

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?

**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.