

OKLAHOMA ACADEMY  FOR STATE GOALS

**STRATEGY
for
ECONOMIC EXPANSION
in
OKLAHOMA**

1986 CONFERENCE

**Final Report and Recommendations
February, 1987**

Oklahoma Academy for State Goals

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Mission Statement

The people of Oklahoma have become increasingly concerned about the direction of the state, its institutions and its economic climate. *Moreover*, the people desire a greater voice in controlling their destinies. *However*, no statewide organization currently exists through which thoughtful analysis can be provided to effectively guide the future direction of the state and the development of its resources.

Thus, the mission of the Oklahoma Academy for State Goals is to create a broad-based, statewide organization dedicated to developing information upon which a consensus on programs and policies can be built in order to develop our state's human and natural resources to their fullest potential.

In carrying out its mission, the Academy will focus on the following objectives:

- To identify areas of need and problems facing the state and its people.
- To sponsor and conduct research on subjects selected in order to develop accurate information and to state policy options and alternative solutions. (An important part of the research function will be to act as a clearinghouse for existing and future research in the state in order to avoid waste and duplication in research efforts).
- To develop consensus on policies and programs designed to meet the needs of the people and the state.
- To develop long-range goals, a strategic plan and agendas for action including priorities to accomplish the Academy's mission.
- To ensure that the people of Oklahoma are informed of Academy goals, plans, and agenda.

The OKLAHOMA ACADEMY FOR STATE GOALS 1986 Conference on November 21 and 22, 1986 at the University of Oklahoma Kellogg Center was an important milestone for the Academy and our state. Economic diversification is absolutely essential to the creation of jobs and economic growth. It is clear that the State of Oklahoma cannot depend on its natural resources alone to sustain its economic base in the future.

This year's conference laid the groundwork for establishing goals, strategies and policy initiatives to insure a strong state economy. The large number of conference participants from all regions of the state underscored the importance of the topics. The lively discussions which followed each of the presentations illustrated the genuine commitment to address issues that will have a profound impact on Oklahoma's future.

This report represents the beginning, not the end of the conference deliberations. It also represents a blueprint for action that should be discussed and debated widely by citizen groups, organizations of all kinds, and our political leaders. At the same time, we must move forward in a deliberate and systematic way to achieve a broadly based expansion of Oklahoma's economy.

The success of the 1986 conference of the Academy came about as the result of the efforts of many people. I would like to thank each of the conference speakers and their organizations. These include Walter Harper of Walter Harper & Associates, Tom Bell of the Hudson Institute, Jack Wimer of the Midwest Research Institute, Beldon Daniels of the Center for Community Development, and George Keller of The Barton-Gillet Company. I would also like to thank Dr. Alexander Holmes for his special efforts and contributions to the conference.

I ask you to read this report carefully and to share it with others. The time to begin the hard work and the cooperative efforts necessary to bring about meaningful economic diversification in Oklahoma is now!

Dr. Frank E. Horton
Conference Chairman
Norman, Oklahoma

GOALS, STRATEGIES, AND POLICIES FOR ECONOMIC EXPANSION

Oklahoma's most important need at present is to achieve economic expansion. In fundamental terms, our goals should be to:

- ✓ increase the state's personal income per capita to a level equal to or greater than the U.S. average, and keep it there,
- ✓ reduce the state's unemployment rate to a level no greater than, and normally less than, the U.S. average, and keep it there, while also erasing regional differences in unemployment rates across the state, and
- ✓ maintain the state's population growth at a rate no less than the U.S. average.

In order to achieve these goals it is necessary to adopt strategies that will place the state in a better position to expand its economic base and provide jobs for a growing population. The key strategies should be to:

- develop an effective, responsive, and progressive economic development program under the direction of an adequately funded, professionally staffed, and performance rated state development agency,
- achieve the highest possible degree of cooperation among groups and individuals representing government, business, education, labor, agriculture, and other interests,
- create an attractive business climate — one which will place Oklahoma in a position to compete effectively for existing and start-up businesses within the state, and for businesses it seeks to attract to the state,
- provide essential infrastructure and intelligence-age state services,
- provide high quality education and training to all who are capable of benefiting from it, and
- retain and attract sufficient financial capital to fuel economic expansion in the private sector on a continuing basis.

Underlying the first two strategies is the belief that Oklahoma's leaders must engage in a clearly directed and carefully designed development effort. The Academy recommends that:

- the state's development effort be directed by a newly-designed Department of Commerce.

The principal elements in this design are the:

- adoption of economic development as the Department's primary mission,
- creation of a citizens board of directors, appointed by the Governor, and composed of business, civic, labor, and university leaders, with a majority or near majority from the

business sector. This board would establish policy and make recommendations on major personnel decisions,

- recruitment of first-class professionals to manage and staff the Department, with payment of nationally competitive salaries,
- making of retention and compensation decisions based on clearly-established performance criteria, and
- allocation of government funds in accordance with clear-cut, objective criteria and procedures.

To implement the third strategy — creation of an attractive business climate — the following policy actions should be taken:

- adopt workers' compensation reforms which will reduce workers' compensations costs to a level that is both regionally and nationally competitive,
- adopt tort liability reforms which will reduce costs and exposure resulting from tort claims,
- adopt a right-to-work law as an amendment to the state constitution and
- repeal the current prevailing-wage law (the "Little Davis-Bacon" Act).

