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Oklahoma's "Quality Jobs" Programs

Byron Schlomach

Quality Jobs programs are not conducive to truly beneficial economic growth and they violate fundamental notions of fairness and justice.

Oklahoma now has four programs that bear the "Quality Jobs" title, which are ostensibly intended not only to encourage companies to move to and expand operations in the state, but to attract companies that employ people in relatively well-paid occupations. Although the list of qualifying industries is long, certain industries are targeted, with a clear preference for subsidizing industries that potentially result in cash flowing into the state. This reflects a mercantilist mindset, effectively refuted as an economic philosophy by Adam Smith almost 250 years ago, on the part of the state's lawmakers that not only fails to be conducive to truly beneficial economic growth, but violates fundamental notions of fairness and justice.[1]

In the original program that was first enacted in 1993,[2] to be eligible for the Quality Jobs payroll subsidy, a company's project must meet a minimum total yearly payroll threshold (usually $2.5 million/yr) and a minimum average salary equal to the average wage of the county in which the project is located. In addition, the company must provide health insurance with employees paying no more than 50 percent of the premium. The subsidy is five percent of new payroll for up to 10 years.

The Small Employer Quality Jobs Program also targets certain industries, but instead of a minimum total payroll threshold, there is a higher minimum average salary threshold to at least 110 percent of a county's wage. Health insurance must also be provided. It pays a subsidy of five percent of new payroll for up to seven years.

The 21st Century Quality Jobs Program supposedly targets growth industries with high-skill, knowledge-based employees, although there is some overlap between listed targeted industries with those listed under the other programs. This program also specifically targets music, film, and performing arts. It pays an outsize subsidy of 10 percent of payroll for up to 10 years, provided that health insurance is provided and the average salary paid is 300 percent of a county's wage.[3]

Just passed into law in 2021, the Oklahoma Remote Quality Jobs Incentive Act subsidizes companies that establish remote workers in the state. To be eligible, the company must have a total payroll in the state equal to $500,000 or $1.5 million, depending on the size of the county in which the workers are located. Once again, health insurance must be provided with no more than 50 percent of the cost covered by workers. The subsidy is 5 percent of a complex net benefit (to the state) calculation that could be quite substantial given the multipliers applied in economic modeling.[4]

Most states have job subsidy programs. Citing Good Jobs First, Oklahoma's Incentive Evaluation Commission reported that 40 states have "some form of job creation incentive program."[5] This fact does not, however, make Oklahoma's Quality Jobs programs wise policy. Rolling all the programs into the same sections of law and adding to the list of targeted industries, as was considered in Senate Bill 936 by the Oklahoma Legislature in 2021, but failed passage, would not have made the policy any wiser.

The Poor Subsidize the Rich

By their very nature, the quality jobs programs force Oklahomans with relatively modest incomes to subsidize the salaries of individuals with higher incomes. One way to view these programs might be to recognize that a company's employees in a qualifying project are effectively paying their income tax to the company for which they work. However, the highest income tax rate in the state's progressive tax rate system is five percent at the time of this writing. The subsidy is five percent of total payroll in a company's qualifying project. Not all of an individual's income is taxed at five percent, meaning the subsidy a company receives will exceed total income tax paid by employees from its payroll for as long as the project qualifies.

The difference is made up by other Oklahoma taxpayers. As with the federal income tax, no doubt, higher income Oklahomans pay the bulk of the personal income tax revenues for the state.

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Nevertheless, individuals with incomes below the various county averages also pay a share of total state income taxes. Consequently, lower income individuals help to make up the difference between the various quality jobs subsidies and the income taxes paid by the employees of qualifying projects. Many lower-paid Oklahomans do not even receive a health insurance benefit. In Oklahoma, 37 percent of Oklahomans with incomes below 200 percent of the federal poverty level are uninsured.[6]

The 21st Century Quality Jobs program especially sees lower-paid Oklahomans subsidizing those with relatively high incomes. This program pays subsidies equal to 10 percent of payroll, double the other quality jobs programs' subsidy rates. This is for the sake of jobs that pay, on average, triple the average in the county in which the project is located. That is, under this program, the average salary paid is well above $100,000. Median household income in Oklahoma is $53,000, which means far more than half of Oklahoma *households* subsidizing these jobs earn less than the *individuals* whose jobs are being subsidized.[7]

Aerospace (Boeing) and Oil – Proving Quality Jobs' Ineffectiveness

In a review of quality jobs programs' awards for fiscal years 2018 through 2020, it was found that of the $183.3 million in quality jobs subsidies handed out in that three-year period, 52 percent went to just two industries, aerospace (26 percent of the total) and fossil energy production (also 26 percent of the total). Not quite half of that 52 percent (over 25 percent of the total) went to just one company, Boeing.[8]

The nature of the two industries receiving the lion's share of Quality Jobs program subsidies proves that these programs are failures even by their own faulty mercantilist logic. That logic, reflected in a 2017 report by Oklahoma's Incentive Evaluation Commission, is that the Quality Jobs programs attract industries that pay well to Oklahoma that would not otherwise locate here.[9] In so doing, money flows into the state's economy and government coffers that would not otherwise. Well-paid employees spend the money within the state, which has a multiplier effect, benefiting native Oklahomans since these new well-paid residents must consume goods and services here. These financial benefits are, the story goes, larger than the subsidies. Thus, the subsidies are worthwhile.

But where else would the companies related to oil and gas production (often classified as manufacturing, not mining, but highly tied to the oil industry) locate? Oklahoma ranks fourth among the states in natural gas production and fifth in crude oil production.[10] No doubt, companies enjoying subsidies would claim they could locate elsewhere but for the subsidies, but is this a credible claim?

