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THE COMMUNITY LEADER'S LETTER

NEWS & VIEWS FOR SOUTH CAROLINA'S GRASSROOTS LEADERS

UNDERSTANDING NATURE OF RISKS IS VITAL FOR COMMUNITY LEADERS

Risks that are voluntary are usually perceived as less dangerous than those imposed upon us involuntarily.

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Is there a perfect tax? Learn how to judge a tax.~~Page 2.

In furtherance of Clemson University's land-grant mission, the Community & Economic Development Program at Clemson provides access for community leaders in South Carolina to expertise in all branches of knowledge on the university campus.

Risks. They are something each of us lives with every day. When we get in our cars and drive to work or shop, we run a significant risk of accident that may threaten our lives or our limbs. Yet most of us accept the risk of driving or riding in a car while many of us draw back from far lower risks associated with things like nuclear power or chemical residuals in food. Why?

Some of the answers are examined in the November, 1990, issue of the *Journal of the American Water Works Association*. According to Susan Santos, Director of Corporate Risk Assessment Services for ABB Environmental Services, Inc., we perceive different kinds of risks in very different ways.

Risks that are voluntary (such as driving or riding in a car) are usually perceived as less dangerous than those imposed upon us involuntarily. That means that risks imposed upon a whole community by something like asbestos in public buildings, while lower than the risks of driving a car, may create great outrage. It also means that people are prone to consider risks they cannot individually control, such as environmental risks, as more outrageous than those they can control.

Risks that are exotic are perceived as more threatening than familiar risks. Nuclear energy and radiation are mysterious things to many of us. The long and complicated names of many toxic chemicals clothe the risks associated with them in an exotic aura. Hence, the unfamiliar nature of some risks triggers the often irrational fear of the unknown that is part of human nature.

Risk associated with dreaded outcomes are perceived as more dangerous than those associated with less dreaded outcomes. Cancer, for example, is a particularly dreaded disease, although no more deadly or debilitating than an automobile accident. Consequently, people tend to fear things creating a risk of cancer greater than things with an equal, or lower risk, of causing some other kind of death.

Trustworthiness of organizations affects the perception of risks. People will accept a given level of risk imposed by an organization that they have learned to trust, but reject an activity imposing the same level of risk from an organization they do not know or have reason to believe covers up the truth. People are also more inclined to accept a risk when that risk can be pinned down with some certainty than when there is uncertainty about what the level of risk may actually be.

Some risks are morally relevant and some are not. Statisticians tend to think that if

(Continued p 4)
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ECONOMIC BRIEF NO. 3

Deciding Which Tax Is the Best Tax

In a democracy, when revenue must be raised, the tax selected is often based upon ***plucking the goose that squawks the least.***

No one likes taxes, but they are a necessary evil in any civilized society. Whether you believe in big government or small, governments must have some resources in order to perform their essential services. So how does one go about evaluating a particular tax?

No one has yet come up with a better set of criteria for judging a tax than the Canons of Taxation first proposed by Adam Smith more than two hundred years ago. According to Smith, a good tax should meet four standards: standards of equality, convenience, certainty, and efficiency.

Other students of taxation at other times have added to Smith's criteria. Some have noted that a tax should be adequate, meaning it should produce sufficient revenue to support whatever it is that citizens want their government to do. Some have argued for a Benefit Principle whereby the amount of tax each is called upon to pay bears some relationship to the benefits each taxpayer receives from government. Others have argued that a tax should be neutral in its effect on the way markets work. But Smith's Canons are the starting point for any serious evaluation of a tax.

Applying Smith's Canons to any particular tax is largely a subjective undertaking. Yet, if one attempts to evaluate the principal taxes — that is, property tax, income tax, and sales tax — against Smith's Canons, one will quickly find that there is no such thing as a perfect tax. The property tax, for instance, scores fairly low on convenience and efficiency, but fairly high on certainty. The income tax scores fairly high on equality, but is costly to administer and (in the U.S.) is so complicated that it leaves much to be desired on certainty. A sales tax scores high on convenience, certainty, and efficiency, but poorly on equality.