To achieve higher quality education, the Academy recommends:

- substantially increased funding for education at all levels,
- increased support for the state's two public comprehensive research universities,
- substantially increased funding for university research, particularly in areas compatible with existing or potential economic opportunities,
- provision of public funds to supplement private contributions for the establishment of university chairs, with emphasis on the sciences, engineering, and business,
- changes in the state funding formula for the comprehensive research universities to encourage a greater emphasis on their research mission,
- development of policies which will encourage joint business and academic research projects,
- enactment of a statute providing a tax credit equal to 10 percent of the fair market value of contributions of scientific and technological equipment and facilities to Oklahoma schools, colleges and universities,
- an increase in the share of local school revenues provided by local taxpayers, and

- changes in the property tax system to provide more centralized oversight.

To provide critically needed financial capital, the Oklahoma Legislature should:

- change existing laws to permit the investment of a limited percentage (1 or 2 percent) of public retirement funds in qualified venture capital companies,
- change existing laws to permit trustees of private trusts to invest assets in qualified venture capital companies,
- create an authority empowered to issue bonds for the purpose of providing funding for seed, venture, and near-equity (mezzanine) capital,
- create tax incentives that encourage private investment in companies engaged in technology development and research,
- create a high level task force composed of experts in finance to formulate recommendations for additional policies which will encourage the attraction of additional financial capital,
- amend Oklahoma's securities laws so that they follow the full disclosure approach rather than the merit approach, and

- liberalize offering exemptions granted by Oklahoma's securities laws to permit start-up and small businesses to raise capital at lower cost with fewer restrictions.

Finally, the Academy recognizes that resources for planning, and for assisting and recruiting firms, are limited. To utilize available resources most effectively, it is recommended that:

- Oklahoma follow the "target industries" approach to identify the most promising candidates for state development efforts,
- Oklahoma establish and maintain a single, consolidated, and comprehensive source of economic data,
- tax credits or exclusions be provided to large firms for technology transferred to small firms, and
- a state incentive program be created and financed which encourages the development of small business assistance centers — such centers to provide incubator space, shared equipment, managerial and marketing assistance, seed or venture capital (privately financed), and referral services.

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INTRODUCTION

As 1987 begins, the dismal performance of the Oklahoma economy is easily the state's number one problem. Five years of falling energy prices, stagnant agricultural prices, and a slowly growing national economy, have combined to produce a state economy that has simply stopped developing, leaving in its wake declining employment, rising unemployment, increasing poverty, bank failures and farm foreclosures, and a falling relative standard of living.

There is a great need, then, to get the state's economy back on the path of economic growth. Actually, there is no shortage of ideas about ways to do this. However, a collection of disparate ideas does not constitute a viable agenda for economic growth. Such an agenda must have widespread support — support that can be developed only through a consensus-building process.

The primary objective of the Oklahoma Academy for State Goals in 1986 was to achieve such a consensus on an agenda for growth. It is the Academy's belief that a viable consensus can be built only on accurate information about, and analysis of, the issues at hand. In addition, this information and analysis should be widely distributed and freely discussed in the public forum, and the views of the participants in this process should be instrumental in forging the final position of the Academy on the issue.

To develop essential information and analysis the Academy commissioned three studies: (1) a review of

studies done on this topic in the last decade,¹ (2) an effort to identify the most promising targets for development efforts among the state's industries,² and (3) a study aimed at defining an organizational structure that could best promote economic expansion.³ In addition, the Academy established close working relationships with other organizations which were also examining key aspects of the economic growth issue in 1986.⁴

These efforts formed the basis of presentations made and materials distributed at the Academy's 2nd Annual Conference, *Strategy for Economic Expansion in Oklahoma*, held at the University of Oklahoma, November 21-22, and attended by over 300 leaders from all sectors of the economy and all sections of the state. These presentations and materials served as a basis for discussion by conference participants of goals and strategies, and as background information for participants who recorded their rankings of specific policy actions on a detailed questionnaire, the results of which are summarized in an appendix to this report.

The fruits of this research and discussion and the recorded rankings of options by participants were used by the Director of the Academy to formulate a specific set of recommendations for achieving economic development. What follows is a record of these recommendations, along with a brief explanation of each.

GOALS

The primary objective prescribed for the state is economic development. However, operational measures for this goal are necessary in order to determine whether the Oklahoma economy is developing adequately. For this purpose, the following goals are recommended:

- increase the state's personal income per capita to a level equal to or greater than the U.S. average, and keep it there,
- reduce the state's unemployment rate to a level no greater than, and normally less than, the U.S. average, and keep it there, while also erasing regional differences in unemployment rates across the state, and
- maintain the state's population growth at a rate no less than the U.S. average.

