

THE OKLAHOMA ECONOMY

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The conventional view of Oklahoma's economy is of a system based on oil and agriculture. This view enhances the influence of oilmen, farmers, and ranchers well beyond their actual economic importance. Today's Oklahoma has become more and more like its national counterpart with state economic conditions largely determined by the status of the national economy. An economy once dominated by oil and agriculture has become diversified as a result of developments inherent in the declining importance of natural resource sectors and the free market-based spread of economic activity throughout the nation.

This discussion first focuses on basic quantitative information about how Oklahomans are employed and what they earn for their efforts. With this recent record in mind, the focus will shift to public policies and economic development. The analysis will conclude with speculation about the prospects for and the limits of public policy as a catalyst for economic growth and development at the state level.

Employment and income are two of the bedrock measures used to explain the basic structure of an economic system. The sector-by-sector pattern of wage and salary employment is a reflection of what the economy is producing and will emphasize the dramatic growth of jobs in the state's service-producing sector. Personal income data further reinforce the importance of services and also provide insights into the relative productivity and well-being of Oklahomans.

Nonfarm Wage and Salary Employment

A period of major economic instability often reverberates well into the future. The energy-related period of boom and bust in Oklahoma is a case in point. Beginning with the oil embargo of 1973 and extending through the middle of 1982, higher energy prices stimulated exploration for and production of oil and natural gas in Oklahoma. The exuberance associated with this boom is perhaps nowhere exemplified better than in the remarkable expansion of the now infamous Penn Square Bank in Oklahoma City (Singer, 1985; Zweig, 1985). The state's nonfarm wage and salary employment peaked at 1,244,100 in May 1982 (Oklahoma Employment Security Commission, 1996). Then a

sustained drop in energy prices extinguished Penn Square Bank (and literally thousands of other enterprises). Employment bottomed out at 1,084,800 in July, 1987. There was a virtual collapse of employment in construction and in oil and gas production, as well as major cutbacks in manufacturing activities such as pipe, pumps, and fabricated metal products linked to the oil and gas business.

In spite of the shock of the energy collapse, the Oklahoma economy proved to be remarkably resilient. Table 1 tells the story of recovery and structural expansion during 1987-96 with payroll employment growing 245,700. Oklahoma jobs grew 22.2 percent during this period while national employment grew 17.3 percent.

The most significant feature of recent expansion is the dominance of job growth in the broadly defined service producing sector. Only 7.4 percent of the expansion in Oklahoma jobs during 1987-96 was in goods producing, i.e., in mining, construction, and manufacturing. This dominance of services mirrors the recent performance of the national economy.

The relative underdevelopment of the manufacturing sector has often been cited as a distinguishing feature of Oklahoma's economy. That condition is changing. Between 1987 and 1996 manufacturing employment in Oklahoma grew 10.7 percent while it declined 3.8 percent nationally. Though still less industrialized than the nation as a whole, Oklahoma was catching up at a fairly rapid pace.

Whatever the economic or demographic measure being used, a very rough rule of thumb allocates the state total in thirds between the Oklahoma City metropolitan area, the Tulsa metropolitan area, and the balance of the state. Oklahoma's employment expansion between 1987 and 1996 was relatively well-balanced geographically. The 245,700 increase in payroll jobs consisted of a 89,300 increase in the six-county Oklahoma City Metropolitan Statistical Area (MSA), 71,100 in the five county Tulsa MSA, and 85,300 in the rest of the state (66 counties). There has, however, not been geographic balance in the state's nonmetropolitan area. The eastern half has continued to perform better than the west. In fact, many of the state's western nonmetropolitan counties have been losing population during the 1990s.

Personal Income

In 1996, Oklahoma's total personal income was \$63.9 billion—one percent of the U.S. total (Survey of Current Business, 1997). Almost two-thirds of the state's total personal income is from earnings (wage and salary income and proprietor's income derived from work). The other third of total personal income is divided roughly equally between income from rent, interest, and dividends (returns to economic capital) and transfer payments (entitlements) which involve no economic production. Compared with the nation as a whole, Oklahoma's personal income consists of slightly smaller shares from earnings and rent, interest and dividends, and a larger share from transfer payments.

Personal income earnings data contained in Table 2 add an important sectoral dimension to the analysis of Oklahoma's economic structure. The nonfarm wage and

TABLE 1
Nonfarm Wage and Salary Employment, Oklahoma, 1987 and 1996
(Employment in thousands)

Industry	1987	1996	Change 1987-1996
Total employment	1,108.5	1,354.2	245.7
Goods production	237.2	255.4	18.2
Mining	46.0	31.5	(14.5)
Construction	34.5	50.3	15.8
Manufacturing	156.8	173.6	16.8
Services production	871.2	1,098.8	227.6
Trans. and public utilities	63.2	77.2	14.0
Trade	270.4	318.5	48.1
Finance, ins. & real estate	59.8	67.3	7.5
Health services	73.5	115.0	41.5
Business services	37.5	76.4	38.9
Other services	121.6	172.9	51.3
Federal government	52.9	43.7	(9.2)
State government	67.8	76.3	8.5
Local government	124.7	151.5	26.8

Source: Oklahoma Employment Security Commission, Handbook of Employment Statistics, Vol. II, 1995, and unpublished statistics.

