

# ECONOMIC DEVELOPMENT

**“The duty of government is to leave commerce to its own capital and credit as well as all other branches of business, protecting all in their legal pursuits, granting exclusive privileges to none.”**

**— Andrew Jackson**

**Government-driven economic development**, like most forms of state-sponsored economic planning, is based on the premise that the free market can be controlled and manipulated by an external authority. One look at the ups and downs of the stock market should be enough to put this myth to rest; however, that has not been the case in South Carolina. In our definition, government-run economic development essentially consists of two activities: 1) using government power (via grants, taxes, fees, regulations, etc.) to provide or promote services and businesses the free market can more effectively provide on its own; and 2) using activities — e.g., road construction — that properly belong in the government sphere for purposes other than for which they are intended.

The first part of this definition is well illustrated by a bill (H 4047) introduced this session to charge a fee on commercial horse feed to encourage the growth of the equine industry in South Carolina. A far better strategy would be to eliminate the government middleman and simply let horse farmers promote their own industry. The second part is exemplified by a budget proviso (40.18) that allocated \$1 million for the routing, planning

and construction of I-73 and I-74. Given that these two interstates run virtually parallel to one another it seems as if these projects are more a means of propping up rural economies than they are about efficiently building roads.

In fact, what distinguishes such practices from mere pork is that wasteful government spending — ala the interventionist economic philosophy of John Maynard Keynes — is now defended as a legitimate form of job creation. The government, however, cannot create jobs because the government cannot generate wealth. Rather, every job created by the government is supported by tax dollars taken from the private sector. Unfortunately, Keynes' philosophy has been revived in the form of a \$787 billion federal stimulus package. But it also lives on here in South Carolina, thanks to the General Assembly's misguided attempts at economic development.

## BEST IDEAS OF 2009

? None

By definition, state-driven economic development violates free-market principles. Still, it is disappointing that legislators did not even attempt to roll back existing economic development programs.

### Other bills that passed:

**S 630:** Regulates dealings between motor vehicle manufacturers and their dealers (became law without governor's signature). The law seems to have been passed in response to the recent announcement that several GM and Chrysler dealerships are closing in South Carolina.

**H 3299:** Implements price controls for phone service at the same time it claims to encourage consumer choice and free market competition (signed by governor).

## WORST IDEAS OF 2009

✗ Concentrating legislative control over economic planning

**H 3777:** Emergency Local Economic Development Act  
*Status: Referred to Judiciary Committee*

**“Governments cannot create but merely redirect. When the government spends, the money has to come from somewhere. ... Any jobs or other economic activity created by public-sector expansion merely comes at the expense of jobs lost in the private sector. And if the government chooses to save inefficient jobs in select private industries, more efficient jobs will be lost in others.”**

**— Financial Analyst  
Peter Schiff**

This joint resolution would have designated legislators as economic development ambassadors “authorized to initiate, facilitate, coordinate, organize, research, or otherwise aid, support, or assist with promotion, marketing, outreach, communication, prospecting, or search activities in support of local economic development, industrial recruitment, or jobs creation.”

**S 431: Economic Development Research Committee**

*Status: Referred to Labor, Commerce & Industry Committee*

This joint resolution would have created a 23-member committee authorized to make recommendations to “stem the tide of economic woe sweeping South Carolina and to restore a greater sense of confidence in its citizens.” Notably, the committee would not include a gubernatorial appointee. Also see S 869

► **Our take:** These two bills are among the worst introduced all session. The first would make each county the personal

fiefdom of a cabal of legislators and their associates by giving lawmakers the power to directly pick and choose economic winners. The second would devise new ways of using taxpayer dollars to create a statehouse-based planned economy.

**S 171: Local Economic Stimulus Grants**

*Status: Referred to Finance Committee*

This bill would empower the Budget & Control Board to administer a local economic stimulus grants program.