Because there is no perfect tax, an argument can be made that the best tax system is one that uses all three major types of taxes in small doses. By combining all three major types, it is possible to offset the weaknesses of each with the strengths of the others.

In the final analysis, however, the standard for judging a tax is often political. In a democracy, when revenue must be raised, the tax selected is often based upon plucking the goose that squawks the least. Some have called this political test the Fifth Canon.

ADAM SMITH'S CRITERIA FOR EVALUATING A TAX

Equality: When ability to pay is taken into consideration, a good tax should distribute the burden of supporting government more or less equally among all those who benefit from government.

Convenience: The time and manner of payment of a tax should be as convenient as possible for the taxpayer.

Certainty: The amount of tax that is due, the method of payment, and the deadline for payment should be clear so that each taxpayer can be certain about his or her obligations.

Efficiency: The cost of administering the tax should be as low as possible so that a large fraction of what is taken from the taxpayer's pocket is not used up in collecting the tax.

Rich and Poor Counties: Economic Changes Produce Winners and Losers in Income Growth Race

Economic changes from 1976-88 changed the pecking order among South Carolina's 46 counties. In the race for income growth (comparison of county per capita income to the state average), a third of the state's counties got richer while about two-fifths got poorer.

So who were the winners and who were the losers? Geographically those getting richer are in the northwest corner of the state, and those getting poorer are clustered in the Pee Dee.

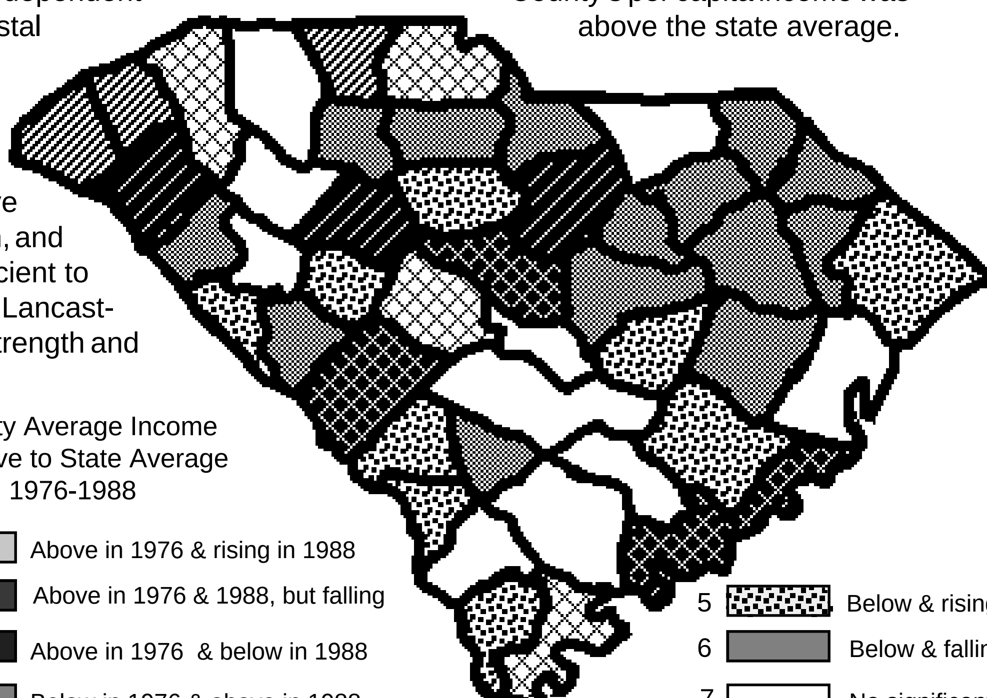
But geography alone does not explain the trend in some counties. Anderson County astride the I-85 corridor in S.C.'s northwest corner saw its per capita income fall from above the state average to below the average. Horry County, in the Pee Dee, moved from below the state average to above the average.

