisory Commission on Intergovernmental Relations, 1962), p. 4.

bases within a state, estimates the amount of revenue they would produce if subjected to various tax rates, and then compares the results with comparable calculations for other states. This report will rely upon income as the measure of fiscal capacity.

Taxes are generally paid out of current income and, therefore, a state's income is a measure of its capacity to meet public as well as private needs.[3] Per capita personal income figures are presented in column one of Table 1.[4] The per capita figure is used because total personal income does not account for the fact that population varies extensively between states. If state A has twice as much income as state B and state A also has twice as many people as state B, it is assumed that the fiscal capacity is about the same in both states. Per capita personal income as a percent of the United States average was computed for each state and recorded in column two of Table 1. This figure can be looked upon as an index of fiscal capacity. Oklahoma's index of fiscal capacity was 81.1 in 1964 and it ranked thirty-seventh among the fifty states. Indexes of fiscal capacity were also calculated for 1942, 1953, 1957, 1962, and 1963. It is interesting to note that although Oklahoma's per capita personal income increased by approximately 234 percent between 1942 and 1964 its rank with respect to the index of fiscal capacity only changed from thirty-nine to thirty-seven.

Tax Effort

Fiscal capacity is a measure of a state's ability to pay taxes, whereas, "tax effort can be defined as the extent to which a given state makes use

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[3] Ibid., p. 5.

[4] The personal income estimates prepared by the U. S. Department of Commerce, Office of Business Economics, are the best measures of income received on a state-by-state basis.

TABLE 1

PER CAPITA PERSONAL INCOME AND PER CAPITA PERSONAL INCOME AS A PERCENT OF U. S. AVERAGE, BY STATE, 1964

State	Per Capita Personal Income (1)	Per Capita Personal Income as a Percent of U. S. Average (2)	Rank (Column 2) (3)
Alabama	$ 1,749	68.2	47
Alaska	3,116	121.4	5
Arizona	2,233	87.0	31
Arkansas	1,655	64.5	48,49
California	3,103	120.9	6
Colorado	2,566	100.0	18
Connecticut	3,281	127.9	2
Delaware	3,460	134.8	1
Florida	2,251	87.7	29
Georgia	1,943	75.7	41
Hawaii	2,622	102.2	14
Idaho	2,020	78.7	39
Illinois	3,041	118.5	7
Indiana	2,544	99.1	19
Iowa	2,376	92.6	23,24
Kansas	2,346	91.4	27
Kentucky	1,830	71.3	46
Louisiana	1,877	73.1	44
Maine	2,132	83.1	35
Maryland	2,867	111.7	10
Massachusetts	2,965	115.6	9
Michigan	2,755	107.4	11
Minnesota	2,375	92.6	25
Mississippi	1,438	56.0	50
Missouri	2,600	101.3	17
Montana	2,252	87.8	28
Nebraska	2,349	91.6	26
Nevada	3,248	126.6	3
New Hampshire	2,377	92.6	23,24
New Jersey	3,055	117.1	8
New Mexico	2,041	79.5	38
New York	3,162	123.2	4
North Carolina	1,913	74.6	42
North Dakota	2,133	83.1	34
Ohio	2,646	103.1	12
Oklahoma	2,083	81.1	37
Oregon	2,606	101.6	15
Pennsylvania	2,601	101.4	16
Rhode Island	2,514	98.0	20
South Carolina	1,655	64.5	48,49
South Dakota	1,879	73.2	43

TABLE 1 (Continued)

State	Per Capita Personal Income (1)	Per Capita Personal Income as a Percent of U. S. Average (2)	Rank (Column 2) (3)
Tennessee	$ 1,859	72.4	45
Texas	2,188	85.3	32
Utah	2,156	84.0	33
Vermont	2,119	82.6	36
Virginia	2,239	87.2	30
Washington	2,635	102.7	13
West Virginia	1,965	76.6	40
Wisconsin	2,490	97.0	21
Wyoming	2,441	95.1	22
U. S. Average	2,566		

Source: U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, July, 1965, p. 11.

of its fiscal or taxable capacity."[5] Therefore, the next task is to develop an index of tax effort and compare Oklahoma's index with other states.[6] The most popular way of making interstate comparisons of tax effort is to compute and compare per capita state and local tax collections of each state; however, this method does not take into consideration a state's ability to pay taxes. One state may have a high ability to pay taxes and at the same time have high per capita state and local taxes, whereas another state may have a low ability to pay taxes and low per capita state and local taxes. If per capita state-local taxes are used as a measure of tax effort, it would have to be concluded that the wealthy state is making a greater effort than the poor state when this may not be the case.

