

# THE COMMUNITY LEADER'S LETTER

NEWS & VIEWS FOR SOUTH CAROLINA'S  
GRASSROOTS LEADERS



## New Businesses Get Economic Boost From Incubators In Critical First Years

*Private Property - p 2*  
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Business incubators are locally based facilities formed to enable new business firms to spread overhead costs. The incubators provide support in the form of space, management assistance, secretarial and receptionist services, access to a computer, mail service, conference rooms, etc., during the critical first year or so when a business is starting

up. In 1994, there were almost 530 incubators operating across the United States.

S.C.'s experience with business incubators has been somewhat disappointing. In the past few years, incubators have been established in six South Carolina communities, but only one (at Clemson University) is currently operating.

Yet a recent study by Deb-

orah Markley and Kevin McNamara at Purdue University shows incubators, properly conceived and operated, can be an effective economic development tool. Markley and McNamara provide some clues about what makes for success in local business incubators.

Among the factors that enhance the probability of success are:

- **Clearly defined goals that are consistent with an overall community economic development strategy.**

Some incubators are designed to foster job creation; some to support start-up firms. The two goals are related, but each has its own special emphasis. Success with local business incubators requires that the goal to be emphasized is clearly understood and that the goal is consistent with some overall community economic development strategy that has been well thought through.

- **A capable, energetic, business-savvy director who stays in touch with the tenants and their problems.**

The incubator director must understand the requirements of a successful business and screen tenants accordingly. He or she must be able to manage the facility in a cost-effective way, keep in touch regularly with tenants and identify problems early so that remedial action can be taken, nurture the new businesses and "graduate" them from the incubator as soon as appropriate. The old saying that "you get what you pay for" applies to incubator directors, and hiring a person lacking in the necessary skills and energy just because they can be hired at a modest salary may assure failure of the incubator.

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The article "Business Incubators: A Local Economic Development Option" by Deborah M. Markley and Kevin T. McNamara appeared in Choices, Third Quarter 1995. Markley is a rural development economist and consultant. McNamara is a member of Purdue University's department of Agricultural Economics.

ECONOMIC BRIEF NO. 22

# Understanding Private Property

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

Private property is fundamental to a market economy. Indeed, without private property there would be nothing to buy and sell in a market economy. But what is property?

A great many persons have a notion of property as something absolute. The statement "By darn it's my property and I'll do with it as I dang well please" represents a widespread, but mistaken understanding of what property is.

A proper understanding of

routine basis.

Fundamentally, property involves the legal right to use a thing for one or more beneficial purposes and to call upon the power of the state to exclude others from using that thing for those purposes. Without law, there is no property. Without government, there is no property.

So it follows that a person does not own a thing itself but rather owns a set of rights for exclusive use that are recog-

nized and sanctioned by law and enforced by government. That set of rights might be quite large, as it is in the fee-simple ownership of land, or very small, as in the case of a transit easement across a field. Yet in no case does that set of rights extend so far as to entitle a property owner to do things with property that threaten the public health and safety.

While all property rights are exclusive, no property right is absolute. The owner of property has rights to use it in certain ways, but does not have the right to use it in any ways that threaten public health and safety. Just what threatens the public health and safety depends upon circumstances and is often open to debate. Placing a pig pen behind one's house or keeping chickens might not threaten the public health and safety if one lives in a rural area without close neighbors. But these actions might threaten the public health and safety after neighboring land is subdivided and filled with families. Restrictions on property owners to protect the public health and safety do not deprive those owners of their property rights since they never had the rights to threaten public health and safety in the first place. On the other hand, the U.S. Constitution forbids governments to take private property for public benefit without due process and just compensation. The key phrase is public benefit. Government can restrict property owners from doing certain things that cause public harm, and the property owners are not due any compensation because they never had the right to cause public harm. But if government wants to create a public benefit like a highway or a park, it is a different matter. Then owners of property used in creating the benefit must receive full and fair compensation because something that they once had is being taken.

... a person owns a set of rights for exclusive use that are recognized and sanctioned by law and enforced by government.

property must focus on two attributes of all property:

- 1) To the extent that there is any property right, it is an exclusive right, that is, a right to exclude. There is no point to owning something if anyone who wants to use it can do so at will.
- 2) A true property right must be enforceable at law. What one holds and possesses only by his or her own strength is not property; the sheriff or the police must be available to defend one's rights on a

land, or very small, as in the case of a transit easement across a field. Yet in no case does that set of rights extend so far as to entitle a property owner to do things with property that threaten the public health and safety.

