

THE COMMUNITY LEADER'S LETTER

NEWS & VIEWS FOR SOUTH CAROLINA'S
GRASSROOTS LEADERS



HIGHWAYS SPUR ECONOMIC GROWTH WHEN OTHER FACTORS ARE IN PLACE

Tax Shifting—page 2
Do Companies Choose
Locations for the
Reasons They Say
They Do?—page 3

Casual observation suggests a strong relationship between highways and economic activity. So new highways, especially four-lane highways, are often promoted as a way to foster economic growth in communities.

Yet the amount of economic growth new highways stimulate depends upon other factors in place in communities. That is the bottom-line message from a study of the role of infrastructure in economic development performed at the Strom Thurmond Institute.*

The study is perhaps the most detailed, technically sophisticated study ever undertaken of the relationship between highway construction and local economic development.

To best understand the results of the study, it is useful first to think about different categories of communities at different stages of economic development. At one extreme are urban places with significant existing development in the form of infrastructure and

a highly educated, skilled work force. At the other extreme are rural places with little in the way of infrastructure and a work force that is undereducated and largely unskilled. New highways seem to have little effect on economic growth in either of these places.

But there are other kinds of communities, places, both rural and urban, that have some basic infrastructure (like water and sewer) in place, a cadre of educated, skilled workers, and that are already showing signs of economic growth. In these kinds of communities, new highways have their greatest impact, and capital outlays for highways can be part of a rational economic development strategy.

Even so, the payoffs in economic development do not occur immediately. For South Carolina highways constructed in the 1960s and 1970s, the Institute study shows a lag of up to ten years between the time new highways were opened and the resulting gains in employment and income. Some evidence was uncov-

ered, however, that the lag time was shorter for highways constructed in the 1980s.

Taken as a whole, the study results suggest that new four-lane highways can be helpful in stimulating local economic growth. But they are not a panacea. Unless a community already has some growth underway, it is unlikely that the new highways will do much to trigger growth. Improvement in schools, investments in water and sewer upgrades, and attention to such things as race relations, protection of historic landmarks, and other quality of life factors may pay bigger dividends for such communities than new highways. Only after those things are done and the signs of local job and income growth begin to appear does it make much sense to shift the focus to developmental highways.

*"The Economic Impact of Infrastructure Investments: A GIS-Based Approach." Copies can be obtained from the Strom Thurmond Institute at a cost of \$10.00.

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.

ECONOMIC BRIEF NO. 11

When Are Taxes Shifted? It Depends!

This series of economic briefs explores fundamental concepts in economics and community and economic development.

Proposals are afloat for a national value-added tax (VAT), increases in so-called "sin" taxes on tobacco and alcohol, and perhaps elimination of some exemptions to the state sales tax. For any tax change, an important concern centers on who, in the end, will bear the increased tax burden.

Many citizens understand that taxes get passed on to consumers by businesses. But not all taxes get passed on. Businesses absorb some taxes rather than passing them on to consumers by raising the price of a product. So

relatively small changes in the amount of food purchased. So it is relatively easy to shift taxes by simply adding them to the prices of food and other necessities. Almost all of a retail sales tax on food is passed on to consumers.

Shifting a tax is more of a problem when it comes to luxury goods. Adding a tax to the price can mean a substantial loss of sales. If sales fall sharply when a tax is passed on, producers and merchants will effectively pay at least some of the tax because their profits fall as a result of lost sales. For this reason, airlines often absorb part of the taxes on tickets.

A general VAT, therefore, will have its greatest effect on consumers in the form of higher prices of basic necessities. Its effect on suppliers of such necessities is apt to be very small. The same tax, on the other hand, will have a significant effect on businesses providing non-essential goods and services, or luxuries. These firms could reduce profits or see reduced sales (or both).

Some taxes are more easily shifted to buyers than others. There is considerable debate, for example, over who really pays the property tax. Undoubtedly,

homeowners pay since they have no one to whom they can shift the tax. But do landlords shift higher property taxes to renters? Do businesses pass along higher property taxes to customers? The evidence is mixed, suggesting that the answer depends upon local and industry circumstances.

There is also debate over who pays the corporate income tax. In some cases, it may be passed on, at least in part, to consumers. In many other cases, however, taxes have the effect of lowering return on stockholders' equity and actually represent a tax on savings and investments. Such a tax may lead to slower long-term economic growth.