The tax effort indexes for the fifty states are presented in Table 2.[7] Some use column two as the index of tax effort; however, such a measure makes no allowance for the differing absolute levels of per capita income between states. For example, state-local taxes plus charges as a percent of personal income are approximately the same in Nevada (12.5%) and Oklahoma (12.8%). On the other hand, per capita income is $3248 in Nevada and only $2083 in Oklahoma. It should be obvious that the payment of a given percent of income in taxes represents a greater effort when per capita income is low than when it is high. Therefore, the figure recorded in column two of

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[5] Ibid., p. 10.

[6] For a detailed discussion of the various measurements of tax effort see Ansel M. Sharp and Robert L. Sandmeyer, Oklahoma Tax Effort and Service Effort: A Study in Interstate Comparisons (Stillwater, Oklahoma: The Research Foundation, Oklahoma State University, November, 1961).

[7] Note that charges are added to state and local taxes in order to compute the tax effort index. This is done because some states make more extensive use of user charges than others and if they were not included these states would have lower tax effort indexes than should be the case.

TABLE 2

TAX EFFORT, BY STATE, 1964

State	State and Local Taxes Plus Charges as a Per Cent of Personal Income (1)	Per Cent Related to U. S. Average (2)	Tax Effort Index: Column 2 Divided by Per Capita Personal Income x 100 (3)	Rank (4)
Alabama	11.6	97.5	5.57	9
Alaska	11.4	95.8	3.07	44
Arizona	14.1	118.5	5.31	11
Arkansas	11.4	95.8	5.79	6
California	13.7	115.1	3.71	36
Colorado	13.2	110.9	4.32	30
Connecticut	9.7	81.5	2.48	49,50
Delaware	10.2	85.7	2.48	49,50
Florida	12.6	105.9	4.70	24
Georgia	11.4	95.8	4.93	21
Hawaii	13.8	116.0	4.42	28
Idaho	13.9	116.8	5.78	7
Illinois	9.8	82.4	2.71	48
Indiana	11.6	97.5	3.83	33
Iowa	13.3	111.8	4.71	23
Kansas	13.5	113.4	4.83	22
Kentucky	11.4	95.8	5.23	12,13
Louisiana	15.0	126.1	6.72	3
Maine	11.8	99.2	4.65	26
Maryland	10.2	85.7	2.99	46
Massachusetts	10.8	90.8	3.06	45
Michigan	12.2	102.5	3.72	34,35
Minnesota	14.7	123.5	5.20	15,16
Mississippi	13.9	116.8	8.12	1
Missouri	9.7	81.5	3.13	43
Montana	14.4	121.0	5.37	10
Nebraska	11.7	98.3	4.18	31
Nevada	12.5	105.0	3.23	42
New Hampshire	10.3	86.6	3.64	37
New Jersey	9.9	83.2	2.77	47
New Mexico	15.9	133.6	6.55	4
New York	13.1	110.1	3.48	39
North Carolina	11.3	95.0	4.97	19
North Dakota	15.8	132.8	6.23	5
Ohio	10.3	86.6	3.27	41
Oklahoma	12.8	107.6	5.17	17
Oregon	12.9	108.4	4.16	32
Pennsylvania	10.3	86.6	3.33	40
Rhode Island	10.5	88.2	3.51	38
South Carolina	11.2	94.1	5.69	8
South Dakota	15.3	128.6	6.84	2

TABLE 2 (Continued)

