

Fortunetelling in South Carolina

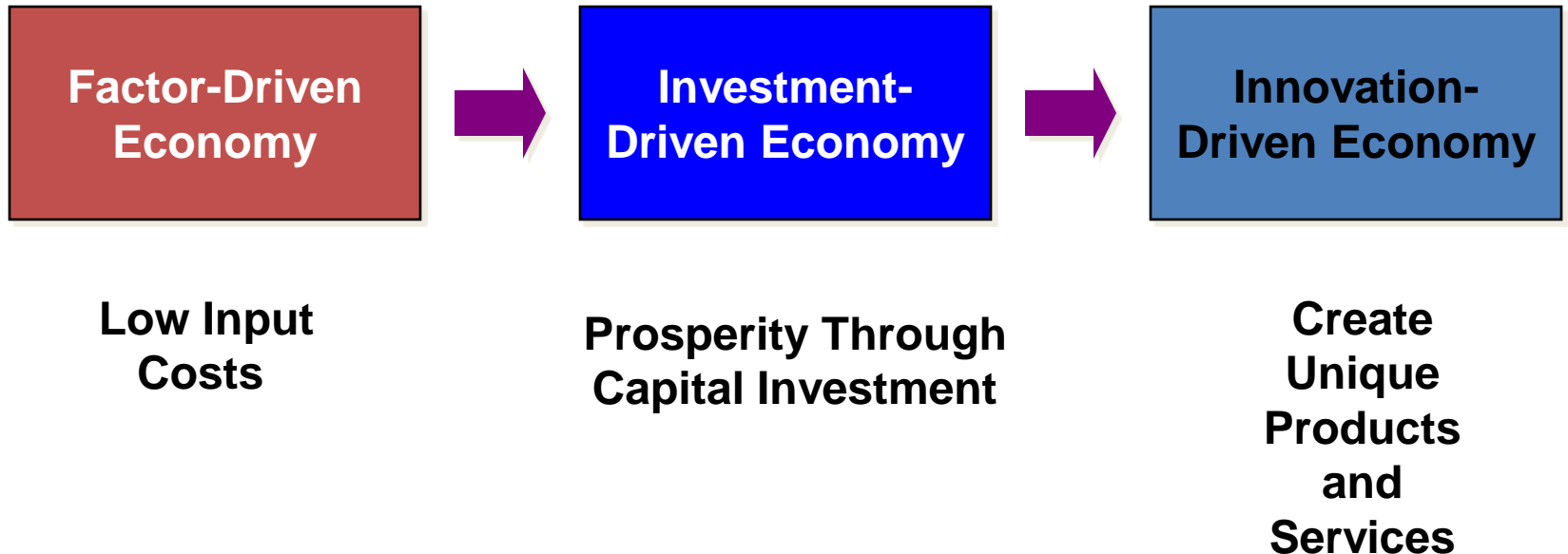
- Section 40-41-310 of the SC Code
- *Licenses required for itinerant fortunetellers.*
- “It shall be **unlawful** for any person to follow the **business of fortune telling** in any of the counties of this State without first obtaining ... a license permitting him to so do.”



Overview

- State economic development strategy
- Incentives
- When do they make sense?
 - BMW
 - Boeing
 - Film
- How can they be controlled?
 - Clawbacks

Stages of Competitive Development



Silicon Valley



ORACLE

Network General

ARGOSystems

Exodus

WEIRDSTUFF WAREHOUSE

KMOS SEMICONDUCTOR, INC.

olivetti

National Semiconductor

PROTO EXPRESS

SMD

Q&B Electronics

measurex THE RESULTS COMPANY

Apple Computer, Inc.

XEROX

CITY DESIGN

Farallon

COASTCOM

Selectone

NOVADYNE COMPUTER SYSTEMS, INC.

WINS

AIR LIQUIDE

JEM AMERICA CORP. Probe Cards

NTA Industries, Inc.

SERVA ATLANTIC

FURUKAWA ELECTRIC TECHNOLOGIES, INC.