What about so-called "sin" taxes? If tobacco and alcohol are truly addictive, taxes through price increases can easily be passed on to consumers in the short run. In the long term, higher prices, however, may discourage people from developing these habits. Thus higher sin taxes could have adverse impacts for tobacco growers, breweries, distilleries, and tobacco manufacturers, but beneficial effects by discouraging the use of harmful products.

Taxes are a necessary cost of having government services. When we design them, however, we need to be sure who is ultimately bearing the tax burden.

Economists know if it is possible to increase the price of a product without losing many sales, it is highly likely the tax will be shifted to the consumer.

how much tax is passed on and how much is absorbed? Basically, the firm bases its decision on the effect that raising prices will have on sales.

First of all, economists know that if it is possible to increase the price of a product without losing many sales, it is highly likely a tax will be shifted to the consumer. The ability to shift a tax, however, depends upon the nature of the product being sold and upon the type of tax.

For necessities like basic food-stuffs, relatively large changes in prices usually bring forth only

After-the-Fact Surveys Not Reliable Indicator Of Why Companies Choose Plant Locations

Surveys are often used to try to determine why firms selected particular sites for industrial plants. A new study shows that the results of such surveys must be taken with a grain of salt.

Surveying firms after the fact about branch plant location can be tricky. One problem is that it may be difficult to find and survey the person or persons who actually made the location decision and really know what factors went into making the final choice. Survey questionnaires completed by current plant managers or others not directly involved in the location process can be misleading.

A recently completed survey conducted by Clemson University's David Barkley and Purdue University's Kevin McNamara attempted to compare survey responses with actual location decisions. The study focused upon 110 manufacturing branch plants recently established in South Carolina and Georgia. The persons responding in each of these plants were asked to rank the importance of a number of factors usually considered important in plant location. Their responses were then compared to the situation at the site where the branch plant actually was built.

Consider first the matter of

labor costs. Barkley and McNamara found that the firms indicating they had selected the Southeast for a branch plant because of low labor costs did not, in fact, select sites in South Carolina or Georgia counties where labor cost were lowest. In fact, regardless of labor cost ratings provided from the firms, the communities selected for plants were above average in labor costs for the two states.

There was greater consistency between stated importance and actual plant location with regard to other factors. "Firms rating low taxes as 'very important' did select counties with below average government expenditures and property tax rates," Barkley said.

Similarly, those rating quality of life as important tended to be located in counties with relatively high family incomes, rapid growth, and proximity to metro areas. There was also consistency between the ranking of importance of availability of skilled labor and the median years of school completed in the various counties.

"Regardless of the ratings," Barkley noted, "the firms in the survey selected locations in communities that were populous, prosperous, and not geographically isolated." New

plants were sited in the larger, more rapidly growing, higher income counties near or in metropolitan areas.

The results imply that a number of necessary conditions must be met before a community is included in the set of communities under consideration as a site for a plant. "Firms may reduce location search costs," Barkley speculates, "by focusing their searches only on areas that have already demonstrated potential."

After examining the results of his study, Barkley offers the following advice to community leaders: "First strive to eliminate any deficiencies your community may have with regard to attracting a plant. Don't worry too much about the highest priority locational determinant of target industries until you are sure that the basic and necessary conditions are met."

The South Carolina Craft Artist Directory, a 101-page listing of S.C. craftpersons and their crafts, has been compiled by the Strom Thurmond Institute with help of the S.C. Crafts Association. It includes addresses, telephone numbers, price ranges, and credit card information for artisans in 120 craft categories. The publication may be purchased for \$5.00 (prepaid by check to Clemson University) through the Institute.