State	State and Local Taxes Plus Charges as a Per Cent of Personal Income (1)	Per Cent Related to U. S. Average (2)	Tax Effort Index: Column 2 Divided by Per Capita Personal Income x 100 (3)	Rank (4)
Tennessee	11.3	95.0	5.11	18
Texas	11.6	97.5	4.46	27
Utah	13.4	112.6	5.22	14
Vermont	13.1	110.1	5.20	15,16
Virginia	9.9	83.2	3.72	34,35
Washington	13.8	116.0	4.40	29
West Virginia	11.6	97.5	4.96	20
Wisconsin	13.9	116.8	4.69	25
Wyoming	15.2	127.7	5.23	12,13
U. S.	11.9	---	---	---

Source: Personal Income -- U. S. Department of Commerce, Office of Business Economics, Survey of Current Business, July, 1965.

State-Local Taxes plus Charges -- U. S. Bureau of the Census, Governmental Finances in 1963-64.

Table 2 is divided by per capita income in order to obtain a state's tax effort index. Now, the tax effort index is 3.23 for Nevada and 5.17 for Oklahoma. In other words, tax effort is considerably higher in Oklahoma than in Nevada.

An index of low tax effort does not necessarily mean that state and local services are of poor quality or limited in scope. If a state combines an index of high fiscal capacity with a low index of tax effort, it may easily have adequate state and local services. However, if a state combines low tax effort with low fiscal capacity this is likely to result in a poor standard of state and local services. Although Oklahoma ranks thirty-seventh with respect to fiscal capacity, it ranks seventeenth with respect to tax effort. Oklahoma is combining a low index of fiscal capacity with a relatively high index of tax effort.[8]

Sources of State and Local Revenue

In this part of the report the sources of state and local revenues in Oklahoma are examined and compared to selected states as well as to the United States average. The first problem is to determine the states to which Oklahoma will be compared. Most studies use a geographic grouping of states; however, the author finds this type of grouping very unsatisfactory because these states quite often have very little in common. Therefore, this study will use a grouping devised by the Office of Business Economics for the purpose of presenting annual personal income estimates in the Survey of Current

[8] The reader should realize that the poorer a state is the greater its effort will have to be in order to provide a minimum level of public services. For a comparison of government expenditures in Oklahoma with selected states and the nation see Section IV of this report.

Business. In this publication Arizona, Oklahoma, New Mexico and Texas are included in the southwest region. This regional grouping is based primarily on homogeneity of the states from three standpoints: (1) income characteristics--the industrial and type-of-payments composition of total income, the level of per capita income, and the long-run trend of income; (2) industrial composition of the employed labor-force; and (3) noneconomic characteristics --based on selected statistical series reflecting demographic, racial or ethnic, cultural, and social factors.[9]

The sources of revenue of state and local governments for the four selected states and the United States average are presented on a per capita basis in Table 3. The relative importance of the various sources of tax and non-tax revenue is presented in Table 4.[10] The data presented in these tables permit broad general comparisons between tax and non-tax revenue structure of Oklahoma and the three other southwestern states and state and local governments in the United States as a whole. The data do not, because of the differing tax structures among states, measure relative tax burdens, either for industry or individuals.

The property tax, sales and gross receipts taxes (general and selective), income taxes (individual and corporate), and license fees account for approximately ninety percent of Oklahoma's total tax revenue. The most important single source of state-local tax revenue in Oklahoma, as well as in the nation, is the property tax. This is true in Oklahoma even though there is

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[9] U. S. Department of Commerce, Office of Business Economics, Personal Income by States Since 1929 (Washington, 1956), p. 139.

[10] For a much more detailed discussion of similar data as well as projections of some of the key taxes see Ansel M. Sharp, State and Local Government General Expenditures and Revenues in Oklahoma: Past and Future Trends (Stillwater, Oklahoma: The Research Foundation, Oklahoma State University, May, 1965).

