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THE COMMUNITY LEADER'S LETTER

NEWS & VIEWS FOR SOUTH CAROLINA'S GRASSROOTS LEADERS

South Carolina Ranks Near Bottom In Economic Development Grades

The 1997 Economic Development Report Card for South Carolina is not what most parents would like to see their children bring home from school. South Carolina earned one *B* and two *Fs* for 1997 according to the Corporation for Enterprise Development, which issues annual report cards for the states.

Report cards have been issued by the Corporation for Enterprise Development since 1986. States are given grades in three areas: economic performance, which focuses upon the economic benefits and opportunities that the citizens of the state realize from the state's economy; business vitality, which focuses upon the vitality and dynamism of the state's business sector; and development capacity, an evaluation of the state's capacity for future growth and recovery from economic downturns.

South Carolina's best grade was a *B* for business vitality. The state received *Fs* on economic performance and development capacity. The economic performance grade is down from a *D* in previous years, but the state has earned an *F* in development capacity for two years running.

Most South Carolinians probably have the perception that the state's economy is booming. So why the bad grades? The *F* for economic performance was the result of relatively high unemployment compared to other states (10th among the states), low average annual pay (38th), relatively low employee health coverage (37th), a highly uneven distribution of income (38th), and high rates of infant mortality (13th) and crime (10th). The state scored high, however, on environmental quality with the highest level of air quality in the country.

The state earned a failing grade on economic development capacity because it has the second least educated

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Top Ten States: Grade for Economic Performance, 1997 (in order of overall grades)

	Econ. Performance	Development Capacity				
	1997	1993	1994	1995	1996	1997
Colorado	A	A	A	A	A	A
Minnesota	A	A	A	A	A	A
Utah	A	A	A	A	A	A
Wisconsin	A	A	A	B	A	A
Oregon	A	B	A	A	B	B
Georgia	A	C	C	C	B	B
North Carolina	A	D	D	C	C	C
Missouri	A	C	C	C	C	C
New Hampshire	A	C	C	C	C	C
Nevada	A	C	C	D	D	C
Bottom Five States in Economic Performance, 1997 (in order of overall grades)						
California	F	A	B	B	C	B
New Mexico	F	C	C	D	D	D
South Carolina	F	D	D	D	F	F
Mississippi	F	F	F	F	F	F
West Virginia	F	F	F	F	F	F

Source: Page 10, *1997 Development Report Card for the States*, reprinted with permission from the Corporation for Enterprise Development.

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

ECONOMIC BRIEF NO. 31

Policies Can Bring Surprise Results

One of the more obscure but interesting laws of economics is the law of unintended consequences, which suggests that economic policies often have an impact different from that which was intended. This outcome is most likely to show up only in the long run.

Consider Social Security, for example. Its purpose was to relieve poverty among the elderly, which it has done with splendid success. But it has also reduced private saving for retirement and work effort by people aged 62 and over—two unintended consequences. Or think about the many small towns in South Carolina that strictly enforce their rather low speed limits as a revenue source. As a consequence, people avoid known speed traps. Insurance rates in South Carolina are also driven higher, when excessive numbers of speeding tickets are written.

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Unintended consequences flow from the many state programs to provide scholarships to good students—those with high SAT scores and/or good grades. These scholarships make college education more affordable and encourage good students to attend in-state colleges. But think about the other effects. First, it's easier for colleges to raise tuition, knowing that it won't have an impact on good students. But higher tuition does place a burden on the average or marginal student. Second, each state tries to keep its best students at home, so it's not clear that any state is improving the quality of its student body, but just making it narrower in terms of where students come from. Third, the scholarships may cause more grade inflation in both high school and college or more resources to be expended on improving SAT scores. Finally, it's likely that the lower college costs will induce more high school students to go to college, so financial outlays for the program will be higher than anticipated.

The law of unintended consequences is the result of two basic facts about how people think and how policy is made. First, not too many people respond immediately to new policies, because habit and commitment are hard to change. But as people become aware of the choices and options they face, whether it is retirement benefits, speed traps, or college scholarships, they gradually change their behavior. They retire early, find alternate routes, or rethink their education plans. So the long-term effects are almost always different than the short-term effects. Second, policy makers tend to ignore secondary market effects. They may think about the direct effects of property tax relief for homeowners on tax burdens, but may not work through the equally important indirect effects of property tax relief on real estate prices or on the mix of owner-occupied and rental property.

Just because a program has unintended, but often foreseeable, consequences doesn't mean it shouldn't be put in place. It does mean that programs require careful and thoughtful design and a weighing of whether the expected benefits are worth the expected costs, including the unintended consequences.