The failure of the Oklahoma economy to grow in

recent years is recorded vividly in the behavior of state personal income, population, and unemployment. As the data in Table 1 indicate, Oklahoma experienced essentially zero growth in real personal

TABLE 1
Oklahoma Real Personal Income
(in billions of 1972 dollars)

Year	Amount
1982	\$17.7
1983	17.2
1984	17.5
1985	17.5
1986	17.5

Source: U.S. Department of Commerce, *Survey of Current Business*, August, 1986, except for 1986, which is from the College of Business Administration, Oklahoma State University, *1987 Oklahoma Economic Outlook*, January 1987.

income between 1982 and 1986. The state's population has not grown since 1983, and the state's unemployment rate has risen from 5.7 percent in 1982 to nearly 8.5 percent in 1986.⁵

These trends, coupled with modest growth in the U.S. economy, were sufficient to reduce Oklahoma personal income per capita from 100 percent to only 87 percent of the U.S. average, and to drive the state's unemployment rate above the national

average for the first time in nearly two decades. The state's relative performance would have been worse in terms of both indicators had it's population continued to grow at the pace achieved in the 1970s. In the long run, a declining population is a symptom of a declining economy. Thus, the only meaningful objective is to seek simultaneously higher personal income, a lower unemployment rate, and a growing population.

STRATEGIES

In order to achieve these goals it will be necessary to adopt strategies that will place the state in a better position to expand its economic base, and to provide jobs for a growing population. The key strategies are as follows:

- Develop an effective, responsive, and progressive economic development program, under the direction of an adequately funded, professionally staffed, and performance rated state development agency.

State government can play an important role in facilitating economic development, but its actions must be well-coordinated, carefully planned, clearly targeted, and effectively executed. The planning and implementation of such a program should be the responsibility of a state agency with adequate resources and incentives to do a top-notch job.

- Achieve the highest possible degree of cooperation among groups and individuals representing government, business, education, labor, agriculture, and other interests.

Policies that have a significant effect on economic development will not affect all individuals, groups, or interests uniformly. However, a high degree of cooperation among these groups has played an important role in regions which have experienced rapid economic growth.

- Create an attractive business climate — one which will place Oklahoma in a position to compete effectively for existing and start-up businesses within the state, and for businesses it seeks to attract to the state.

An attractive business climate is one in which tax policies, laws, governmental regulations, and administrative practices place Oklahoma-based businesses at a cost advantage. In creating such a climate, it is essential to recognize that only a small percentage of new jobs are likely to come from attracting new firms to the state. Nationally, more than half of the new jobs created in the last decade were

created by new enterprises, not new branches of existing enterprises, and almost all by residents of host states. At least forty percent came from expansion of a state's existing firms, mostly small ones.⁶ Growth typically comes from within a state, not from without.

- Provide essential infrastructure and intelligence-age state services.

Traditional infrastructure, such as transportation networks, water supply and treatment systems, airports, and other utilities, is essential for economic development. Although Oklahoma made good progress in creating more adequate infrastructure during the boom decade from 1973 to 1982, a recent survey indicates major unmet needs in this area.⁷

The state's responsibility does not stop with the provision of traditional infrastructure, however. One of the Academy consultants, Belden Daniels, argues that we are in the midst of an "intelligence age" in which those economies that succeed will be those that can create, use, and transmit knowledge quickly and effectively.⁸ In such an environment the state must focus on providing better education, and on facilitating the establishment of research centers, telecommunications networks, computer systems, and widely-shared data bases.

- Provide high quality education and training to all who are capable of benefiting from it.

A major source of growth in the intelligence age will be the rate of improvement in the education and skills of the workforce. Greater investment by the state in education at all levels will yield a handsome growth dividend.⁹

By the end of this century, the one-occupation career will be much rarer than it is today. The rapid pace of technological and institutional change will make many of today's skills and occupations obsolete. Tomorrow's workers will have to be equipped today with basic skills that maximize their flexibility and adaptability, and the need for retrained adults will become commonplace.

Previous evaluators have noted many ways in which Oklahoma's system of primary, secondary, vocational-technical, and higher education fails to provide the quality and quantity of education required for success in tomorrow's economy.¹⁰ The state has a special responsibility to facilitate the improvement needed in this area.

- Retain and attract sufficient financial capital to fuel economic expansion in the private sector on a continuing basis.

Unfortunately, Oklahoma appears to be suffering from a serious shortage of financial capital of all types.¹¹ There is a need for more: (1) capital for basic and applied research — to finance the development of new products, new processes, and new technologies, (2) seed capital — to move innovations from pure research to commercial application, (3) venture capital — to facilitate start-ups, new product

development, and buy-outs, (4) mezzanine finance — capital which substitutes for equity in growing small firms not yet able to "go public," and (5) long-term debt capital — for the acquisition or improvement of durable assets, such as land, plant and equipment.

Few people are wealthy enough to finance their entrepreneurial ventures from their own resources, and most firms do not generate enough retained earnings to finance all the projects that appear profitable. They must turn to others with money to invest. The institutions of the capital market are designed to bring investors and entrepreneurs together.

The degree to which new ideas are translated into new productive capacity depends both on how much is invested and on how effectively capital market institutions work to channel investor's money toward the most productive investments. Sufficient and effective financial institutions are a vitally important part of a good entrepreneurial environment.

POLICY ACTIONS

TOWARD EXCELLENCE IN THE DEPARTMENT OF COMMERCE

The state's development effort must be directed by an agency that can and will perform effectively. The Academy recommends that:

- the state's development effort be directed by a newly-designed Department of Commerce.