TABLE 3

SOURCES OF REVENUE OF STATE AND LOCAL GOVERNMENTS, U. S. AND SELECTED STATES, 1962
(PER CAPITA)

	United States (1)	Four State Region (2)	Arizona (3)	New Mexico (4)	Oklahoma (5)	Texas (6)
Total Tax Revenue	$223.62	$187.62	$220.74	$187.80	$187.15	$182.85
Property	102.54	78.75	105.36	47.28	58.38	82.87
Sales & Gross Receipts: . . .	72.62	65.33	88.63	85.17	71.26	58.51
General	32.66	22.40	56.80	43.89	24.66	14.69
Selective: . .	39.95	42.92	31.83	41.27	46.60	43.83
Motor Fuel . .	19.92	21.02	19.08	27.21	25.58	19.58
Alcoholic Beverages . . .	4.11	3.76	2.81	2.24	4.94	3.76
Tobacco . . .	6.11	8.37	2.66	7.06	8.28	9.35
Public Utilities . .	3.94	3.35	2.97	1.45	1.41	4.06
Insurance . .	3.18	3.17	2.41	2.86	3.06	3.33
Amusement & Admissions . .	.11	.04	---	.03	---	.06
Pari-Mutuels .	1.54	.21	1.89	.43	---	---
Other	1.04	3.02	---	---	3.34	3.68
Income Taxes: .	23.38	5.09	13.51	12.85	17.85	---
Individual . .	16.34	3.75	9.76	12.85	11.90	---
Corporation . .	7.04	1.34	3.75	(a)	5.95	---
Licenses: . . .	12.36	14.59	9.92	15.13	18.97	14.16
Motor Vehicle Licenses . . .	9.00	11.73	7.25	11.24	15.69	11.48
Motor Vehicle Operators . . .	.63	1.02	.44	.96	1.18	1.07
Alcoholic Beverages . . .	.50	.21	.25	.14	.31	.19
Other	NA	NA	NA	NA	NA	NA
Death & Gift . .	.28	1.75	.59	.48	2.98	1.75
Severance . . .	2.43	16.18	---	21.92	14.08	18.50
Other & Unallocable	7.50	5.93	2.73	4.96	3.63	7.05

TABLE 3 (Continued)

	United States (1)	Four State Region (2)	Arizona (3)	New Mexico (4)	Oklahoma (5)	Texas (6)
Total Non-Tax General Revenue .	$ 89.86	$ 99.23	$109.87	$157.72	$120.40	$ 86.79
From Federal Government . . .	42.36	46.37	55.01	77.09	66.16	37.29
Charges and Miscellaneous General Revenue:	47.50	52.86	54.87	80.62	54.24	49.50
Current Charges	33.77	35.11	37.83	37.57	41.82	32.85
Special Assessments	2.09	1.86	5.29	2.84	1.51	1.34
Sale of Property	.99	.75	1.26	1.09	.82	.63
Interest on Earnings . . .	3.78	4.49	2.41	8.94	3.21	4.66
Other	6.88	10.67	8.08	30.18	6.87	10.02

(a) Corporation income tax included in individual income tax.

Source: Derived from U. S. Department of Commerce, Bureau of the Census, 1962 Census of Governments, Compendium of Government Finances, Vol. IV, 46-47.

