

THE
COMMUNITY
LEADER'S
LETTER

NEWS & VIEWS FOR SOUTH CAROLINA'S
GRASSROOTS LEADERS



Proposal To End Property Tax Spurs Discussion of Broader Tax Questions

In South Carolina the property tax is still relatively low. The state ranks 37 among the 50 states in per capita property taxes and 35 in property taxes as a percent of personal income.

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***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.***

The property tax revolt that started in California in 1978 over large tax increases caused by rapidly escalating housing prices has arrived in South Carolina. This session of the General Assembly took the concerns of property tax protesters seriously.

Like many dances in the legislature, what started as a graceful political minuet wound up in a frenzied Mexican hat dance as legislators added amendments and offered substitutes to a bill which started out with the goal to eliminate the residential property tax as a source of funding for public education. As anyone who's danced the Mexican hat dance knows, most dancers collapse in exhaustion at the end. That's what happened to the tax bill.

The property tax was and is the mainstay of local government funding in most states and also a significant source of public school funding. No one argues that it's perfect or fair. But, the property tax has historically played a useful and

important role in local public finance, because it's the only local tax base which can't move to avoid taxation.

Still, there are complaints that it's too high. As South Carolina evaluates property taxes as a revenue source, three central questions must be answered. Does South Carolina need a property tax? Does the General Assembly own the property tax or do local governments? And whose property taxes, if anyone's, should be cut?

For cities the property tax has been an important revenue source since colonial days. It is part of a balanced revenue system which also taxes spending and income. Three low taxes are better than one or two high taxes; if any one of the three taxes becomes too high, shoppers, workers, or property owners will go somewhere else.

If society wants everyone, not just the poorest of the poor to contribute to the cost of providing necessary public goods and services, a tax system needs to use multiple measures of ability

to pay. Also in order to avoid pushing any one tax too hard, where rates are high and flaws are magnified, diverse revenue sources are preferable.

The property tax is uniquely suited to the needs of local government. Many local services are services to property—police protection, fire protection, garbage collection, street lights. The value of those services is roughly proportional to the value of a person's property. So the value of property is a rough and ready index of what share a person should pay.

Who "owns" the property tax? Local governments think it's theirs. It accounts for 1/3 of all local revenues and a much larger share of locally raised funds. Rates are set by cities and counties and by school boards with varying degrees of discretion.

But the General Assembly also exerts some control in school districts with limited financial autonomy. It has de-

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ECONOMIC BRIEF NO. 15

## *Promoting Positive Externalities*

When you landscape your yard or improve your property, you benefit yourself and your neighbors. You may not be thinking of your neighbors, just your own satisfaction. But you are generating benefits to others who don't have to pay for them. This kind of serendipity is called *positive externalities* by economists.

Positive externalities are one of the nice things about having neighbors and living in communities. (Negative externalities are another story for another time.) The problem is that we don't usually create enough positive externalities, because our decisions about how much to

spend or how much effort to expend are based on our own satisfactions. If the neighbors would kick in a little, reflecting their own benefits, we might do even more. But the market system offers no way for us to estimate or bill other people for benefits from the positive externalities we create.

Promoting positive externalities is an important function of local governments. They can collect taxes to help pay for production of goods and services that generate positive externalities, like beautification or street lights or sidewalks, which benefit people who live on the particular street as well as others just

passing through. They can offer rewards and recognition for citizens whose voluntary efforts create positive externalities for others. They can support volunteers by offering meeting space for community groups, technical assistance, even free trees for garden clubs to plant or trash bags for litter collectors and signs that say "Neat Street Sponsored by . . ."

Creating positive externalities binds communities together and makes them more livable for us all. Have you hugged a child today? Done a random act of kindness? Or in the poetic language of economics, created any positive externalities?

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## Property Tax Debate Spurs Discussion

(From p 1)

terminated assessment ratios, controls agriculture and forest exemption, established the homestead exemption for the elderly, uses property tax relief in industrial recruitment, and mandated a property tax rollback with the local option sales tax. Many states impose similar controls.

The proposals in the legislature this year, however, went beyond those controls. What started as an effort to eliminate the residential property tax for school purposes was amended to put caps on local government spending linked to property tax relief. So an important issue in the continuing debate is the degree of autonomy granted to South Carolina local governments.

Finally, if we do reduce property taxes, whose taxes should we reduce? Renters or homeowners? Industrial property or personal property? The elderly or the poor?

Should property taxes be reduced where they are burdensome, when people have to sell their property in order to pay taxes, when property taxes make the average house unaffordable to the average family, when industry and commerce turn down a location or expansion because of property taxes?

It's not clear whether these problems are widespread in South Carolina. The state shifts taxes to existing business and residen-

tial property when it subsidizes new industry with five-year forgiveness or fees in lieu of property taxes. Renters pay more than homeowners; the assessment on rental property is 50 percent higher than on owner-occupied, and much of it is passed through in rents. Owners of large tracts can get a farm or forest exemption, some deserved, some not. Homestead exemptions for the elderly rain on Keowee Key and McClellanville with equal abandon with no thought about need.

The state probably ought to at least rethink the distribution of the tax burden. Among the issues to consider are circuit breakers for the poor, limits on tax breaks for industrial prospects, tax burdens on existing industry, and restrictions on the farm and forest exemption.

