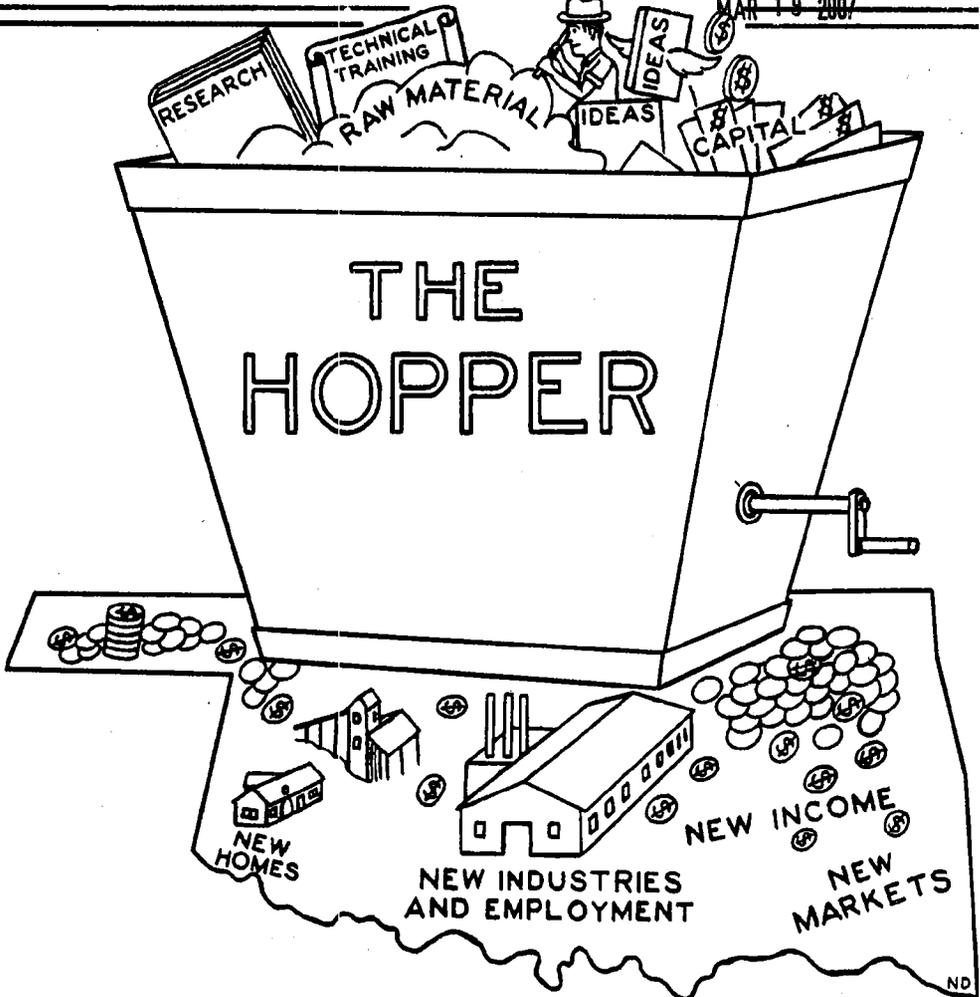


STATE LIBRARY

LIBRARY - DOGS

DEDICATED TO OKLAHOMA'S DEVELOPMENT

MAR 19 2007



PUBLISHED IN THE OFFICE OF THE
OKLAHOMA GEOLOGICAL SURVEY
NORMAN, OKLA.

STATE TAXES AND STATE PROGRESS

by

L. D. Melton, Tax Attorney
and Economist

(Address delivered before the Oklahoma Press
Association June 16, 1950, Oklahoma City, Okla.)

Gentlemen of the Press:

I have thrown away the talk I had originally prepared, in order to comment on the state's population losses which are being currently reported in the papers on a county by county basis.

Judging from some of the editorials I have been reading on the census count, it strikes me that there is some danger that the great inferiority complex from which Oklahoma has been suffering for the past twenty years may be made worse, rather than better, as a result of overemphasis or misinterpretation of the significance of this population loss.