TABLE 4

PERCENT DISTRIBUTION OF SOURCES OF REVENUE OF STATE AND LOCAL GOVERNMENTS, U. S. AND SELECTED STATES, 1962

	United States (1)	Four State Region (2)	Arizona (3)	New Mexico (4)	Oklahoma (5)	Texas (6)
Total Tax Revenue	100.0	100.0	100.0	100.0	100.0	100.0
Property	45.9	42.0	47.7	25.2	31.2	45.3
Sales & Gross Receipts: . . .	32.5	34.8	40.2	45.4	38.1	32.0
General	14.6	11.9	25.7	23.4	13.2	8.0
Selective: . .	17.9	22.9	14.4	22.0	24.9	24.0
Motor Fuel . .	8.9	11.2	8.6	14.5	13.7	10.7
Alcoholic Beverages . .	1.8	2.0	1.3	1.2	2.6	2.1
Tobacco . . .	2.7	4.5	1.2	3.8	4.4	5.1
Public Utilities . .	1.8	1.8	1.3	.8	.8	2.2
Insurance . .	1.4	1.7	1.1	1.5	1.6	1.8
Amusements & Admissions . .	.1	(a)	---	(a)	---	(a)
Pari-Mutuels .	.7	.1	.9	.2	---	---
Other	.5	1.6	---	---	1.8	.1
Income Taxes . .	10.5	2.7	6.1	6.8	9.5	---
Individual . .	7.3	2.0	4.4	6.8	6.4	---
Corporation . .	3.1	.7	1.7	(b)	3.2	---
Licenses: . . .	5.5	7.8	4.5	8.1	10.1	7.7
Motor Vehicle License	4.0	6.3	3.3	6.0	8.4	6.3
Motor Vehicle Operators . . .	.3	.5	.2	.5	.6	.6
Alcoholic Beverages . . .	.2	.1	.1	.1	.2	.1
Other	NA	NA	NA	NA	NA	NA
Death & Gift . .	1.3	.9	.3	.3	1.6	1.0
Severance . . .	1.1	8.6	---	11.7	7.5	10.1
Other	3.4	3.2	1.2	2.6	1.9	3.9

TABLE 4 (Continued)

	United States (1)	Four State Region (2)	Arizona (3)	New Mexico (4)	Oklahoma (5)	Texas (6)
Total Non-Tax General Revenue .	100.0	100.0	100.0	100.0	100.0	100.0
From Federal Government . . .	47.1	46.7	50.1	48.9	55.0	43.0
Charges and Miscellaneous General Revenue:	52.9	53.3	49.9	51.1	45.0	57.0
Current Charges	37.6	35.4	34.4	23.8	34.7	37.8
Special Assessments	2.3	2.0	4.8	1.8	1.3	1.5
Sale of Property	1.1	.8	1.1	.7	.7	.7
Interest on Earnings . . .	4.2	4.5	2.2	5.7	2.7	5.4
Other	7.7	10.7	7.4	19.1	5.7	11.5

(a) Less than .05%.

(b) Corporation income tax included in individual income tax.

Source: Derived from U. S. Department of Commerce, Bureau of the Census, 1962 Census of Governments, Compendium of Government Finances, Vol. IV, 46-47.

no state property tax. The local property tax in Oklahoma accounts for 31.2 percent of total state and local tax revenue. The most important source of non-tax general revenue in Oklahoma is the amount received from the Federal Government. General revenue received from the Federal Government amounted to $66.12 per capita in 1962 and was well above the four-state region and national averages.

Earmarked State Taxes

Before leaving the subject of taxes a brief discussion of earmarking is in order. Most students of public finance agree that extensive earmarking of tax revenues is not desirable. They present five major criticisms of this practice:[11]

1. Earmarking hampers effective budgetary control.

2. Earmarking leads to a misallocation of funds, giving excess revenues to some functions while others are under-supported.

3. Earmarking makes for a troublesome inflexibility of the revenue structure, with the consequence that legislatures experience difficulty in arranging suitable adjustments to changing conditions.

4. Earmarking statutes tend to remain in force after the need for which they were established has passed.

5. Earmarking infringes on the policy-making powers of the executive and the legislature, since it removes a portion of

[11] The Tax Foundation, Inc., Earmarked State Taxes, (New York: June, 1965), p. 24. The publication also lists five justifications for earmarking; however, it concludes this section with the following statement: "The consensus of writers who have discussed earmarking is that the practice is, on balance, undesirable."

governmental activities from periodic review and control.

The disposition of state tax collections in Oklahoma for fiscal 1963 is presented in Table 5. The percentage of tax collections earmarked is presented for each state in Table 6. According to the Tax Foundation report Oklahoma earmarked 59 percent of state tax collections in fiscal 1963 and, as a result, Oklahoma ranked twelfth among the fifty states in this respect.