Such a design should include the following elements:

1. The Department's mission must be clearly defined and its functions clearly delineated. Existing programs and functions not compatible with the newly defined mission and objectives should be eliminated or transferred to another department. Examples of these are the tick eradication program and anti-poverty programs currently being administered by the Department.
2. A board of directors composed of 25 persons should be established. A majority or near majority should be business leaders from firms headquartered in the state or general managers of substantial corporations with substantial activities in the state, and who have a serious interest in state economic development, together with appropriate civic and labor leaders and university representatives who represent a broad cross-section of the state's population. We recommend that all of the members be appointed by the Governor from lists of nominees submitted by the State Chamber of Commerce and the

Oklahoma Academy for State Goals. The nominees should number at least twice the number of vacancies. At least one-third of those selected should be from each of the two major political parties. This body would represent the private/public partnership so necessary to achieving economic diversification.

3. The head of the Department should be regarded in much the same way as a chief executive officer of a corporation. The board should set policies and strategies and recommend to the governor appropriate action related to hiring and retaining this executive. The chief executive should be responsible to carry out the Department's mission, strategies and policies, and have the authority to hire and fire other employees, subject to the probable exception that department head choices would be subject to board or executive committee review.
4. The merit system should be abolished or substantially abolished. All employees' compensation and retention should be based on performance criteria.
5. The salaries of the director and the head of the Industrial Development Divisions should be nationally competitive in order to attract people with extensive qualifications and capabilities.
6. The salaries of all other division heads should also be nationally competitive in order to attract the best people.
7. All government funds, federal or state, ad-

ministered through the Department, whether by direct grants, loans or other techniques, should be administered in accordance with clear cut objectives, criteria, and procedures. The objectives, criteria and procedures should be in writing and available to all who desire to apply for them. Applicant reviews and recommendations should follow the objectives, criteria and procedures in such a way that the Department director and board can review them. Political considerations should be eliminated as a factor in these awards. Unless otherwise prohibited by law, funds made available to and administered by the Department should be administered to foster economic development.

TOWARD A BETTER BUSINESS CLIMATE

The following policy actions are recommended as means of achieving an improved business climate in Oklahoma:

- adopt workers' compensation reforms which will reduce workers' compensations costs to a level that is both regionally and nationally competitive,
- adopt tort liability reforms which will reduce costs and exposure resulting from tort claims,
- adopt a right-to-work law as an amendment to the state constitution, and
- repeal the current prevailing-wage law (the "Little Davis-Bacon" Act).

Each of these recommendations is made in the interest of making Oklahoma businesses more competitive than they are currently.

The cost of workers' compensation in Oklahoma is higher than in many competing states.¹² This leads to instances in which Oklahoma firms are at a disadvantage in competing with firms in other states. Other states have demonstrated that workers' compensation costs can be reduced through changes in administrative procedures and compensation philosophies.¹³ The Oklahoma Legislature has made some efforts in this direction, partly on the basis of recommendations from a Governor's Workers' Compensation Review Committee,¹⁴ but it has so far failed to effect significant reductions in costs.

Many Oklahoma businesses are suffering from rising costs of liability insurance, while many states have passed tort reform laws which have made it less costly for their businesses to obtain such insurance. The lack of true tort reform in Oklahoma places state businesses at a growing disadvantage in competing with businesses in other states. The 1986 Oklahoma Legislature took an initial step toward moderating the rise in the cost of liability insurance by passing S.B. 488, but much more remains to be done.

There is a long history of efforts to secure passage

of a right-to-work law in Oklahoma.¹⁵ The driving force for such legislation in recent years is the belief by sponsors that it would help the state in recruiting new firms, and that it would aid expansion of existing businesses. Some relocating firms will not even consider a state that does not have a right-to-work law.

This is an issue on which there is strong opposition from organized labor and key members of the Oklahoma Legislature. It is, therefore, one which probably can be resolved only by submitting a referendum for a constitutional amendment on right-to-work to Oklahoma voters.

Repeal of the "Little Davis-Bacon" Act¹⁶ would also generate opposition from organized labor. This law requires payment of a prevailing wage to workers on public construction projects. Implementation of this law inflates the cost of public projects in so far as the prevailing wage is set at or near union scale and it protects unionized workers and contractors from non-unionized competition. The 1985 legislature made some minor modifications of the prevailing wage law, but its coverage is still broad enough to encompass most public works projects.

TOWARD AN IMPROVED EDUCATIONAL SYSTEM

It is beyond the scope of this report to develop a lengthy analysis of the weaknesses in Oklahoma's educational system. In fact, much of the necessary evaluation has already been done, or is currently being done by other groups.¹⁷ Our objective, instead, has been to single out those problem areas that are most in need of attention if Oklahoma is to develop economically.

Heading the list is substantial underfunding of public education at all levels, from elementary schools to the state's comprehensive research universities. In his report to the Academy's Second Annual Conference Belden Daniels pointed out that Oklahoma spent an average of \$2,752 per student in elementary and secondary schools in 1985-86 — \$971 less than the national average, and \$1,172 less than neighboring Kansas.¹⁸ A study done for the Academy in 1985 revealed that Oklahoma ranked 43rd among the states in 1985 in terms of appropriations per student in publicly-supported colleges and universities, and that moving up to the national average would cost over \$200 million.¹⁹

There is growing recognition in the state that this is an important gap from the perspective of economic development. Experience elsewhere shows that research universities, in particular, can be important catalysts in the development process.²⁰ The Oklahoma Council of Science and Technology was sufficiently impressed by this prospect to recommend that Oklahoma's research universities serve as the anchors of a technology triangle similar to that established years ago in North Carolina.²¹

The Oklahoma Council of Science and Technology also recognized the vital role of research in fueling the growth of the knowledge-based industries of the future. Studies at the national level indicate rates of return two to three times higher from investment in research than from conventional investment in physical capital.²² Universities can be effective centers for research with potential applicability to goods – and services – producing activities. They will become so, however, only if university administrators have an incentive to allocate resources to this use. This will require changes in the current state funding formula which places a heavy weight on student credit hours generated.