So I propose to take the census reports as my point of departure and let a few tax ideas and thoughts fit in where they may.

First, let's analyze what caused this loss of population, and then weigh its significance.

There is rather general agreement on the causes. It was a combination of the gradual erosion and loss of fertility of farm lands in many parts of the state, coupled with fundamental changes in farm methods and practices, together with improved labor saving machinery and equipment on the one hand--all of which meant fewer families on the farms.

And, on the other hand, perhaps an even more important cause was the economic opportunity

provided for the thousands of under-employed farm families of Oklahoma by the war effort. Good jobs in war industries drew these people to the west coast and to other industrial centers (some of which were within Oklahoma), and a high postwar industrial level has so far held them in their new locations.

The fact that Oklahoma has lagged somewhat in industrial development since the war, as compared to other states, has further discouraged, or prevented, their return to this state.

What Does It Mean?

So much for the causes. But what does it mean? What is the significance of this loss of population? That is the important consideration. Personally, I take an optimistic view.

Does it mean or imply a reduction in the state's productivity, or in state income?

If this population loss meant a corresponding loss of production, or of state income and purchasing power, then we would really have something to worry about. But it doesn't mean that at all, and here are some figures which prove my statement.

In 1940, income payments to the people of Oklahoma totalled \$829,000,000. In 1949 (most recent year for which data are available) income payments were \$2,361,000,000--an increase of 184.8 per cent.

In 1940, cash farm income was \$215,000,000. In 1949, cash farm income had increased to \$628,000,000--a gain of 192.1 per cent.

In 1940, the value of all mineral production in Oklahoma was \$236,000,000. In 1949 the value of all minerals produced totalled \$503,000,000.

Again, in 1939 there were 37,585 persons employed in manufacturing in Oklahoma; today there are 63,000 people so employed.

And the new wealth created by manufacturing in Oklahoma has risen from \$101,782,000 in 1939 to \$341,027,000 in 1947 (According to the U. S. Census of Manufactures)--a gain of 235 per cent.

These figures, even after allowing for inflationary influences, are more than a little impressive. To me, they show a bright, rather than a gloomy, picture. But if they will not suffice, here is further evidence that Oklahoma's economic position has improved, relative to that of the nation as a whole.

In 1940 the people of Oklahoma received 1.09 per cent of the nation's income; in 1948, they received 1.15 per cent.

Oklahoma's 1940 per capita income of \$356 was only 62 per cent of the per capita national income (\$575); whereas by 1948, Oklahoma's \$1,029 per person had increased to 73 per cent of the per capita national income of \$1410.

Compared to the nation at large, Oklahoma is doing all right; it is only when compared to the other states of this fast developing Southwest that we are found to be lagging a little.

What else does this shift in population mean, coupled with these other facts I have just cited?

They show definitely that the people remaining in Oklahoma are far better off economically than they were in 1940; and, undoubtedly, those who left the state have also improved their status. Each population group concerned is considerably better off than in 1940.

THE HOPPER

All that has happened is that Oklahoma has e through a necessary and probably desirable aking down" process over the past 20 years, ch has stripped most of the surplus fat--the t unproductive weight--from our frame. It isn't ething to let "get our dobbers down". We can just as many productive workers back to Okla- a as we want depending on our development of s in our basic industries. But until work is ilable they shouldn't return to Oklahoma, to ment the state's relief rolls.

This brings us to the major problem--How do we ate more jobs?

The answer to that is that we create more jobs expansion of our basic industries: (1) Agricul- e, (2) Mining (which includes oil and gas pro- tion) and (3) Manufacturing and Processing. Now 's look briefly at these and see what the pros- ts are in each.

Employment in Agriculture

The trend in agricultural employment is rapid- downward, and will probably continue so until a ession period sends a lot of people back tempo- ily to a subsistence living on small farms and eages.