Teen Pregnancies Decline Since 1970, Reduction Provides Economic Benefits

The good news, nationally and in South Carolina, is that teen pregnancy is on the decline. That decline has been dramatic—nationally from 66 births per 1,000 females aged 15-17 in 1970 to 57 in 1995 and from 89 to 65 in South Carolina.

This remarkable change also provides an opportunity to answer the policy question: what works? Is encouraging abstinence a successful strategy? Or is educating teens about birth control working? The answer is: both strategies are effective. Along with encouraging abstinence and educating teens about birth control, programs that provide activities, support, encouragement, hope, opportunities, role models and mentors also seem to make a difference.

Teen pregnancy is an issue with economic, social, moral, and medical dimensions. For South Carolina communities, each teen pregnancy places at least two lives at risk. In 1994, 76 percent of teen births took place outside marriage, leaving a young mother to raise a child by herself or with the help of her family, but most likely with little involvement by the father.

Children of teen mothers have lower birth weights, lower school test scores, more school problems, poorer health, higher rates of incarceration, and less stimulating and supportive home environments. They are also more likely to become parents themselves as teens. The mothers are also at risk, not only medically but economically. They find it difficult to finish their education and prepare for good jobs while dealing with the needs of an infant and the cost of child care.

According to a study by Darrell Parker of Winthrop University, the economic impact of the 8,796 births to teen mothers in South Carolina in a single year (1995) is about $1.5 billion. This figure includes $824 million in lost labor participation and lower wages for the teen mothers, $87 million in lost tax revenues, and $407 million in public spending on Medicaid, Aid to Families with Dependant Children, food stamps, housing assistance and child care.

Even though the teen birth rate has declined in South Carolina, it's still well above the national average, and it's particularly high in some of the poorer rural counties. The state is fortunate to have Councils on Teen Pregnancy Prevention in many counties that offer programs, services, and support to teens to try to avoid pregnancy until teens finish their education and are ready to assume adult responsibilities. Whether the programs and services teens need come through these councils or the Department of Social Services, the public schools, or private groups, spending for teen pregnancy prevention programs is an investment with a high rate of return.

A **National Symposium on Horse Trails in Forest Ecosystems** is scheduled for October 18-21 at Clemson University by the Cooperative Extension Service. National speakers will address managing the impacts of horses on forest trails, forest user conflicts with equestrians, and management of horse trail campgrounds. Contact Donna Arterburn at the Strom Thurmond Institute: 864.656.0605 or donna@strom.clemson.edu

Working for Wildlife: Ways Cities and Counties Can Help Wildlife recommends ways local governments can enhance the quality of life in their communities by protecting and enhancing the natural environment. It is available free from the S.C. Wildlife Federation, 715 Woodrow St., Columbia, S.C. 29205 or by calling 803.771.4417.

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.

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South Carolina Ranks Near Bottom In . . . . .

(From p. 1)

work force in the country and the lowest high school graduation rate. South Carolina also ranks low (44th) in the number of Ph.D.'s in science and engineering and the number of science and engineering graduate students (43rd). The report noted, however, that South Carolina has among the best infrastructure in the country, citing excellent bridge conditions, low sewage treatment needs, and low energy costs.

The report card did have some nice things to say about the vitality of South Carolina business, noting that businesses located in South Carolina that compete outside the state showed larger increases in earnings than in two-thirds of the other states. The downside is that the state's economy is still only moderately diverse and was fourth lowest among the states in the number of jobs created by new start-up companies.

The report card also had good things to say about the state's tax and fiscal system, noting that it was the third best balanced tax system in the country, tapping a broad base of revenue sources at relatively low rates and backed up by a rainy day fund.

It is hard to know just how seriously one should take this report card. While the data used in assigning grades is objective, the choices of what factors to consider is a judgement call. Yet the fact that states with low grades on development capacity usually end up a few years later with low grades on economic performance suggests that the report cards must be treated with respect. Two Southern states, Georgia and Virginia, earned all *As* and *Bs*, but most Southern states scored poorly on development capacity. South Carolina's *F* was also shared by Arkansas, Louisiana, Mississippi and West Virginia.

There are no short-term steps than can be taken to remove the *Fs*. Pulling up the grades in economic performance and development capacity will take a long-term sustained effort. Perhaps the most useful way to see the report card is that it helps community leaders not to become complacent and to identify the areas where improvements are required if the people of South Carolina are to enjoy the benefits of economic development.

Daphne Clones and Carl Rist, *1997 Development Report Card for the States.* 11th ed. Corporation for Enterprise Development, Washington, D.C. Web site: http://www.cfedonline.org