► **Our take:** Worse than legislative control over economic develop-

## Economic Development Provisos in the FY09-2010 State Budget

- \$10 million for destination specific tourism marketing: \$8 million in nonrecurring revenue inserted as a House amendment (proviso 90.19) and \$2 million transferred from the Product Development Program (39.7).
- \$7 million in economic development funds for a Commerce Department “Closing Fund” to provide incentives for businesses to relocate to or expand in South Carolina (40.12, 40.25). In effect, the fund uses tax dollars paid by other businesses to provide incentives to favored companies.
- \$6.45 million for regional economic development organizations (proviso 40.30; Part III) throughout the state.
- Although the proposed Senate budget already allocates \$775,601 for hydrogen research, House leadership inserted an amendment (90.19) that provides an additional \$1.45 million in nonrecurring revenue for hydrogen-fuel station loans.
- \$2 million in unclaimed lottery prize money for the Center for Accelerated Technology Training (CATT)/ readySC program (2.7).
- \$1.6 million to the EPSCoR program to “improve South Carolina’s research capabilities,” as well as \$410,635 each for the Transportation Center and management education programs at S.C. State University (6.11).
- \$1.38 million for regional tourism promotion, including: \$105,000 for the Georgetown Chamber of Commerce; \$50,000 for the Myrtle Beach Chamber of Commerce; and \$20,000 for the Williamsburg Chamber of Commerce. These funds are in addition to a \$13.9 million allocation for tourism sales and marketing (39.1).
- \$1 million for the routing, planning and construction of I-73 and I-74 (40.18). These two interstates run through sparsely populated areas and, what is worse, run virtually parallel to one another.
- \$800,000 for “career cluster industry partnerships” aimed at funding career awareness programs and other such services for select industries (1.67).
- \$285,000 to Clemson University-PSA (Public Service Activities) for the S.C. Biotechnology Incubation Facility (90.21).
- \$100,000 to create a statewide rail plan (40.32).

ment initiatives is Budget & Control Board control over such handouts. Of course, we support this bill's proposal to prohibit competitive grant funding through the use of temporary provisos, but that reform comes at a high price. Moreover, the competitive grants program was not funded in the FY09-2010 budget.

## **✘ More bad bills that didn't pass:**

**S 728:** Creates insurance premium tax credits related to the rehabilitation of textile mill sites.

**H 3549:** Authorizes the Patriots Point Development Authority to issue revenue bonds. But who needs bonds when you have the state treasurer on your side? Upon discovering that the Authority needed more money, State Treasurer Converse Chellis called a couple buddies on the Budget & Control Board, which preauthorized on the spot a \$9.2 million loan to repair the USS Laffey.

**H 3722:** Contains a variety of economic development tax exemptions: including those introduced elsewhere — e.g., insurance premium credits for the use of textile mill sites (cf. S 728); and an exemption (S 717) for organizations engaged in research on natural hazards (passed House and Senate; conference committee appointed).

**H 3885:** Authorizes counties to designate multi-county parks as “economic development sites for extraordinary commercial facilities,” reducing General Fund revenue by \$4.5 million a year for five years. Also see H 3722

**H 4047:** Attempts to encourage the equine industry by assessing a fee on commercial horse feed. An idea only a government bureaucrat could love.

## **✘ Discouraging free-market competition**

**S 116: Preferences for Products and Contractors from South Carolina**

*Status: Governor's veto overridden by General Assembly*

This law requires state procurement contracts to give preference to South Carolina products first, and then U.S.-made products; and also to state-based contractors. Also see H 3156

▶ **Our take:** The governor's veto message does a good job of explaining what's wrong with this idea: 1) contract procurement needs to focus on value and pricing; 2) the private sector, not the government, is responsible for creating jobs; 3) this legislation will increase the cost of government — for some contracts, by as much as 10 percent — and thus lead to increased taxes. Moreover, the state's economic development boondoggles should be kept separate from contract procurement. Nevertheless, the House and Senate overrode the veto by wide margins.