TABLE 5

DISPOSITION OF OKLAHOMA STATE TAX COLLECTIONS
FISCAL YEAR 1963

State Tax	Collections (Thousands)	Disposition: To General Fund	Disposition: Earmarked
Sales or Gross Receipts			
General	$ 62,827	5%	95% Welfare[a]
Tobacco	20,697	88%	11% Debt Service 1% Welfare
Alcoholic Beverages[b] .	13,290	84%	16% Local General Purposes
Insurance Company . . .	14,700	58%	35% Firemen's Pensions 7% Policemen's Pensions
Public Utility	754	34%	66% Education
Motor Vehicle Excise .	9,552	88%	12% Welfare
Income			
Individual	19,023	100%	
Corporation	20,673	100%	
Highway-User			
Motor Fuel	65,289	1%	99% Highways
Motor Vehicle License .	40,438	3%	29% Highways 68% Education
Operator License . . .	2,929	90%	10% Highways
Other			
Severance	35,628	63%	10% Highways 25% Education 2% Conservation
Corporation License . .	3,946	100%	
Death and Gift	7,110	100%	
Hunting and Fishing Licenses	1,739		100% Conservation
Miscellaneous	3,322		
TOTAL	$ 321,917	41%	59%

[a] Sales Tax only; use tax to General Fund.
[b] Includes alcoholic beverage licenses.

Source: Tax Foundation, Inc., Earmarked State Taxes, 1965, Table 36, p. 66.

TABLE 6

PERCENTAGE OF STATE TAX COLLECTIONS EARMARKED, BY STATE, 1963

State	Percent Earmarked	State	Percent Earmarked
Alabama	87	Montana	54
Alaska	6	Nebraska	53
Arizona	51	Nevada	35
Arkansas	36	New Hampshire	54
California	28	New Jersey	2
Colorado	51	New Mexico	31
Connecticut	23	New York	10
Delaware	3	North Carolina	30
Florida	39	North Dakota	43
Georgia	22	Ohio	48
Hawaii	7	Oklahoma	59
Idaho	44	Oregon	36
Illinois	43	Pennsylvania	63
Indiana	39	Rhode Island	4
Iowa	43	South Carolina	62
Kansas	66	South Dakota	54
Kentucky	29	Tennessee	77
Louisiana	87	Texas	66
Maine	39	Utah	62
Maryland	40	Vermont	39
Massachusetts	54	Virginia	32
Michigan	57	Washington	30
Minnesota	74	West Virginia	39
Mississippi	37	Wisconsin	61
Missouri	40	Wyoming	64

Source: Tax Foundation Inc., Earmarked State Taxes, 1965, p. 12.

Section IV

STATE AND LOCAL GENERAL GOVERNMENT SPENDING

Some will read the foregoing section and conclude that taxes in Oklahoma are "too high" while others will decide that they are "too low." Conclusions such as these cannot reasonably be drawn without reference to the public services that taxes permit. Therefore, in order to obtain a more complete picture of the fiscal structure of the State this part of the report is devoted to a discussion of state and local general government spending.

In 1962 state and local government spending on education, highways, public welfare and health and hospitals accounted for approximately 80 percent of total state and local government spending in Oklahoma.[1] Therefore, most of the discussion in this section will deal with these functions of government. Some attention is also given to state and local general government expenditures for sanitation, police protection and local fire protection because of the importance of these expenditures in local government budgets.

The most important function of state and local government, in terms of dollars spent, is education. Per capita state and local government general

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[1]The latest year for which state and local government spending data are available is fiscal 1963. However, since 1962 is latest year for which detailed state and local revenue data are available, the discussion of expenditures in this section will be for 1962. The interested reader may examine the appendix table for state and local general government spending for 1942, 1957, 1962, 1963 and fiscal 1963. However, please note that these data have not been corrected for price level changes.

expenditure on education in Oklahoma was $107.96 in 1962. This was below the average for the four-state region ($114.95) and the nation ($119.55).[2] Per capita general expenditure on state institutions of higher learning was $26.14 in Oklahoma, $22.37 for the four-state region, and $21.76 for the nation as a whole. On the other hand, per capita state and local general expenditures for all other education in Oklahoma ($81.82) was below the averages for the four-state region ($92.57) and the nation ($97.96).