Aerospace has historically had a presence in Oklahoma. Where $48.5 billion of the $183.3 billion total was paid to aerospace-related companies, the lion's share of the aerospace total, $46.2 billion, went to Boeing alone. Boeing's presence is directly related to Tinker Air Force Base, which serves as a worldwide manager of U.S. Air Force assets and which houses the 552nd Air Control Wing (Boeing-built AWACs aircraft) based at Tinker. Boeing's presence is therefore not related to one of the state's Quality Jobs programs, but to decisions made at the Pentagon in Washington, D.C.[11]

In addition to the two industries already mentioned, nearly 13 percent of the total three-year payout from Quality Jobs programs ($23.3 million) went to the Oklahoma Thunder basketball franchise. As Mickey Hepner, then Dean of the University of Central Oklahoma Business College put it some years ago, "I'm pretty sure the Thunder would have been here without the program."[12] In other words, at least 65 percent of Quality Jobs program payouts in the three years reviewed have been to companies that would have, with a very high degree of certainty, located in Oklahoma, regardless of the payouts. Odds are, this could be said for nearly every penny these programs have paid out, making them pure subsidies with no redeeming feature for the bulk of Oklahoma taxpayers not employed by the subsidized companies.

Even if it could be said that the Quality Jobs programs were directly responsible for companies locating operations to Oklahoma, it cannot be said that this is an unambiguous benefit to the state. Historically, companies attracted to subsidies are not necessarily profitable in the long run. Nonetheless, local investments must be made to accommodate them. What's more, 42 percent of the money paid out as Quality Jobs program subsidies in the three years reviewed went to companies not based in Oklahoma, begging the question of how long-term committed they are to the operations they've placed here. Odds are, commitments are limited to the 10 years that the subsidies last, if that long.[13]

Quality Jobs Programs – Corporate Welfare?

In 1889 Institute's publication, *Policymaker's Guide to Evaluating Corporate Welfare*, a five-question test is devised to help determine if certain subsidies or incentives are corporate welfare. Each of these is asked and answered below with respect to Oklahoma's Quality Jobs programs. It becomes clear that, indeed, Quality Jobs programs are merely corporate welfare.

Question 1: Is this a direct grant of funds or reduction in taxes to a private entity without an expectation of direct consideration (performance of services or provision of goods) to the government making the grant?

Yes. Obviously, if a company is providing a legitimate service to government for consideration, this is not corporate welfare. Companies that participate in the Quality Jobs programs do sign contracts. However, these are simply acknowledgements that if they fail to meet the statutory terms set for receiving subsidies, they will not receive the subsidies. The contracts are also a way to inform the Tax Commission that the subsidies are to be paid and that informational mechanisms must be arranged for such payments to be forthcoming. In other words, these are not contracts where the company is providing any goods or services to state or local government.

Question 2: Does a grant of funds or tax consideration apply to every similarly situated business?

Not really. The only sense that companies are equally treated might be the fact that anyone who meets the criteria of Quality Jobs programs can receive subsidies. However, subsidies that flow from eligibility for Quality Jobs programs only do so if a company can show that the jobs they provide are new. There are average salary and/or total payroll minimums that must be met in order to qualify. A company could be expanding considerably within the state, but if average salary minimums are not met, it would not qualify for a Quality Jobs subsidy. What's more, differences in average earnings across various counties impact the eligibility calculations. If a company were to enter the state, providing thousands of jobs, but split across many counties, it is likely the company could not qualify since the program appears to contemplate projects with employment concentrated within a single county. Many small companies starting up could not qualify even for the Small Employer Quality Jobs program because of the minimum salary standard. Innovative start-ups attempting to compete with employers subsidized by Quality Jobs are unlikely, themselves, to qualify. Thus, the program discriminates in favor of pre-existing businesses.

Question 3: Does an apparent tax advantage put businesses on an equal footing?

No. There is no tax-based penalty imposed on businesses moving into or expanding in Oklahoma that would provide a justification for the Quality Jobs programs as a way to put them on an equal footing with other businesses in the state. Instead, based on the discussion above, the Quality Jobs programs appear to purely be a way for elected officials to claim they have something to do with the state's economic growth. These programs also provide activity for the state's commerce department and location consultants.

Question 4: Is the purpose of this policy to avoid tax pyramiding?

No. Tax pyramiding occurs when taxes effectively tax taxes. For example, if a sales tax were applied to all sales, regardless of stages of production, taxes would be built into the prices of inputs. Sales tax applied at the next stage of production or at the retail level would be applied partly to price differentials due to previously-applied taxes. This causes distortions due to people seeking to avoid the extra taxation, so it is justified to enact policies, even if they appear to convey special privilege, in order to avoid pyramiding. The Quality Jobs programs do not, in any way, correct a problem with tax pyramiding in Oklahoma.

Question 5: Is the policy compensating a company for public infrastructure the company provided?

No. If a company moving into the state were to build a road for its purposes that could be used by the general public and becomes part of public infrastructure, or if it built sewer or water lines that could be networked to the wider community, it is justified for government to compensate for such investments in infrastructure. The costs of such projects could be paid out over time as tax credits, outright subsidies, or part of an amortization schedule. This is not, however, the case with Quality Jobs programs.

Conclusion

A true reform would abolish the Quality Jobs programs and fund the completion of currently agreed subsidies. The Quality Jobs programs, with their open-ended claim on funding, have cost taxpayers $183 million over a three-year period. It does not behoove the State of Oklahoma and its citizens to be subjects of crony policies that favor well-connected industries with highly paid employees.

End Notes

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