**H 3861: Minority/Gender Preferences for State Contracts**

*Status: Referred to Ways & Means Committee*

This bill expands the definition of minority-

owned business to include specific races and ethnic groups (e.g., Hispanic) and also women of any race or ethnicity and requires the state to provide surety bond technical assistance to such firms.

► **Our take:** The granting of state procurement contracts, not to mention any other state activities, should be guided by the 14th Amendment guarantee of equal protection under the law. Such equality would seem to demand that cost and quality of service are the only proper selection criteria when it comes to fulfilling procurement contracts.

## ✘ Transforming public institutions into economic development incubators

H 3616: College Enterprise Campuses  
*Status: Governor's veto overridden by General Assembly*

This law creates five additional college enterprise campuses throughout the state and creates individual boards to govern the campuses. The five campuses are as follows: Aiken Technical College, Greenville Technical College, Orangeburg-Calhoun Technical College, Spartanburg Technical College and York Technical College. Subject to approval by the Budget & Control Board, each board is empowered to issue bonds and take on other forms of debt. Also see S 468, S 469, S 614, H 3872, H 3551, H 3457, S 303, H 3316

► **Our take:** A college enterprise campus, such as already exists at Midlands Technical College, is essentially a “business accelerator facility” modeled along the lines of the failed Innovista project at the University of South Carolina. The promise here is that government and business can



*Citizens seeking employment are entitled to equal opportunity in hiring. Policies that award state contracts based on race or gender undermine this principle of equality.*

work together to create new jobs. The reality is that the government is taking taxpayer dollars from others to provide specialized training for select industries — that is, if private investment even materializes for these campuses. Perhaps just as bad is that this legislation creates five more bureaucratic commissions empowered to pick and choose economic winners and losers.

### **S 700: USC Innovista Construction**

*Status: Became law without a recorded vote and without the governor's signature*

This joint resolution authorizes the University of South Carolina to build a new business school facility in the Innovista district. Also see H 4004

► **Our take:** Current buildings at Innovista are only partially full, and the facility includes no private business tenants, despite tens of millions of taxpayer dollars invested in the project. Construction will be funded via bond revenue — thanks to the passage of separate legislation (H 3664; see Education section) lifting certain restrictions on higher-ed revenue bond financing.

### **What do you think?**

Let us know what you think are the best and worst bills of the session. Call us at 803-779-5022 or visit us on the web at: <http://www.scpolicycouncil.com/contact>

### **✕ Creating more boondoggles and special-interest tax breaks**

#### **H 3787: Venture Capital Investment Act**

*Status: Referred to Ways & Means Committee*

This bill increases from \$50 million to \$100 million the amount of loans extended by the South Carolina Venture Capital Authority, setting aside \$25 million for use by the state-funded nonprofit SC Launch. A related bill (H 3870), introduced by House Speaker Bobby Harrell (R-Charleston), would also provide a state income tax credit for investments made via the Venture

Capital Authority in “high growth-oriented business.”

► **Our take:** The state shouldn’t be in the business of funding venture capitalists. But given that we are already doing so, the Legislative Audit Council should at least investigate whether these new initiatives — the Venture Capital Authority was authorized in 2005; SC Launch in 2006 — are actually attracting viable new businesses.

### **S 135: S.C. Rural Infrastructure Bank**

*Status: Referred to Labor, Commerce & Industry Committee*

This bill would establish a rural infrastructure bank for the purpose of making grants to rural recipients. Also see S 211, H 4152

► **Our take:** On the surface, this legislation seems like a good idea, especially insofar as it chips away at the Budget & Control Board’s power monopoly by dissolving the Division of Local Government and its accompanying grant program. The division would be replaced by a rural infrastructure bank run by a board comprising members from rural congressional districts, along with one gubernatorial appointee.

The bank would make grants for public water and sewerage facilities. But here’s the catch. The grants would be made on the basis of five criteria — population, economic development, unemployment, level of infrastructure, and job creation — only two of which (population and level of infrastructure) actually pertain to the legitimate goal of providing water and sewerage services. In addition, the bank has the potential of becoming just another way for legislators to dole out special favors.