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# Fiscal Home Rule for Local Governments: A Debate About Local Revenue Sources

The phrase *home rule* has appeared in a lot of headlines in South Carolina this year. Home rule means that local elected officials have a great deal of autonomy in making decisions. They are free to decide what tax rates and fees to charge and what kinds and amount of local public services to provide without excessive intervention by the state legislature.

Even with home rule, the state usually retains some rights to set forth general rules about what kinds of taxes local governments can use and what minimum services they must provide.

In South Carolina, home rule often refers specifically to the constitutional changes that took place in the mid-seventies, setting county government free of control by legislative delegations and allowing citizens to elect county councils to govern local affairs. Counties were given some of the rights and privileges of municipalities at that time, although cities have always had greater flexibility in the kinds of revenue sources they can tap and the kinds of services they can choose to provide.

The right to exercise some

control over revenue sources is an important dimension of home rule. Many local officials feel that the state legislature has not provided a sufficient variety of revenue sources for local governments to use. In an effort to spread the tax burden, to lessen dependency on the property tax, and to allocate part of the cost of government to users rather than to all taxpayers, some local governments have levied nontraditional taxes and fees: local hospitality fees on food and beverages, local accommodations fees, and real estate transfer fees.

This move to nontraditional revenue sources by municipalities and counties and the pressure for property tax relief from organized taxpayer groups have been a source of conflict between the General Assembly and local government officials in 1995 and 1996. The issue is what is appropriate taxing authority for local governments under home rule.

The conflict was further aggravated by a S.C. Supreme Court decision that expanded home rule by upholding hospitality fees on accommodations and restaurant

meals. These fees looked suspiciously like taxes. So the legislature struck back with legislation to limit local taxing authority.

What are the arguments in this debate? Legislators claim to honor home rule, but want to balance that goal with what they perceive as a need to protect taxpayers from excessive local taxes. After the Supreme Court opinion, the General Assembly moved to concentrate more of the decisions about local taxation in Columbia by drafting bills to limit the fees to those already enacted. A proposal from 1995 to require super majority votes of three-fifths or two-thirds to increase local taxes and fees again also came under consideration. Legislators also perceive that cities and local governments will put on taxes simply because local taxpayers received a tax rollback on school taxes.

S.C.'s cities and counties counter that any limitations to local taxing power will make it much more difficult for cities and counties to raise revenues in response to increased demand for services. They point out that local

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Clemson University's land-grant  
mission, the  
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THE COMMUNITY LEADER'S LETTER

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**Fiscal Home Rule in South Carolina. . .** (From p 3)

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officials see their constituents every day. So it's easier for voters to get their message across to the local public officials and to hold them responsible and accountable at the ballot box. Secondly, local elected officials worry not only about voters, but also about other local governments, because they are in competition with each other. There is, in effect, a "market" in local governments, and customers express choices by where they choose to locate. In the long run, pressure from voters over the backyard fence and the discipline of competing with neighboring towns to offer the best services and the lowest tax cost may be a far more powerful constraint on local government than anything the General Assembly can and should impose.

**New Businesses Get Economic Boost . . .** (From p 1)

- **A physical facility appropriate to the type of business the community wishes to encourage.**

The physical characteristics of the incubator facility limit the usefulness of the incubator for certain types of businesses. If the emphasis is upon manufacturing jobs, for instance, the facility must lend itself to manufacturing uses. An incubator aimed at growing service-oriented businesses will need a facility suitable for offices. Parking and location may also be critical. In short, the facility used must be consistent with the goals the incubator is intended to achieve. The average new incubator has 27,000 square feet of floor space.

- **Adequate resources to cover start-up and first-year operating costs.**

Markley and McNamara found that first-year operating costs for incubators average \$888,000. About half operate, or expect to operate, without any public subsidy. But adequate resources must be found to cover the first year or two of operations, and doing so may require a subsidy of some sort, either from local tax revenues or contributions from the local business community. Some states have created seed funds to help support creation of new incubators. Monies that otherwise would have been used as incentives to attract businesses might more effectively be used to underwrite start-up costs on incubators. Markley and McNamara found that the public investment cost per job created with incubators was considerably less than that required in using tax incentives to attract large-scale industries (\$6,000 to \$8,400 per job for incubators versus \$11,000 to \$50,000 for industrial incentives).