There is growing recognition, based on knowledge of successful ventures in other states, that universities can profit from establishing closer ties with business. There are many possibilities for joint business and academic research projects, and private resources can be instrumental in attracting and retaining top flight researchers through partial funding of chairs for distinguished professors. Alternatively, the public sector can make a difference by providing tax incentives for donation by private business to educational institutions.

Finally, there is growing recognition in Oklahoma that methods of financing local schools have had a significant effect on the state's ability to finance higher education. Between 1960-61 and 1983-84, local revenues as a share of total revenues for elementary and secondary schools fell from 53 to 29 percent, while the state's share financed through appropriations increased from 24 to 49 percent.²³ This trend has made it more difficult for the state to provide the resources needed for higher education, and has focused increasing attention on the need to reform the local property tax.

These considerations have sparked the adoption of the following recommendations:

- increase funding substantially for education at all levels,
- provide increased support for the state's two public comprehensive research universities,
- increase funding substantially for university research, particularly in areas compatible with existing or potential economic opportunities,
- provide public funds to supplement private contributions for the establishment of university chairs, with emphasis on the sciences, engineering, and business,
- change the state funding formula for the comprehensive research universities to encourage a greater emphasis on their research mission,
- develop policies which will encourage joint business and academic research projects,
- enact a statute providing a tax credit equal to 10 percent of the fair market value of contribu-

tions of scientific and technological equipment and facilities to Oklahoma schools, colleges and universities,

- increase the share of local school revenues provided by local taxpayers, and
- change the property tax system to provide more centralized oversight.

TOWARD A GREATER SUPPLY OF FINANCIAL CAPITAL

It was established earlier in this report that financial capital is a critical resource for economic development, and that it is critically deficient in Oklahoma. While overall solutions to this problem are not yet within our grasp, experience in other states indicates that the following recommendations have considerable merit:

- change existing laws to permit the investment of a limited percentage (1 or 2 percent) of public retirement funds in qualified venture capital companies, and
- change existing laws to permit trustees of private trusts to invest assets in qualified venture capital companies.

There are currently five major public retirement systems in Oklahoma with funds governed by state statutes. Each of these systems has a separate pension fund managed by a board of trustees empowered to invest the fund in income-earning assets. Together, these trustees have control of over \$2 billion in assets. If even a small percentage of this money were eligible for financing new ventures, it would result in a substantial increase in the state's supply of venture capital.

Traditionally, fund trustees have not invested in the types of higher-risk, higher-reward enterprises which attract venture capitalists. One of the principal reasons they have not done so is that they are bound by the so-called "prudent man" rule, which they have interpreted conservatively as precluding such investments.

The "prudent man" rule is designed to constrain trustees from placing the assets of beneficiaries at significant risk. However the application of modern portfolio management practices can be used in a routine fashion to permit investment in venture capital without increasing the risk level of a trust fund. The legislatures of several states have recognized this basic principle and responded by changing the law to permit trustees to consider the option recommended here.²⁴

The "prudent man" rule also applies to managers of private trusts. They, too, are constrained in this way from freely applying the principles of modern portfolio management to funds they manage. Their beneficiaries could profit, as well, by legislation which allowed trustees greater latitude in choosing

investment alternatives.²⁵

- Create an authority empowered to issue bonds for the purpose of providing funding for seed, venture, and near-equity (mezzanine) capital.

There is a need in Oklahoma for an authority which can pool loans and equity investments to small, emerging and established firms, insure the pools, and then raise capital on the basis of this equity in national and international capital markets. Such an institution would be similar to the well-established Massachusetts Technology Development Corporation and the Connecticut Product Development Corporation.

- Create tax incentives that encourage private investment in companies engaged in technology development and research.

This recommendation is intended to produce further increments in the supply of funds available for the creation of the technological infrastructure that will be necessary to foster an entrepreneurial expansion in the state.

- Create a high level task force composed of experts in finance to formulate recommendations for additional policies which will encourage the formulation of additional financial capital.

This recommendation underscores Oklahoma's need to explore as fully as possible new ways of developing an adequate supply of financial capital. Given the state's recent involvement with this problem there is no reason to settle for less than state-of-the-art institutions and policies.

Finally, two recommendations are made in regard to securities laws and regulations:

- amend Oklahoma's securities laws so that they follow the full disclosure approach rather than the merit approach, and
- liberalize offering exemptions granted by Oklahoma's securities laws to permit start-up and small businesses to raise capital at lower cost and with fewer restrictions.

Some specific ways to accomplish the objectives of these recommendations are outlined in the final report of the Oklahoma Council of Science and Technology.²⁶

TOWARD EFFECTIVE ALLOCATION OF RESOURCES FOR DEVELOPMENT PLANNING AND ASSISTANCE

Resources for planning, assistance, and recruitment are limited. Thus, there is a need to effectively utilize these resources. Toward this end, the Academy recommends, first, that:

- Oklahoma should follow the "target industries" approach to identify the most promising candidates for state development efforts.