Personal income earnings data contained in Table 2 add an important sectoral dimension to the analysis of Oklahoma's economic structure. The nonfarm wage and salary data used in Table 1 do not include employment in agriculture (farming and ranching). However, agriculture is included in the earnings estimates. It is very difficult to determine meaningful employment levels in agriculture. Although there were 67,000 farms in Oklahoma in 1992, most were not a primary source of employment. About 6,000 farms with gross sales in excess of \$100,000 accounted for three-quarters of the state's total farm output (Sanders, 1996). The personal income earnings data provide a partial means for identifying agriculture's place in the structure of the state's economy. In 1995, the latest year for which details are available, agriculture accounted for 1.5 percent of earnings in Oklahoma.

TABLE 2

Earnings by Industry, Oklahoma, 1995

Industry	Millions of dollars	Percent
Total earnings	41,263	100.0
Goods production	11,139	27.0
Agriculture	620	1.5
Mining	2,055	5.0
Construction	1,945	4.5
Manufacturing	6,519	15.8
Services production	30,122	73.0
Trans. and public utilities	3,457	8.4
Trade	6,455	15.6
Finance, ins. & real estate	2,100	5.1
Health services	3,690	8.9
Business services	1,607	3.9
Other services	4,569	11.1
Federal government	2,815	6.8
State government	1,959	4.7
Local government	3,443	8.3

Source: Comprehensive Revision of State Personal Income, *Survey of Current Business*, October, 1996, p. 88.

The dominance of services production is repeated in the earnings data. In 1995, approximately one-quarter (27 percent) of earnings in Oklahoma was derived from goods production, while three-quarters (73 percent) was from service production.

When their indirect impacts on the economy are included, oil and agriculture take on greater significance. While their combined share of 1995 earnings was only 7.5 percent, their overall contribution to the state's economy was two to three times as great because of multiplier effects. Manufacturing, another largely basic activity, accounted directly for 15.8 percent of earnings and had an overall impact perhaps twice as great as the two traditional mainstays of Oklahoma's economy. Although no details are provided herein, conclusions about the relative importance of energy, agriculture, and manufacturing are reinforced by another set of data estimating the components of gross state product (GSP). Gross state product is a measure of the value of total production and is similar to the well-known national measure, gross domestic product.

In 1994, oil and agriculture accounted directly for 7.8 percent of GSP while manufacturing's share was 16.7 percent (Survey of Current Business, 1997). Manufacturing's share was roughly twice that of oil and agriculture.

Oklahoma's Per Capita Personal Income Gap

Per capita personal income is obtained by dividing the state's total personal income by its total population. This is often used as a measure of economic well-being and is also a very rough measure of the productivity of an area's populace. In spite of the excellent job growth recorded by the Oklahoma economy since 1987, the state's per capita personal income continues to lag far behind that of the nation. Ever since the mid-1940s, Oklahoma's per capita personal income has hovered around 80 percent of its national counterpart. The only exception is when it nearly converged with its national counterpart at the height of the oil boom in 1982.

This per capita personal income gap is partially ameliorated by a lower-than-average cost of living in Oklahoma. A nationwide system of estimating costs of living indicates that Oklahoma is about 10 percentage points below the national norm (American Chamber of Commerce, 1997). Perhaps about half the per capita personal income gap is offset by greater purchasing power in Oklahoma.

The persistence of the relatively lower average standard of living in Oklahoma is not well-understood (Oklahoma 2000, Inc., 1997). Four observations may help sharpen the issue. (1) Per capita personal income is quite low in parts of nonmetropolitan Oklahoma—especially in the east and southeast. This pulls down the state average. Thirty of the state's 77 counties had 1994 per capita personal incomes ranging from one-half to two-thirds of the national average (Office of the Governor of Oklahoma, 1997). None of these low-income counties were in the two big metropolitan areas (Warner, 1996). (2) The occupational mix embodied in the state's employment base is relatively lightly weighted with high-paying managerial and professional jobs. (3) The average educational attainment of the state's population is below the national norm for those with college degrees and more advanced graduate degrees (Lage, 1996). (4) Transfer payments are both a result of and a cause for relatively low per capita personal income. The state relies relatively heavily on transfer payments as a source of personal income; these payments by their very nature are unlikely to be high enough per recipient to move Oklahoma's per capita personal income toward the national norm.

Economic Development Policy

The failure of the state's per capita personal income to measure up to its national counterpart has long been a rallying cry for politicians and business leaders promoting economic development. Both parties have been supportive of a wide range of state government policies aimed at stimulating the growth of jobs and income. Except for a hiatus of interest during the energy boom when the Oklahoma economy appeared to have no problems, legislators and governors alike have supported economic development measures. The anti-business sentiment so prominent in the value systems

of the populist framers of the Oklahoma state constitution were scarcely to be seen in the halls of the legislature or the governor's office when a new program to attract industry was being discussed.