RITTMAN ASSOCIATES

HITACHI Hitachi Micro Systems, Inc.

AVATA

LITEON

UNI chip

RED HAWK

VALLEY SERVICES ELECTRONICS

COATER, INC. A Computer Spring PCB Industries

Pactron, Inc.

Printec

VLSI Standards Incorporated

TATUNG

Bay Networks

FUJITSU

intel

SONY

COBOL

CLASS IC COMPONENTS CORP.

GREENLEAF The Best You Can Buy

LICOM Electronics

HNL Warehouse Systems & Controls

KENT ELECTRONICS

TMT

disco

CONTEC

SHARP

SEMS

C&B TECHNICAL, INC. POWER SOURCE GROUP

hp HEWLETT PACKARD

PHILIPS

TAXAN

Phoenix

Sigma Circuits Incorporated

MCT

SAN JOSE BRIDGE

Professional Development Center

INTEGRATED SYSTEMS, INC.

XEROX

INTEGRATED SYSTEMS, INC.

RED BRICK

DE SALES CO.

DE SALES CO.

Jobs, Jobs, Jobs



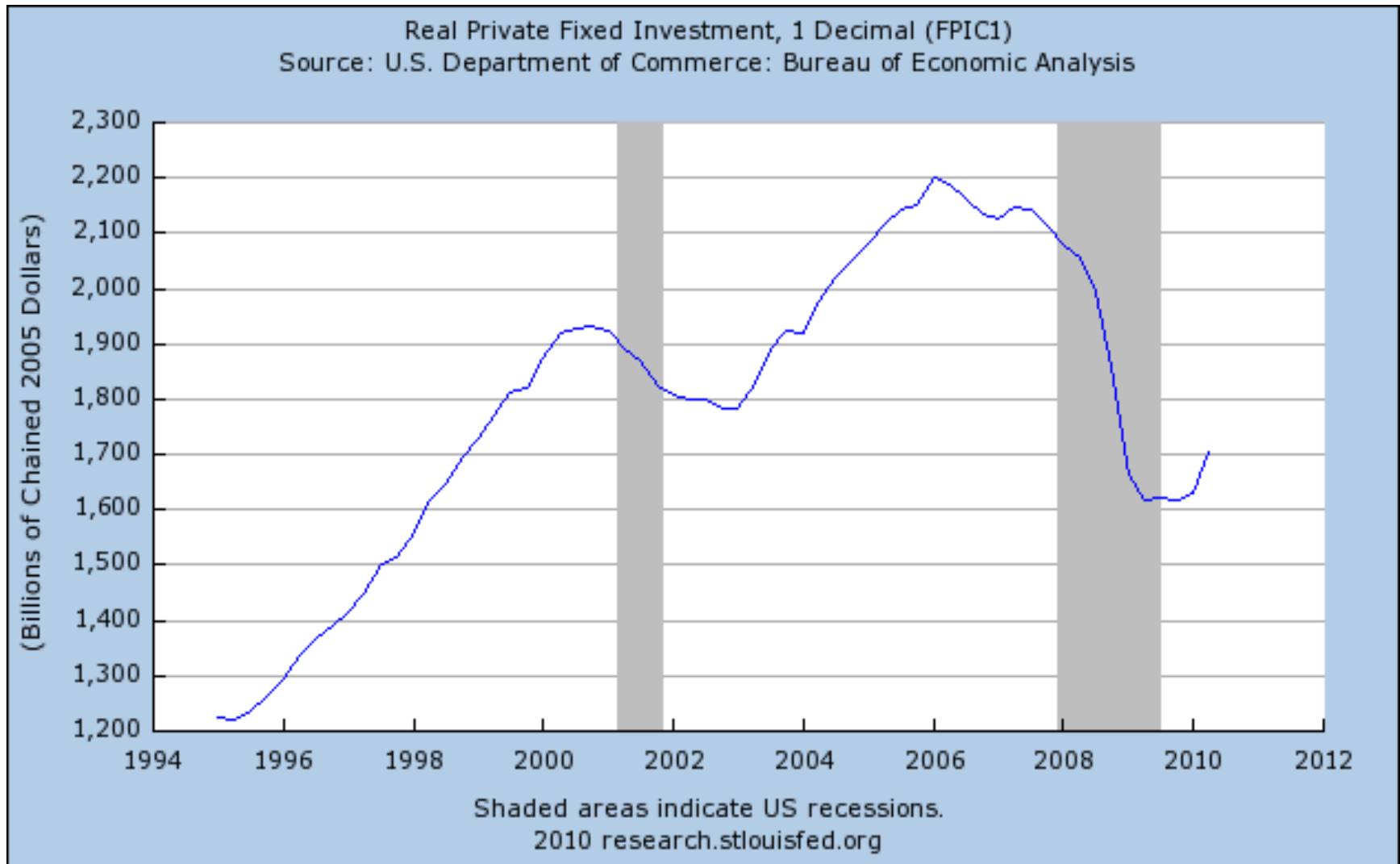
What is Unique about the Silicon Valley?