State and local government spending on highways in Oklahoma was approximately one-half of state and local spending on education. The per capita state and local general expenditures on highways in Oklahoma ($55.23) was about equal to the national average ($55.73) and slightly below the average for the four-state region ($57.08).

Oklahoma is definitely the leader with respect to per capita state and local expenditures on public welfare. In 1962 per capita state and local welfare expenditure was $58.11 in Oklahoma, $27.13 in the four-state region, and $27.36 in the nation. Since the general sales tax is earmarked for welfare, this explains why Oklahoma's welfare expenditures are so high as compared to other states. However, it should be noted that more different types of governmental services come under the wing of the welfare department in Oklahoma than in other states. For example, the schools for the mentally retarded are financed from welfare funds. Therefore, it is very difficult to make meaningful interstate comparisons with respect to this function of state and local government.

The final category of state and local general expenditure to be

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[2] In fiscal 1963 Oklahoma's per capita state and local general expenditure on education ($140.40) was above the average for the four-state region ($135.33) and the nation ($138.67).

TABLE 7

PER CAPITA GENERAL EXPENDITURE OF STATE AND LOCAL GOVERNMENTS, TOTAL AND BY SELECTED FUNCTION, U. S. AND SELECTED STATES, 1962

	United States (1)	Four State Region (2)	Arizona (3)	New Mexico (4)	Oklahoma (5)	Texas (6)
TOTAL GENERAL EXPENDITURE .	$324.00	$285.01	$355.62	$324.44	$298.91	$276.39
EDUCATION						
Total . . .	119.55	114.95	154.44	151.26	107.96	107.26
State Institutions of Higher Learning .	21.76	22.37	33.75	40.21	26.14	18.03
Other . . .	97.79	92.57	120.69	111.05	81.82	89.22
HIGHWAYS . .	55.73	57.08	66.70	54.71	55.23	56.34
PUBLIC WELFARE . . .	27.36	27.13	20.73	27.84	58.11	20.51
HEALTH AND HOSPITALS . .	23.37	14.79	12.66	15.56	15.92	15.12
SANITATION .	10.54	8.54	14.33	11.71	4.49	8.34
POLICE PROTECTION .	11.46	8.62	11.10	8.52	6.63	8.74
LOCAL FIRE PROTECTION .	6.05	4.29	3.92	3.30	3.44	4.65

Source: U. S. Department of Commerce, Bureau of the Census, 1962 Census of Governments, Compendium of Government Finances, Vol. IV, 63-66.

discussed in this section is health and hospitals. In 1962 Oklahoma's per capita expenditure on health and hospitals ($15.92) was slightly above the average for the four-state region ($14.79) but well below the national average ($23.37).

In comparing the expenditures on various functions of government in Oklahoma with national averages one should remember that Oklahoma ranks well below the national average with respect to fiscal capacity. This means that, if Oklahoma is to come up to, or excel, the national average with respect to state and local government services, a larger share of its income will have to be allocated to the public sector. Of course, this is a decision for the voting public to make.

APPENDIX

TABLE A-1

PER CAPITA GENERAL EXPENDITURE OF STATE AND LOCAL GOVERNMENTS, TOTAL AND BY SELECTED FUNCTION, U. S. AND SELECTED STATES, 1942, 1957, 1962, 1963, 1963-64