The target industries approach involves a syste-

matic, rational identification of industries for which Oklahoma has, or is likely to have, a comparative economic advantage. There are several important examples for Oklahoma of the application of target industry analysis: the *Ponca City Economic Development Report*,²⁷ the T.V.A.'s *Target Industry Analysis* for the Red Ark Development Authority,²⁸ the target industry analysis commissioned by the Academy with Walter Harper and Associates,²⁹ and the Batelle study of the Tulsa area.³⁰

In essence, this kind of analysis is a systematic method for matching industries with an area's needs and attributes. The target industries must also show good growth potential and they should be capable of generating further expansion through a multiplier process.

The target industries approach is not limited exclusively to "seek and find" but includes those industries in which special efforts should be made to assist existing industries and encourage entrepreneurial start-ups. The target industries concept necessarily involves the notion that such agencies as the Department of Commerce, the Science and Technology Advisory Committee, the private sector, and universities should participate in the determination of target industries. The notion must also carry with it the idea that today's target industries will not necessarily be tomorrow's target industries. Coordination between Department of Commerce activities, the legislature, and university research activities is also essential in order for this approach to work. Specifically, tax and other incentives must be geared to the kind of industries Oklahoma desires and has the necessary attributes to attract, and where possible, research dollars should be allocated to produce innovation which will further enhance the targeted areas.

Secondly, since effective planning requires up-to-date, accurate economic data, and resources are also limited for this purpose, the Academy recommends that the state:

- establish and maintain a single, consolidated, and comprehensive source of economic data.

The existing Oklahoma Department of Commerce has begun assembling a comprehensive data base, ORIGINS. This effort should be continued, and the state's research universities should be directly and closely involved in this effort. In particular, the economic and business research being done at the two universities should be integrated into the effort, and any possible overlap eliminated. For the system to work, it is essential that chambers of commerce, universities and others involved in economic development have instant access to the data base through computer terminals.

Finally, given the importance of small businesses in generating jobs, and the need for both more resources and more effective use of existing resources for small business assistance, it is recommended that:

- tax credits be provided to large firms for technology transferred to small firms, and
- a state incentive program be created and financed which encourages the development of

small business assistance centers — such centers to provide incubator space, shared equipment, managerial and marketing assistance, seed or venture capital (privately financed), and referral services.

EPILOGUE

The preceding agenda is an ambitious one by almost any test. It has to be to fit the problem. Bold steps will be required to shake off the effects of five years of economic stagnation and the collapse of in-

ternational oil prices. Anything less would be neither enough to do what needs to be done nor sufficiently demanding of Oklahoma's outstanding human and natural resources.

NOTES

¹Olson, Kent W., *Economic Development in Oklahoma: A Synopsis of the Problem and a Review of the Literature*, a Report for Oklahoma Academy for State Goals, July, 1986.

²Walter Harper and Associates, *Long Term Objectives for Economic Expansion: Targeting The Future*, a Report for Oklahoma Academy For State Goals, November, 1986.

³Midwest Research Institute, *Recommendations for a Private Sector Structure in Oklahoma for Economic Development, Final Report*, a Report for Oklahoma Academy For State Goals, December 1986.

⁴One outcome of this cooperation was the presentation of two papers at the 2nd Annual Conference of the Academy by Belden Hull Daniels of Council for Community Development, Cambridge, Massachusetts ("Role of State Government in Economic Development: Tools for Global Competition") and George Keller of Barton-Gillet Company, Baltimore, Maryland ("Universities, Post-Secondary Education and Economic Development").

⁵See Olson, *Economic Development in Oklahoma . . .*, for these and other data on the recent performance of the Oklahoma economy.

⁶Vaughn, Roger J., Robert Pollard, and Barbara Dyer, *The Wealth of States*, CSPA, Washington, D.C. 1986, p. V.

⁷Penn, David A., *Oklahoma Infrastructure Study: Conditions, Needs, and Recommendations*, Oklahoma Department of Economic and Community Affairs, Oklahoma City, April, 1986.

⁸Daniels, "Role of State Government. . .".

⁹Holmes, Alexander, "Education and Economic Development in Oklahoma: Recent Initiatives," in *State Policy and Economic Development in Oklahoma: 1985*, Oklahoma 2000, Inc., Oklahoma City, December, 1985, 51-55.

¹⁰A critique of Oklahoma's educational system figured prominently in: Alexander Grant and Co., *Oklahoma Industry Climate Study*, for Oklahoma Department of Economic Development,

Oklahoma City, September, 1982; Commission on Reform of Oklahoma State Government, *Report and Recommendations*, Office of the Governor, Oklahoma City, November, 1984; Oklahoma Council of Science and Technology, *Final Report*, Oklahoma City, January, 1985.

¹¹This is one of the major points made by Belden Daniels in "Role of State Governments," and by Kent Olson in "Legislative Initiatives to Increase the Supply of Venture Capital in Oklahoma," *State Policy and Economic Development in Oklahoma: 1985*, Oklahoma 2000, Inc., Oklahoma City, December, 1985, 23-30.