### **S 690: Unemployment Tax Credit**

*Status: Passed Senate; referred to Ways & Means Committee in House*

This bill would create a tax credit for employers who hire an unemployed person currently receiving unemployment benefits. Also see H 3953

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### **Legislation most likely to come up:**

If, as economists are predicting, the state’s unemployment rate hits 15 percent in 2010, there will be incredible pressure for the legislature to “do something.” The likely options range from passing the unemployment tax credit (S 690) to establishing an economic development research committee (S 431). The catch-all economic development bill (H 3722) is also likely to pass in some form or another. Head for the hills if they take up the Emergency Local Economic Development Act (H 3777).

## H 3676: Jobs Tax Credit

*Status: Referred to Ways & Means Committee*

In addition to establishing an energy efficiency tax credit, this legislation extends the state jobs tax credit to “knowledge-intensive” businesses.

► **Our take:** The first of these two bills is a desperate attempt to remedy the state’s third-highest in the nation unemployment rate. But the idea is a bad one for two reasons. First, the bill arbitrarily provides an estimated \$300 million tax cut to certain businesses (firms ready to hire for one reason or another) and workers over others. Second, the credit won’t work. It is too narrow (only applies to those actually collecting unemployment and excludes many small businesses) and too temporary (24 months).

As for H 3676, the better strategy is to eliminate South Carolina’s corporate income tax.

## Fines & Fees

### Bills/Provisos Raising Fines & Fees

	Passed	Did Not Pass	Total
Bills raising fines & fees	11	85	96
Provisos raising fines & fees	12	NA	12
Bills and provisos raising fines & fees	23	85	<b>108</b>

### Bills/Provisos Lowering Fines & Fees

	Passed	Did Not Pass	Total
Bills lowering fines & fees	1	12	13
Provisos lowering fines & fees	0	NA	0
Bills and provisos lowering fines & fees	1	12	<b>13</b>

Fines and fees generally go into the Other Funds component of the budget, which constitutes one-third, or \$7 billion, of the state’s total annual budget. Generally, most agencies keep the fine and fee revenue they raise, but the use of such funds is difficult to track and so requires more transparency. Toward that end, the General Assembly failed to take up legislation (S 517/H 3576) that would have prevented agencies (excepting schools and universities) from administratively increasing or implementing a fee without legislative approval. Another bill (H 3016) requiring a 60 percent majority vote to create or raise fees also failed to emerge from committee.

To our knowledge, the only enacted legislation that might be said to have lowered a fee is H 3134, which merely waived the special license plate fee for “Gold Star Family” plates.

## H 3312: Community Economic Development Act (CEDA)

*Status: Referred to Ways & Means Committee*

This bill would reauthorize the S.C. Community Economic Development Act for another five years.

► **Our take:** This is another well-intentioned idea — helping fund nonprofit organizations that provide assistance in low-income communities — that would be better left to the private sector. Letting CEDA sunset after 2010 would not only reduce the regulatory burden on nonprofits, but also save taxpayers money. Moreover, supporters would still receive tax credits for donations to these nonprofits under current federal parameters.

## S 346: Use of Capital Project Sales Tax

*Status: Referred to Finance Subcommittee*

This bill would permit proceeds from the 1 percent capital project local option sales and use tax to be used for “the acquisition of interests in real property, including the purchase of development rights, for economic development, conservation, blight remediation, or military base protection.”  
Also see H 3334

► **Our take:** The only thing worse than government-directed economic development is a tax to fund government-directed economic development. The bill also institutionalizes the notion that economic development is a legitimate governmental function by placing it on par with other projects like highways, jails and sewerage.



*Statehouse economics handcuffs private businesses and the free market and increases the potential for corruption and waste.*

### **Want to learn more?**

See our April 2009 report showing the federal stimulus will cost South Carolina 35,000 jobs.