	Year	United States	Four State Region	Arizona	New Mexico	Oklahoma	Texas
Total General Expenditure	1942	68.62	52.53	80.37	64.39	57.38	48.20
	1957	273.09	222.13	272.86	278.64	247.90	204.85
	1962	324.00	285.01	355.62	324.44	298.91	267.39
	1963	343.64	303.73	372.79	381.37	345.48	282.46
	1963-64*	362.20	330.73	382.78	404.39	385.86	301.45
Education Total	1942	19.31	17.08	25.67	22.90	18.74	15.52
	1957	83.00	86.34	144.39	109.46	88.48	80.48
	1962	119.55	114.95	154.44	151.26	107.96	107.26
	1963	127.31	119.76	161.82	172.97	121.20	110.58
	1963-64*	138.67	135.33	170.10	189.03	140.40	123.17
State Institutions of Higher Learning	1942	2.21	3.50	6.54	5.12	3.44	3.18
	1957	11.50	13.85	22.27	23.52	19.83	10.53
	1962	21.76	22.37	33.75	40.21	26.14	18.03
	1963	24.95	24.83	39.10	47.63	30.20	19.76
	1963-64*	28.87	30.20	41.62	50.36	41.92	23.62
Other Education	1942	17.10	13.57	19.13	17.78	15.30	12.34
	1957	71.50	72.49	92.11	85.94	68.65	69.95
	1962	97.79	92.57	120.69	111.05	81.82	89.22
	1963	101.36	94.92	122.72	125.34	91.00	90.81
	1963-64*	109.80	105.13	128.48	138.67	98.48	99.55

TABLE A-1 (Continued)

	Year	United States	Four State Region	Arizona	New Mexico	Oklahoma	Texas
Highways	1942	11.13	10.89	15.88	16.36	10.37	10.33
	1957	45.90	47.61	50.23	66.30	53.67	44.15
	1962	55.73	57.08	66.70	54.71	55.23	56.34
	1963	59.04	60.67	64.42	73.02	67.76	58.13
	1963-64*	60.96	65.31	58.67	79.72	74.30	62.55
Public Welfare	1942	9.15	6.40	12.43	4.85	12.20	4.19
	1957	19.99	22.29	17.81	20.25	46.41	17.06
	1962	27.36	27.13	20.73	27.84	58.11	20.51
	1963	29.06	29.28	22.37	30.47	62.49	22.90
	1963-64*	30.13	29.16	21.90	32.14	64.28	23.46
Health and Hospitals	1942	4.41	1.98	3.06	2.32	2.18	1.82
	1957	18.79	12.06	12.09	17.27	11.68	11.70
	1962	23.37	14.79	12.66	15.56	15.92	15.12
	1963	24.82	16.05	14.16	17.24	19.40	15.75
	1963-64*	25.66	16.69	15.44	17.80	19.86	15.95
Sanitation	1942	1.71	.72	.84	.19	.30	.76
	1957	8.48	6.75	6.76	7.47	6.12	6.83
	1962	10.54	8.54	14.33	11.71	4.49	8.34
	1963	11.59	8.66	14.25	13.38	5.72	8.77
	1963-64*	11.83	9.90	18.18	8.71	7.89	9.18
Police Protection	1942	2.94	1.66	2.52	1.05	1.68	1.43
	1957	8.62	6.27	7.85	6.17	5.46	6.29
	1962	11.46	8.62	11.10	8.52	6.63	8.74
	1963	12.10	9.20	12.38	8.56	7.13	9.18
	1963-64*	12.36	9.23	13.37	8.93	7.79	8.94

TABLE A-1 (Continued)

	Year	United States	Four State Region	Arizona	New Mexico	Oklahoma	Texas
Local Fire Protection	1942	1.76	.85	.92	.30	.70	.92
	1957	4.76	3.36	2.62	2.44	2.98	3.63
	1962	6.05	4.29	3.92	3.30	3.44	4.65
	1963	6.29	4.40	4.38	3.55	3.71	4.75
	1963-64*	6.38	4.61	4.67	3.79	4.25	4.73

* Year 1963-64 data is for fiscal year ending June 30, 1964.

Source: Year 1942 -- U. S. Bureau of the Census, Department of Commerce, State and Local Government Special Studies, Nos. 36-45, "State and Local Government Finances in 1942 and 1957," Table 9, pp. 33-34.

Year 1957 -- 1957 Census of Governments, "Compendium of Government Finances," Vol. III, Table 33, pp. 46-47.

Year 1962 -- 1962 Census of Governments, "Compendium of Government Finances," Vol. IV, Table 37, pp. 63-66.

Year 1963 -- Bureau of the Census, Governmental Finances in 1963, Table 21, pp. 45-48.

Year 1963-64 -- Bureau of the Census, Governmental Finances in 1963-64, Table 21, pp. 45-48.