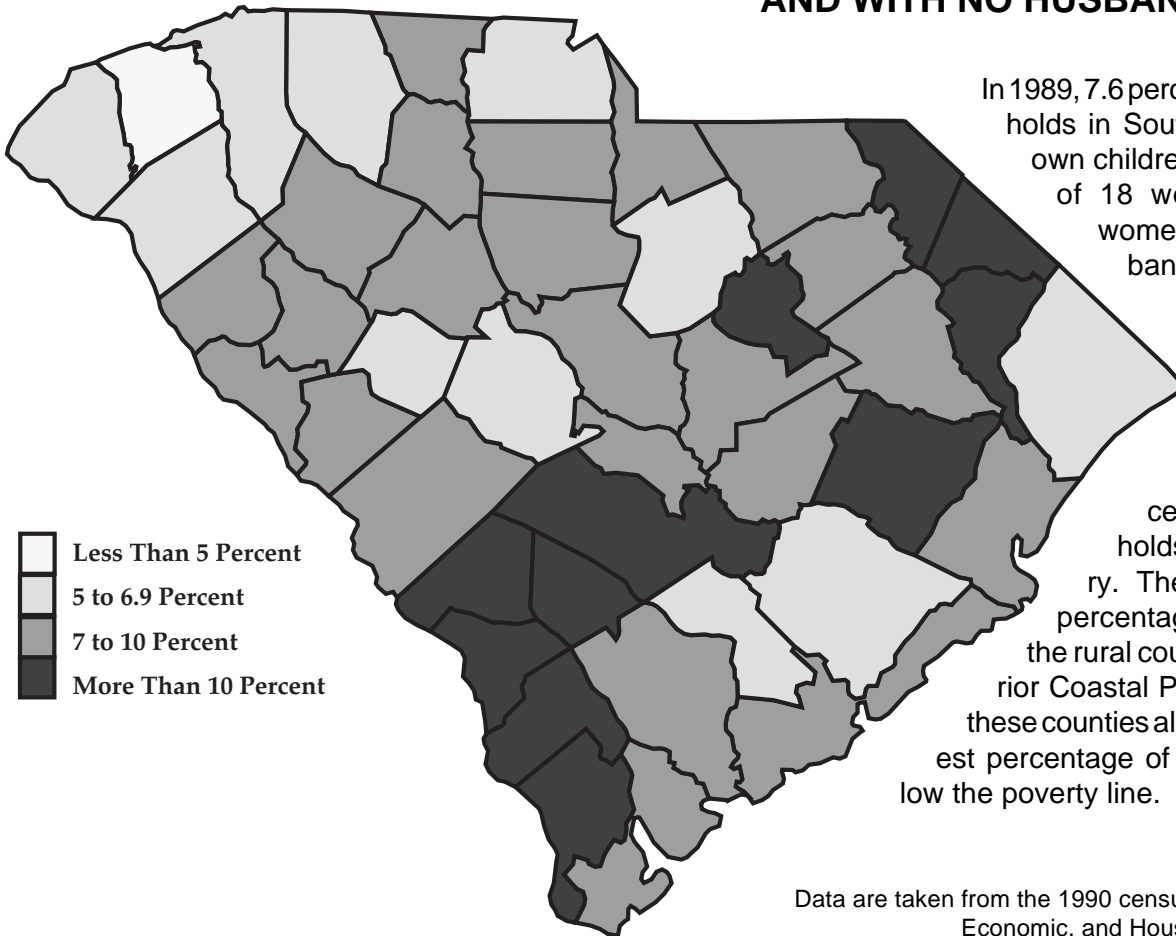
The Community Leader's Letter is printed four times a year. It is the newsletter of the Community & Economic Development Program at Clemson University, a joint program of the Strom Thurmond Institute, the Cooperative Extension Service, the South Carolina Agricultural Experiment Station, the College of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

Holley Ulbrich,
Program Coordinator
Ada Lou Steirer,
Research Associate

Feel free to reprint information found in the newsletter; however, please cite the newsletter as the source. To be added to or deleted from the mailing list or to correct an address, write to the CED Program at the address on page 4 or call 803 656-0219. If you are receiving more than one newsletter, please notify us.



PERCENTAGE OF S.C. HOUSEHOLDS HEADED BY WOMEN WITH OWN CHILDREN UNDER AGE 18 AND WITH NO HUSBAND PRESENT



In 1989, 7.6 percent of the households in South Carolina with own children under the age of 18 were headed by women with no husband present. The map shows the percentages for the state's counties. Pickens County had the lowest percentage of households in this category. The highest county percentages are found in the rural counties of the interior Coastal Plain. Generally, these counties also have the highest percentage of households below the poverty line.

Data are taken from the 1990 census, Summary Social, Economic, and Housing Characteristics.

The Strom Thurmond Institute of Government and Public Affairs, Clemson University, Box 345130, Clemson, S.C. 29634-5130 Telephone: 803 656-4700

COMMUNITY AND ECONOMIC DEVELOPMENT PROGRAM

Non-profit Organization U.S. Postage PAID Permit No. 10 Clemson, S.C.