- High rate of business starts, entrepreneurial
- Large pool of creativity and talent
- Openness
 - Highly skilled immigrants
- Natural and urban amenities
- High-end defense spending
- Large research-oriented universities with potential for commercialization
- *Venture Capital*

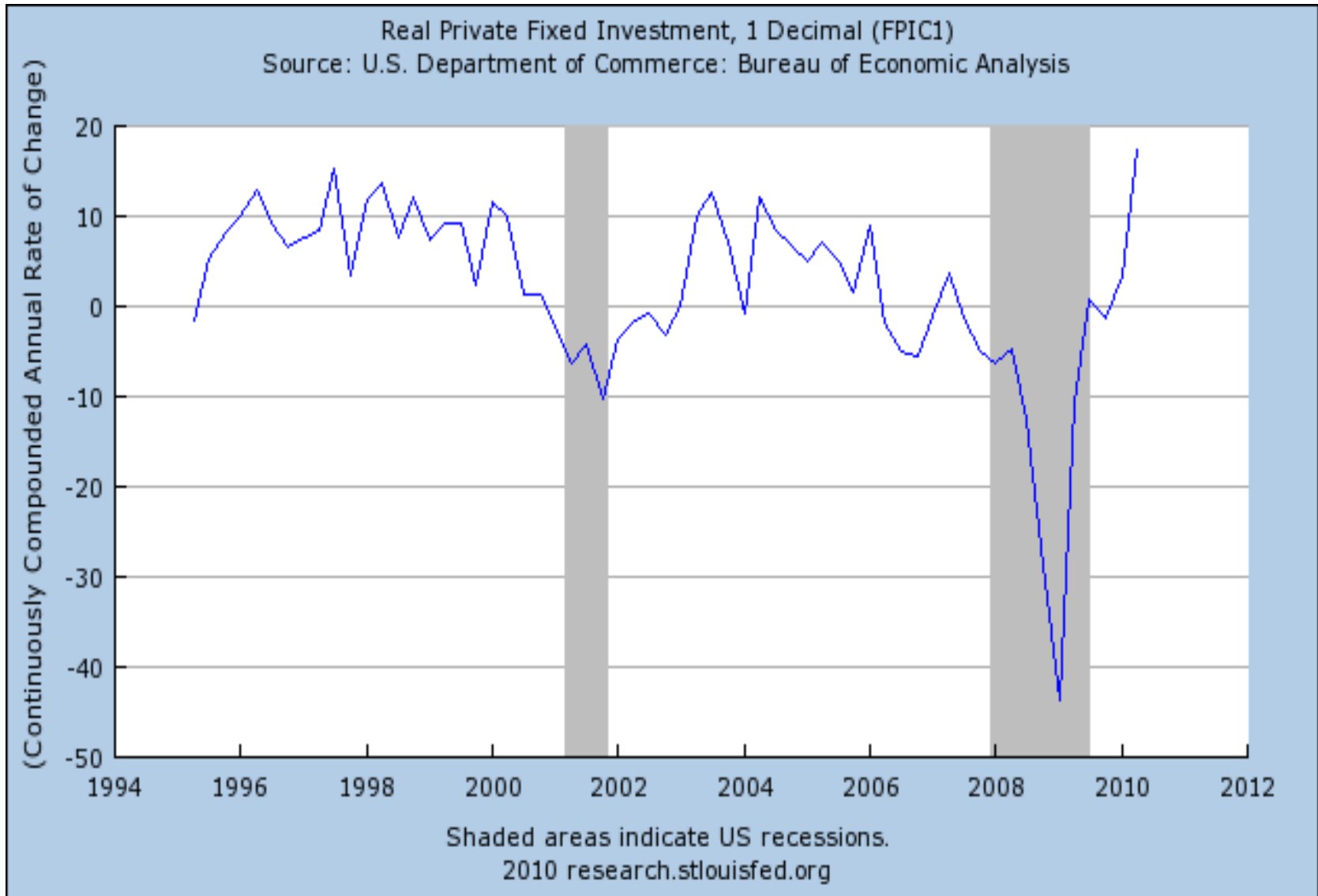
Southern Economic Development Policy

- Investment-Driven
- Manufacturing renaissance: not laissez-faire
 - State and local promotion of industry
 - Deindustrialization: textiles and apparel
- South Carolina's vision since the 1960s
 - Reindustrialization
 - Ernest Hollings, governor in the 1960s, developed the state's technical education system.
 - Governor Carroll Campbell aggressively promoted new manufacturing investment with incentives and was instrumental in helping land BMW in 1992.
 - Now Boeing, thanks to effort of state legislators

Private Business Investment: Turning Up



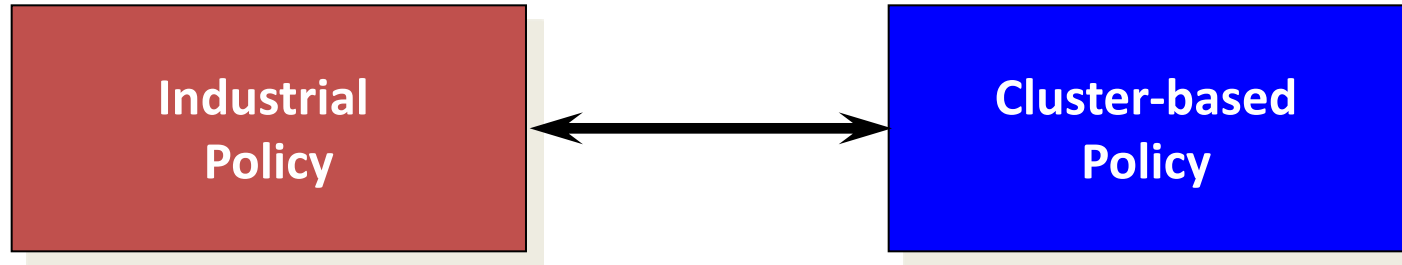
Sharp Decline and Rapid Growth



Investment-Driven Economy

- 1990s: Investments in high-tech plant, equipment and technology
- 2000s: Investment was driven by residential, office, and commercial construction
- Now what?

Industrial Policy and Cluster Policy



Target specific industries / sectors
Subsidies and incentives



Seed new industries

All clusters can contribute to prosperity
Promote cross-industry linkages / complementarities
Encourage collaboration



Enhance productivity in existing industries

Pro-active Policy Argument

- Channel resources into economic sectors viewed as important for future economic growth and employment
- Private sector shifting too slowly to such sectors or not at all
- Stimulus that makes strategic sense
 - Private sector leverages public investment

The Carrot: Incentives

- Widely practiced across the world.
- Proven ... they can work.
- Take many forms.
 - Job credits
 - Subsidies
 - Adjustments to statutory tax



Picking Winners

- Which sectors should be selected?
 - Chips?
 - Biotech?
 - Retail?
 - Distribution?