The result of years of pro-economic development legislation is a policy framework that provides more incentives for business to expand or locate in Oklahoma as can be found anywhere in the nation. The state provides low-interest financing for business development through revenue and general obligation bonds, often in cooperation with local development agencies. There are enterprise zones, tax increment financing arrangements, freeport exemptions from property taxation of goods moving through the state, industrial access roads, five-year property tax exemptions for new manufacturing and related facilities, free vocational-technical education training customized for specific firms, and state and local government-operated industrial parks.

Two recent policy measures exemplify this political commitment to economic growth and prosperity. First, the Oklahoma Economic Development Act of 1987 consolidated economic development responsibilities in the Oklahoma Department of Commerce and established a blue ribbon advisory group, Oklahoma Futures, to plan for and guide the state's overall economic development efforts (Rogers, 1988). In addition, that legislation established the Oklahoma Center for the Advancement of Science and Technology (OCAST) to promote research, innovation, and the commercialization of Oklahoma-based concepts.

A second major economic development initiative has arguably been the most successful single economic development measure adopted in recent years. The 1993 Oklahoma Quality Jobs Bill provides a substantial incentive for firms with new or expanded basic activity (Gorin, 1994). The incentive takes the form of a payback to the employer of up to 5 percent of payroll for up to ten years. The principal conditions which a firm must meet to receive this incentive are:

- A business primarily in the basic sector selling at least 75 percent of its product or services out-of-state.
- A reasonably large facility with a payroll of at least \$2.5 million per year within three years.
- An employer with at least 80 percent of its employees working at least 25 hours per week.
- A socially responsible firm providing a standard package of health insurance its employees.

The theory behind this incentive is that its impact on state government finance per se is revenue neutral, while the new jobs have a substantial positive impact on the overall Oklahoma economy through the multiplier effects in which basic employment growth leads to further growth in the local service industries. Between July 1993 and March 1997, the Quality Jobs Program generated about 18,000 jobs with 119 firms. There was no doubt that some of the jobs would have been created even without the incentive;

about 50 percent of the jobs are in this category (Oklahoma Department of Commerce, 1996).

The success of the Quality Jobs Program did not go unnoticed by those concerned with the economic development potential from firms with payrolls under \$2.5 million. In 1997, the Oklahoma Legislature passed a measure essentially extending the 5 percent of payroll incentive to small firms in the basic sector generating at least 10 new jobs within one year. This legislation explicitly recognized Oklahoma's per capita personal income gap problem. Eligible firms must pay a wage at least equal to 150 percent of the per capita personal income of the county in which they are located.

Given the willingness of politicians in Oklahoma to embrace all sorts of economic development incentive schemes, two policy areas remain anomalous. The state still has not adopted a right-to-work law and has only very recently implemented major reforms in its workers compensation system.

Right-to-work laws prohibit union security arrangements in which union membership is required of all workers in a bargaining unit. A possible reason why Oklahoma does not have a right-to-work law relates to the fact that the state has never been very heavily unionized. In 1995 Oklahoma had 117 thousand union members. Unions accounted for 9.3 percent of the state's workers compared to 14.9 percent nationally. Only fourteen states had a lower percent of workers in unions, though all fourteen were right-to-work states. Seven additional states with right-to-work laws actually had a higher incidence of unionization than Oklahoma. Given the contentious nature of the issue both in the legislature and before the public, the state's business leaders have found more fertile political ground in the promotion of other economic development measures.

Worker's compensation insurance has been unusually costly to Oklahoma's employers. In 1997 for example, the Governor's budget book submitted to the legislature reported a nationwide analysis showing the state's 1996 workers compensation costs to be the fifth highest in the nation (Office of the Governor of Oklahoma, 1997). There was a general belief that some workers, trial lawyers, and doctors (including chiropractors) were taking undue advantage of a system. A special Commission on Workers Compensation Reform chaired by the Lieutenant Governor led the way. Major reform legislation was adopted in the 1997 session with bipartisan support.

After looking at the sheer mass of economic development policies implemented by the state, it is natural to ask whether these policies really affect economic development (see also Bartik, 1991; Federal Reserve Bank of Boston, 1997; Holmes, 1995). The total determinants of interstate variations in rates of economic growth are very complex. There are many factors such as climate, location, natural resource bases, and the vigor of the national and world economies which are beyond the pale of state political processes. Nevertheless, states can achieve temporary comparative advantage through innovative policies such as Oklahoma's Quality Jobs Program. There is also a body of research evidence emerging that indicates comparative tax levels and public works spending can affect economic growth (Phillips and Gross, 1995).

Success in economic development policies may be short-lived. Other states do not

sit by idly and watch their neighbors steal their plants and win contests for new site location. They, of course, follow suit and try to meet or beat their competition. There is a nagging possibility that many state political efforts to stimulate economic development simply cancel each other out with the overall result of excessive government resources devoted to economic development. Even if this is so, Oklahoma will continue to have no choice but to push forward with further stimuli for economic development. Given its small population and employment base, Oklahoma does not establish the rules for interstate competition for economic activity. In addition, the inclination to expand policies to stimulate state economic growth is reinforced by politicians who like to position themselves to take credit for favorable developments, although some of the developments would have taken place anyhow because of more fundamental economic factors.

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