Dr. Henry G. Bennett has recently suggested ying as a type of agriculture based on a graz- economy, which requires more farm workers; and re are large economic possibilities for Oklaho- in dairying, not only with respect to farm em- ment but also having in mind the industrial by- ict--the milk processing plants of many kinds. ahoma has many advantages over Wisconsin in ying, yet Wisconsin had 1,363 dairy products ts in 1947, as compared to but 56 in Oklahoma.

Farm employment can also be increased a little as we develop more irrigation projects, with their more intensive type of farming operations. But, all things considered, agricultural employment will probably continue to decline.

Employment in Mining

Mining, which includes oil and gas production, is doing about as much to provide employment in Oklahoma now as we can ever expect it to do. We have 43,000 people engaged in mining operations in Oklahoma at this time, over 40,000 of whom are engaged in oil and gas production.

Oklahoma has a much higher percentage of its labor force engaged in mining than any surrounding state, principally because we have the headquarters of so many large oil companies in this state. This accounts for the prosperity of some of our principal cities, such as Tulsa, Bartlesville, Ponca City, Aremore, and to a lesser extent, Oklahoma City, Enid and some others.

But considering the sad state of the coal industry, the playing out of higher grade lead and zinc ores in northeastern Oklahoma, the long-range decline in oil production plus the continual invention of labor-saving machinery for the drilling of oil wells, the prospect is for a gradual decline in employment in mining in this state. We will be doing very well, indeed, to maintain the relatively high level of employment in this basic industry which the historical discovery of the first large mid-continent oil fields in Oklahoma has given us.

Employment in Manufacturing

So, then, it becomes apparent that if we expect to increase job opportunities (and population) in Oklahoma, we must look primarily to manufacturing and processing. This is the basic type of

industry which accounts for the greater prosperity of such industrial states as Connecticut, Pennsylvania, Michigan, Ohio and many others. Manufacturing can do as much for Oklahoma as it has done for these other states.

If we can increase our manufacturing payrolls we don't need to worry about the retail merchants and wholesale distributors, professional people, services, banks and all the other lines of business for they can't help prospering if the basic sources of income are present. All these others merely swap the dollars around that are brought into the state by our basic industries.

How is Oklahoma doing in manufacturing? Each surrounding state gained more from 1939 to 1947 than did Oklahoma.

It takes about \$10,000 to create one job in industry, on the average. The reason Oklahoma prospered during the war was that the government threw about \$500,000,000 into war plants and equipment in this state and gave employment to some 125,000 people.

What Oklahoma needs now is for private investors to come forward with several hundred millions of new plant investment over the next four or five years. More specifically, Oklahoma needs to build 500 new, small industries scattered over the state in towns of from 2,500 to 10,000 population, during the next few years. You will note I said that we need to "build them" ourselves. The key to the state's industrial growth is for us to make as big a showing as possible of doing something for ourselves, rather than sitting back and expecting others to do it for us. The reason large outside industries have been attracted to Arkansas is because they saw Arkansas putting on a statewide campaign for small local manufacturing plants, trying to lift itself by its own bootstraps, and they

moved in to help, knowing that they would find a favorable climate and friendly reception.

An important by-product of such an industrial effort in the smaller cities and towns would be the effect on the legislature. It would be easier to keep the legislature from enacting laws detrimental to the state's industrial development, and perhaps secure the amendment of some laws now in effect.

How State Government Can Best Help Industrial Development

There are a few positive things the state government can do to help an industrial development program along, such as the Governor's lending his prestige and leadership to the movement, the gathering of data on the state's industrial advantages and state advertising. But in the main, it will be found that the best contribution the state can make is on the negative side--that is, holding the line on excessive tax levies, keeping the state generally competitive with surrounding states and demonstrating the necessary stability and exhibiting a genuinely friendly attitude toward industry.

This is considerably more difficult than you might think. Enough screwball or vicious legislation is introduced at each session to destroy any hope of the state's industrial progress, if all of it would be passed.

Examples of such laws introduced in 1949 which might be cited are: (a) the so-called "Milnot" bill (which would have driven a legitimate manufacturer from the state by legislative act) and (b) the proposed tax of one cent per gallon on gasoline at the refinery (which would have destroyed the out-of-state market for 70 per cent of all the gasoline manufactured in Oklahoma, and forced the refining industry out of the state).