No matter what the General Assembly does, when the smoke clears, South Carolina will probably still have a property tax. The questions that the General Assembly must answer are not whether we should have one but who should pay it and who should control it. The public has the opportunity to shape the answers to those questions before the new legislative session begins in January.



# Employment Strategies For Small Towns

Many small towns focus economic development efforts on the provision of employment opportunities for current and future residents. In the past, such opportunities were available in the agricultural and traditional manufacturing sectors. However, due to changes in technology and markets, little employment growth is expected in these industries. Rural communities must investigate alternative strategies of employment generation or face prospects of long-term decline. However, no single job generation strategy can be considered preferable for all small towns. One size does not fit all. Each individual community must assess its comparative advantage (based on location, quality of life, labor quality and availability, infrastructure and services availability) and select the strategies with the greatest potential benefits and lowest downside risks. The most frequently recommended employment generation strategies for small towns are:

Adapted from *Small Town Economic Development: An Overview of Process, Problems, and Strategies*, Extension Economics Report 113. David L. Barkley, Professor and Economic Development Specialist, Department of Agricultural and Applied Economics, and Fellow of the Institute.

## Recruit new employers, primarily branches of multiplant manufacturing concerns.

### Advantages

- 1) Branch plants generally sell their output outside the community and thus increase the flow of dollars into the community.
- 2) Rural areas have a competitive advantage for the standardized production processes undertaken at many branches.
- 3) Branch plants often provide a large number of employment opportunities.

### Disadvantages

- 1) Branch plants buy relatively few nonlabor inputs locally.
- 2) The locational stability of branches is low, that is, they are more likely to relocate than unit plants if economic conditions change.
- 3) Branch plants generally provide relatively few employment opportunities for professional and skilled labor.
- 4) The competition for branch plants is intense, and multiplant firms often demand extensive incentive packages.
- 5) Manufacturing is declining as a source of employment in the United States.

### Disadvantages

- 1) Small, independent firms have relatively low survival rates during the early years of their existence.
- 2) Small businesses score low in measures of job quality: stability, full-time status, wages, pension plans, and health insurance coverage.
- 3) Small business employment growth in rural areas has been disappointing (about one-half the metropolitan rate).

## Increase employment in local agribusiness industries by further processing of local production or the development of new agricultural products for the area.

### Advantages

- 1) Rural areas have a comparative advantage in many of these industries since the principal inputs are located nearby.
- 2) New agribusiness firms may stimulate the demand for locally produced goods and thus encourage expansion in these supplying industries.

### Disadvantages

- 1) Little is known about many of these businesses, therefore, they should be considered high-risk ventures.
- 2) Increased production or processing in community A may simply lead to a decrease in the same activity in community B.
- 3) Employment opportunities in some alternative agricultural activities (for example, catfish processing) may be characterized by low pay and poor working conditions.
- 4) Many alternative agriculture activities face competitive markets with high risks of rivalry and retaliation by competitors.

## Support entrepreneurial activity and the development of new small businesses.

### Advantages

- 1) Small businesses are responsible for much of the nation's recent job growth and product innovation.
- 2) Locally owned firms purchase many of their inputs from the local economy.
- 3) Locally owned firms provide greater opportunities for managerial and professional employment.

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## Employment Strategies For Small Towns

(From p 3)

The Community Leader's Letter is printed quarterly. 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. Program offices are in the Institute's facility on the Clemson University campus.

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### Expand service and trade activity to reduce spending leakages outside the community.

#### Advantages

- 1) Service industries provide greater employment stability than manufacturing during fluctuations in the business cycle.
- 2) Employment in services is growing more rapidly than that in manufacturing for the nation as a whole.
- 3) Services and trade industries generally create few demands on community services (such as water and sewage systems) and minimal environmental impacts.

#### Disadvantages

- 1) Business and producer services (the most rapidly growing members of this industry) have been reluctant to locate in rural areas.
- 2) Employment in the nonmetro service sector is low wage relative to jobs in manufacturing.
- 3) Attempts to increase spending within the community may result in a decrease in sales in neighboring communities.

### Develop tourism, recreation and retirement industries to the extent that significant outside spending is attracted to the community.

#### Advantages

- 1) Tourism is a clean industry with relatively few demands on public services and, if properly controlled, little impact on the environment.
- 2) Development of tourism and recreation facilities also

may benefit local residents.

- 3) Tourism facilities often are significant users of local inputs.

#### Disadvantages

- 1) Jobs in the tourism sector are generally seasonal and low wage.
- 2) The tourism/retirement industry is highly competitive; thus, the product must be of high quality and competitively priced.
- 3) The tourist attractions must be carefully managed to prevent overuse and degradation.
- 4) A large influx of "outsiders" may create social stress between the long-term residents and visitors/retirees.
- 5) This alternative is not practical for communities with few natural amenities.

### Develop programs which will aid in the retention and expansion of existing businesses.

#### Advantages

- 1) Improving the efficiency of existing firms will enhance the area's comparative advantage.
- 2) Assisting indigenous firms should have greater short-run employment benefits for the community than recruiting outside firms or fostering new start-ups.

#### Disadvantages

- 1) Local retention and expansion programs will benefit primarily those industries that are healthy or marginal. Firms whose profits can be increased greatly by relocating are unlikely to be convinced to remain in the community because of the availability of these programs.

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