¹²This point was first raised by the Commission on Reform of State Government in their *Report*, p. 132.

¹³Michigan reduced costs nearly 30 percent in the first few years after it moved from a court system to an administrative system. Florida and Louisiana saved over 20 percent by moving to wage-loss compensation systems.

¹⁴For more information see their *Report to the Governor*, Office of the Governor, Oklahoma City, No Date.

¹⁵For a review of this history and the issues at stake see Tabitha A. Doescher, "Right-To-Work in Oklahoma," in *State Policy and Economic Development in Oklahoma: 1985*, Oklahoma 2000, Inc., Oklahoma City, December, 1985, 15-22..

¹⁶This is the label often attached to 40 *Oklahoma Statutes*, Section 191.6 et seq., which is patterned after the federal government's Davis-Bacon Act.

¹⁷In addition to the sources already named in note 10, above, there is the current Higher Education Task Force, headed by James Tolbert.

¹⁸Belden Daniels, "Role of State Governments...".

¹⁹Olson, Kent W., "State Financing of Higher Education: A Brief Assessment," in *Oklahoma's Expenditure System*, Research Report Volume II for the 1985 Conference, Oklahoma Academy For State Goals, 1986.

²⁰The best-known examples are the complexes which have

emerged in Boston, Austin, the Silicon Valley, and in North Carolina.

²¹See their *Final Report*, pp. 9-10.

²²Wilson, Linda S., "The Role of University-based Research in Generating Human Capital for the Economy," *Education Record*, Fall, 1983, 40-45.

²³Holmes, Alexander, "Elementary and Secondary Education Expenditures in Oklahoma," in *Oklahoma's Expenditure System*, Research Report Volume II for the 1985 Conference, Oklahoma Academy For State Goals, 1986.

²⁴For a review of this issue see Kent W. Olson, "Legislative Initiatives to Increase the Supply of Venture Capital...".

²⁵The Oklahoma Council of Science and Technology also recognized this problem in their *Final Report* and made a recom-

mendation similar to the one made here.

²⁶See pp. 12-13 of their *Final Report*.

²⁷Warner, Larkin, et al., *Ponca City Economic Development Report*, Office of Business and Economic Research, College of Business Administration, Oklahoma State University, January, 1986.

²⁸Tennessee Valley Authority, *Target Industry Analysis for Red Ark Development Authority*, Knoxville, Tennessee, May, 1986.

²⁹Walter Harper and Associates, *Long Term Objectives for Economic Expansion...*

³⁰Minshall, Charles W. and Cathy Wright-Moody, *An Analysis of the Tulsa Area: The Identification of Target Activities*. Batelle Laboratories for Tulsa Metropolitan Chamber of Commerce, Tulsa, January, 1984.

APPENDIX

OKLAHOMA ACADEMY FOR STATE GOALS SUMMARY OF QUESTIONNAIRE RESPONSES ON SPECIFIC STATE POLICY ISSUES (by Percentage of Responses)

Please indicate in the appropriate space the relative importance which you attach to the policies, programs, and actions listed below.

EDUCATION ISSUES:	Extremely Important	Very Important	Important	Unimportant or Undesirable
1. Substantially increased funding for university research, particularly in areas which are compatible with existing or potential economic opportunities.	63	28	8	1
2. Policies and funding necessary to encourage more joint business/academic research projects.	51	39	10	0
3. Establishment of one or two math/science high schools in the state open to students from all over the state.	14	32	30	24
4. Differential state funding formula for comprehensive state universities to recognize their research mission.	41	34	21	4
ORGANIZATIONAL ISSUES:				
5. Increased participation in U.S. regional economic development organizations to stimulate growth in our region of the country.	23	31	40	6
6. Establishment of a service to assist in marketing technological innovations.	22	45	28	5
7. Establishment of an Oklahoma Institute of Science and Technology to be housed in a free standing facility and governed by an independent board of trustees. As proposed, the staff of such an institution would be drawn largely from Oklahoma's research universities, and would conduct basic and applied research in targeted areas.	21	35	25	19
8. Reorganization of the Department of Commerce along lines suggested by speakers at the 1986 Academy conference.	39	41	16	4
9. Creation of a private/public sector organization to oversee investment of various economic development financial incentive programs.	35	43	19	3
10. Creation of a private/public sector organization to oversee Department of Commerce activities.	24	24	31	21
LEGAL ISSUES:				
11. Changes in existing laws to permit the investment of a limited percentage (1 or 2%) of public retirement funds in qualified venture capital companies.	47	33	14	6
12. Changes in existing laws to permit trustees of private trusts to invest assets in qualified venture capital companies.	40	34	20	6
13. Amendment of Oklahoma's securities laws so that they would follow the full disclosure approach rather than the merit approach.	34	38	26	2
14. Liberalization of offering exemptions under Oklahoma's securities laws to permit start-up and small businesses to raise capital with less cost and fewer restrictions.	43	40	15	2

SUMMARY OF QUESTIONNAIRE RESPONSES ON SPECIFIC STATE POLICY ISSUES (continued)
(by Percentage of Responses)