Fortunately there are enough level-headed members to beat down most of this dangerous legislation, but the mere introduction of such bills, with the attendant publicity, scares away industry and damages the state's reputation for legislative stability.

Having finally got around to mentioning state taxes, I suppose I should stay on that subject for a little while; after all, I was billed to talk on state taxes.

Low State Taxes on Manufacturers

A lot of nonsense has been written about the burden of state and local taxes in Oklahoma on industry. Last year, while still with the state government, I made an analysis of all state and local taxes paid by corporations in the various lines of business, as reported in their income tax returns. Let me give you briefly some of the facts.

First, look at the low ratio of all state and local taxes to gross sales.

For all corporations, this amounted to 2.38 per cent. It was higher for those lines of business which have most of their capital tied up in taxable real and personal property. For example, state and local taxes paid by public utility companies were 7.57 per cent of their gross sales. How many of you knew that our public utilities are paying three times as much tax for the support of our state and local governments as all corporations generally? The percentage of taxes to gross sales for newspapers was 2.5 per cent. But for retail business, state and local taxes were only 0.79 per cent of gross sales; wholesalers paid only 0.68 per cent, and manufacturers and processors paid in state and local taxes in 1947, only .52 of 1 per cent of their gross sales. This definitely is not a picture of an overtaxed group of industries. I

very much doubt that taxes being paid by manufacturers in Texas is any lower.

The ad valorem tax is two and one half times a greater burden on business in Oklahoma than the net income tax. In 1947, the income tax paid by all business corporations in Oklahoma was only 14.85 per cent of their total state and local tax bill; whereas, the ad valorem tax was 36.43 per cent of the total. And Oklahoma, as everybody knows, has given taxpayers much more ad valorem tax relief than any surrounding state.

There is no real basis for Oklahoma's having an inferiority tax complex merely because we have a moderate state net income tax. Such a tax hasn't apparently retarded the development of some 34 other states, including Arkansas, which has a much stiffer income tax now than Oklahoma. Nor will it retard our progress here in Oklahoma unless we hypnotize ourselves into believing that it will.

Our main job--that of building those 500 small industries, employing from 5 to 25 people--is one for private industry. It is a job for the city and town builders in every community; for the individual entrepreneur who sees an opportunity to get ahead. It is a job, in short, for local capital, (of which there is plenty), and local management, employing local labor and using nearby raw materials to make a product that will supply a local or state-wide market.

This is the way, and it is the only way, to raise Oklahoma's per capita income to the national level.

Think for a moment what it would mean to Oklahoma if our per capita income could be increased to the national average. It would mean an increase in the people's income of \$875,000,000--37 per cent above the state's 1948 income. It would mean good

paying jobs for many thousands of additional workers, with higher living standards for their families (drawing back to Oklahoma many of those who have moved away). It would mean a better market for farm produce throughout the state and a more prosperous agriculture. It would mean a one-third greater buying power in the state with corresponding gains in merchants' sales and advertising lineage. Tax revenues would automatically be increased about \$75 millions for the support of schools and hospitals, for higher teachers' salaries and increased old age assistance--all without any increase whatsoever in tax rates.

Isn't that the better way to obtain increased state revenues, rather than by increasing the rates of tax?

Our growth in Oklahoma is still ahead of us. The population we have lost since 1930 represents nothing more in the history of this state than the shedding of surplus weight by an overgrown, adolescent youth, as he hardens his muscles for a man's work ahead.

New capital, new people, new ideas are moving toward the Southwest in a great tide, and Oklahoma is right in the center of that region. In coming our way, they can't very well overlook us if we will just quit lying "doggo", stand up and demand a share of attention and recognition, commensurate with our state's potentialities.

All we've got to do to make progress in Oklahoma is to organize ourselves properly and go to work. If the population loss revealed by the census will only help pull this state together for a united effort, it will have been all to the good.

The newspapers of Oklahoma can, if they will, play the key role in such a campaign.