How to Pick Winners

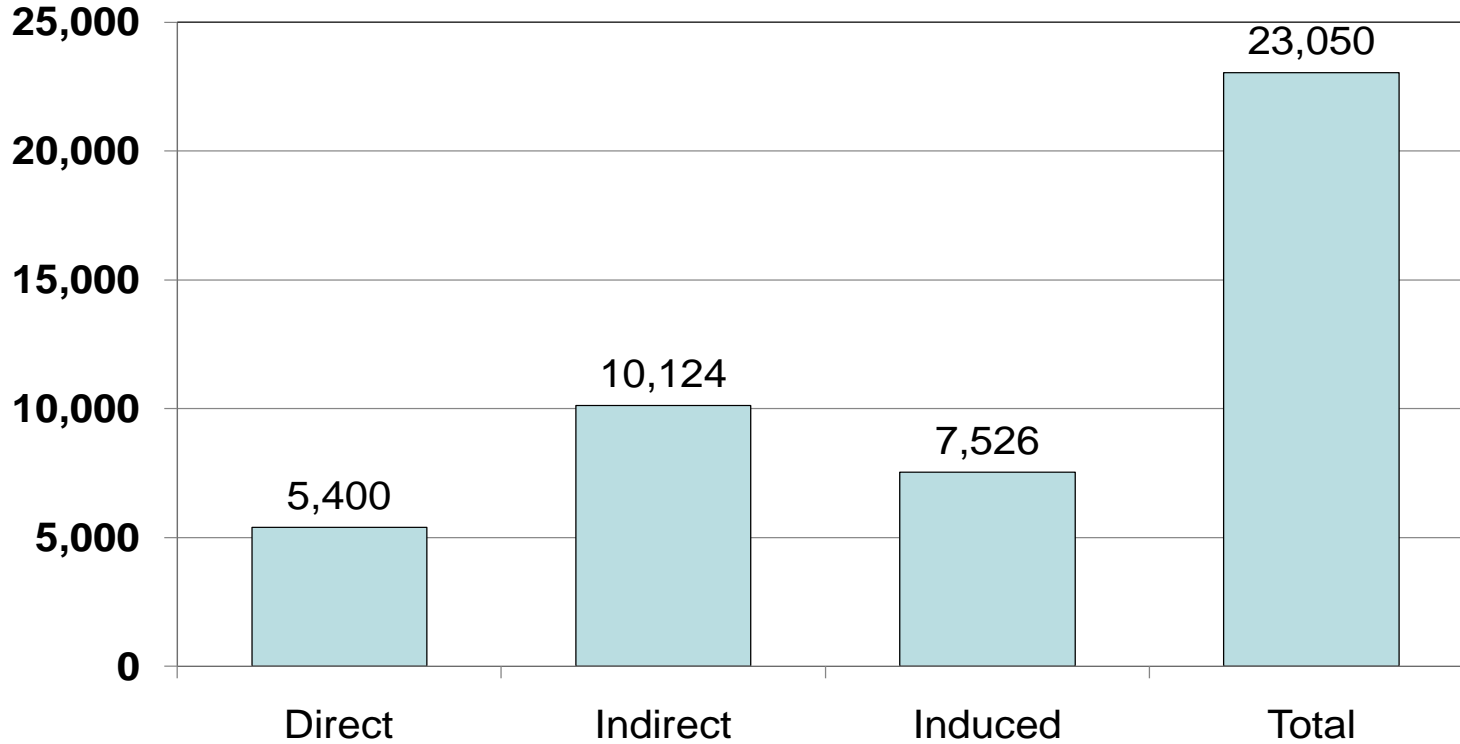
- Tradable or export potential
- High-wage, skilled employment
- Total impact and multiplier effect
- State and local fiscal benefits
- Potential for deepening networks and clustering
- Extent of spillover benefits for other businesses
- No displacement of local business activity
- Reputation or halo effect for state