Further research is needed before a definitive explanation for relative changes in per capita income can be offered; however, examination of data provides some insights. Piedmont counties heavily dependent upon textile manufacturing and Coastal Plain counties heavily dependent upon agriculture both lost ground. Counties with resort or retirement amenities generally gained. Being adjacent to urban areas seems to have helped Berkeley, Cherokee, Lexington, and York gain ground, but it was not sufficient to overcome other problems in Kershaw, Lancaster, and Union. Local factors such as strength and vitality of community leadership almost certainly also played a big role in determining winners and losers.

Although using another time period might have made some differences in classification of counties, it seems safe to conclude that sixteen counties were winners. Four already relatively affluent counties (see 1 on map key) outpaced the state, and nine counties (5) grew faster than the state and narrowed the gap between county and statewide average per capita incomes. Three counties (4) that were below the state average in 1976 rose above by 1988.

Twenty counties whose per capita incomes fell relative to the state average were losers. In Aiken, Charleston and Richland counties (2) per capita incomes were above the state average in 1976, but by a smaller amount than in 1988. In Anderson, Kershaw, and Newberry counties (3), per capita incomes were above the state average in 1976 but had fallen below in 1988. Fourteen counties (6) with per capita incomes below the state average in 1976 became relatively poorer by 1988.

Ten counties (7) experienced no significant change in per capita incomes relative to the state average from 1976 to 1988. Of these ten only Spartanburg County's per capita income was above the state average.



Risks Increasing the Chance of Death by One in One Million

Activity	Cause of Death
Smoking 1.4 cigarettes	Cancer, heart disease
Drinking 1/2 liter of wine	Cirrhosis of the liver
Living 2 days in New York or Boston	Air Pollution
Living 2 months in Denver on vacation from New York	Cancer by cosmic radiation
Living 2 months in average stone or brick building	Cancer caused by natural radioactivity
Traveling 6 minutes by canoe	Accident
Traveling 10 minutes by bicycle	Accident
Traveling 300 miles by car	Accident
Flying 1,000 miles by jet	Accident
Flying 8,000 miles by jet	Cancer caused by cosmic radiation
One chest X-ray	Cancer caused by radiation
Eating 40 tablespoons of peanut butter	Liver cancer caused by aflatoxin B
Drinking Miami drinking water for 1 year	Cancer caused by chloroform
Drinking 30 12 oz. cans of diet soda	Cancer caused by saccharin
Eating 100 Charcoal-broiled steaks	Cancer from benzopyrene

Source: Richard Wilson, "Analyzing the Daily Risks of Life," Technology Review, February 1979, p. 45.

RISKS

(From p 1)

the risks of two events happening are exactly the same, they should be perceived as the same. But the public attaches moral connotations to some risks and not to others. The risk of being killed in a hurricane if one lives on the beach may be greater than from dying of food poisoning by eating contaminated food. But contamination is viewed as morally wrong, and many believe that contamination at any level is morally wrong. Hence, there is greater public outrage toward risks associated with contamination than toward equal risks associated with other perils.

It is not possible to live a riskless life. All progress entails some risk, and community leaders must convince their neighbors to accept certain risks or stand by and watch their communities wither away. Dealing with risks is more than simply putting out facts and figures and ridiculing those who accept activities associated with high risks while rejecting other activities that entail much lower risks. A sensitivity to the ways in which different types of risks are perceived by the public is vital to effective leadership.

The Community Leader's Letter ***is printed four times a year. It is the newsletter of the Community & Economic Development Program at Clemson University, a joint program of the Strom Thurmond Institute, the Cooperative Extension Service, and the South Carolina Agricultural Experiment Station. The program's offices are located in the Institute's facility on the Clemson University campus.***

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