LEGAL ISSUES: (continued)	Extremely Important	Very Important	Important	Unimportant or Undesirable
15. Workers compensation reform with the objective of bringing Oklahoma's workers compensation rates to a level which is nationally competitive and, at a minimum, to a level which is competitive in the region.	68	20	9	3
16. Tort liability reform having the basic objective of reducing costs (including insurance costs) and exposure resulting from tort claims.	62	23	11	4
17. A constitutional convention with the objective of achieving major changes in and streamlining of Oklahoma's Constitution.	47	22	15	16
Constitutional revisions as needed to update the State Constitution to help create a more favorable business climate.	48	36	14	2
18. A right-to-work law in some form:				
a. A statutory right-to-work law	41	20	11	28
b. A constitutional right-to-work law	54	21	9	16
19. Repeal of the Little-Davis-Bacon Act which requires that a prevailing wage be paid to workers on public construction projects, as determined by the Commissioner of Labor.	44	24	17	15
TAXATION ISSUES:				
20. Statutory enactment of technology transfer tax credits which would permit large companies which transfer technology to small companies to exclude royalties from income for a limited period.	23	45	28	4
21. Statutory enactment of a tax credit equal to 10% of the fair market value of contributions of scientific or technological equipment or facilities to Oklahoma schools, colleges and universities.	42	34	18	6
22. Reduction of corporate tax rates.	12	19	33	36
23. Increased tax credits for employers who increase the number of their employees in the state.	21	31	39	9
24. Further tax incentives for those who invest in venture capital or seed capital companies or funds.	35	35	24	6
25. Tax incentives for those who invest in start-up businesses, regardless of type.	24	36	30	10
26. Tax incentives for those who invest in start-up businesses in technology, research, or services areas.	36	35	22	7
27. More tax incentives for those who invest in manufacturing facilities.	15	33	39	13
28. More tax incentives for those who invest in research equipment or research activities in the private sector.	38	36	19	7
29. Changes in the property tax system to provide more centralized oversight.	45	35	15	5
30. Creation of a permanent irrevocable fund using a portion of oil and gas revenues.	24	25	31	20

SUMMARY OF QUESTIONNAIRE RESPONSES ON SPECIFIC STATE POLICY ISSUES (continued)
(by Percentage of Responses)

EXPENDITURE ISSUES:	Extremely Important	Very Important	Important	Unimportant or Undesirable
31. Additional state funding for adult vocational training to encourage upgrading of skills and re-training designed to prepare workers for new or changed jobs.	23	33	37	7
32. Providing matching funds of \$5 million to match federal funds for the establishment at Oklahoma State University of an international trade center. (This would also involve an implied commitment to provide adequate operating funds in the future.)	23	37	27	13
33. Additional funding, probably on a basis of matching private contributions, for the establishment of chairs at universities with emphasis on the sciences, engineering, and business.	51	32	14	3
34. Increased funding for the Department of Commerce.	22	27	38	13
35. Increased funding for the establishment or continuation of offices in foreign countries to stimulate trade and investment.	14	25	43	18
36. Funding for significant additional expenditures for advertising and promotion to improve Oklahoma's image.	27	28	33	12
37. Increased funding to promote tourism and convention activities.	16	23	46	15
38. Oklahoma's goal is to provide expanded support for its public comprehensive research universities. Accomplishment of this goal will assure proper development linkages to business and industry and enhance the economic development potential of the state.	47	34	19	0
39. Substantially increased funding for higher education.	59	21	17	3
40. Substantially increased funding for education at all levels, with increased emphasis on local funding for elementary and secondary schools.	57	24	16	3
41. Substantially increased funding for education at all levels, with increased funding provided at the state level.	41	26	18	15
ORGANIZATIONAL-EXPENDITURES MIXED ISSUES:				
42. State funded programs substantially increasing the number of seminars, conferences, workshops, etc., on a variety of subjects to assist and inform small businesses, entrepreneurs, engineers, scientists and professionals, and to encourage exchange of ideas among various groups.	18	30	37	15
43. Adoption of necessary laws and funding to establish a state incentive program to encourage the development of regional small business assistance centers, probably including incubator space, shared equipment, small central staffs to assist small businesses in the area, a seed or venture capital fund (privately financed), and referral services.	33	36	24	7
44. Increased funding, probably through state bond issues, to provide loans to businesses for hard assets such as real estate and equipment.	27	27	33	13

SUMMARY OF QUESTIONNAIRE RESPONSES ON SPECIFIC STATE POLICY ISSUES (continued)
(by Percentage of Responses)

ORGANIZATIONAL-EXPENDITURES MIXED ISSUES: (continued)	Extremely Important	Very Important	Important	Unimportant or Undesirable
45. Increased funding, possibly through state bond issues, to provide capital to invest in venture capital companies.	30	36	20	14
46. Increased funding, possibly through state bond issues, to provide capital to invest in start-up and emerging businesses.	32	28	28	12
47. Funding, possibly through state bond issue, for the purchase of a super computer to be available for use by colleges, universities, and the private sector.	22	25	30	23
48. Funding to establish a state sponsored, or partially state funded, public policy research group for the purpose of providing research materials and policy options to the Governor and legislature and the citizens of Oklahoma on economic development and other issues of importance.	25	35	32	8
49. Increased funding, probably through state bond issues, to assist cities and towns in providing essential services.	20	26	37	17
50. Increased funding through state bond issues, if necessary, to provide the infrastructure necessary for economic development, including but not limited to, roads and highways.	37	26	32	5

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