BMW in South Carolina: The Economic Impact of a Leading Sustainable Enterprise

Division of Research

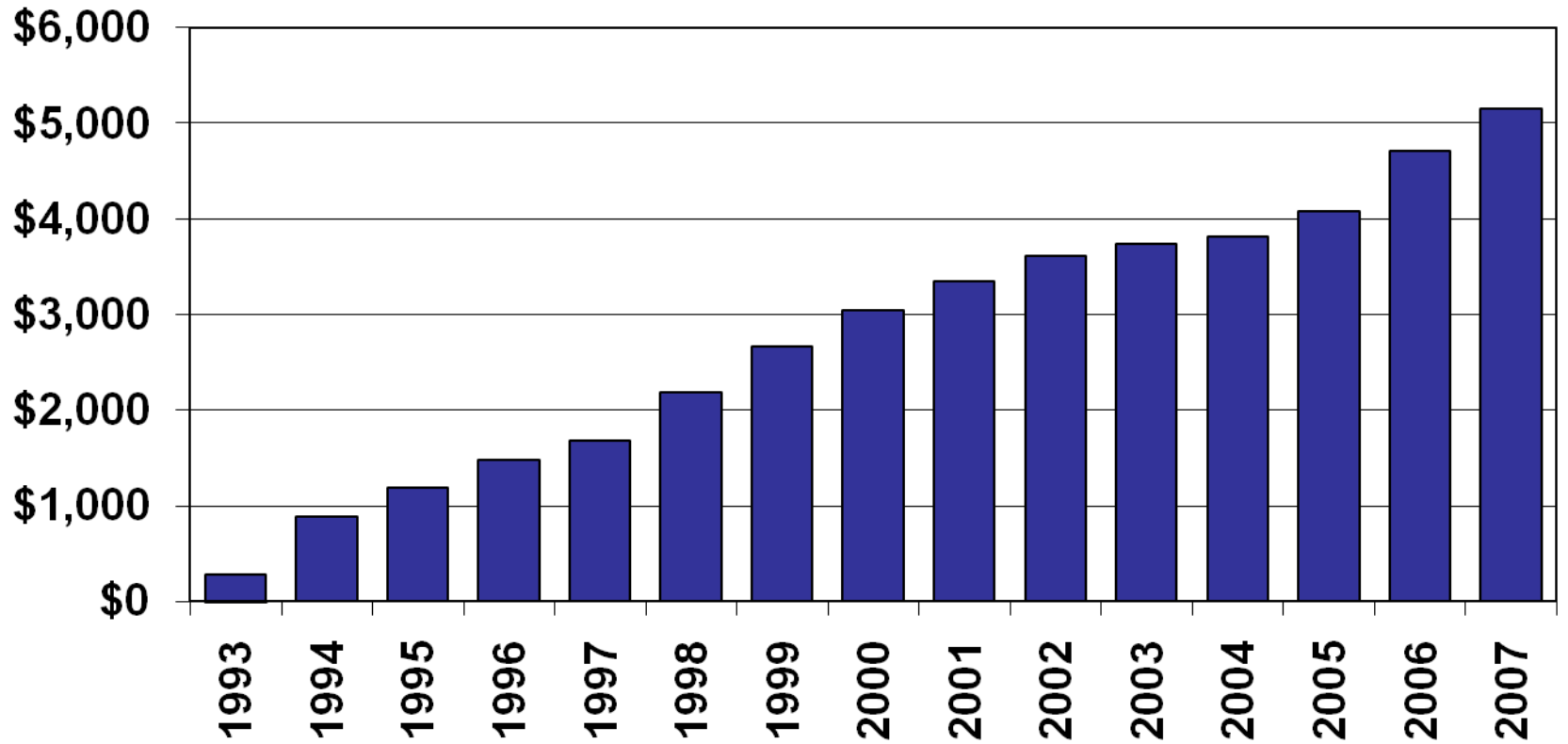


BMW Employment Impact (2007 Values)

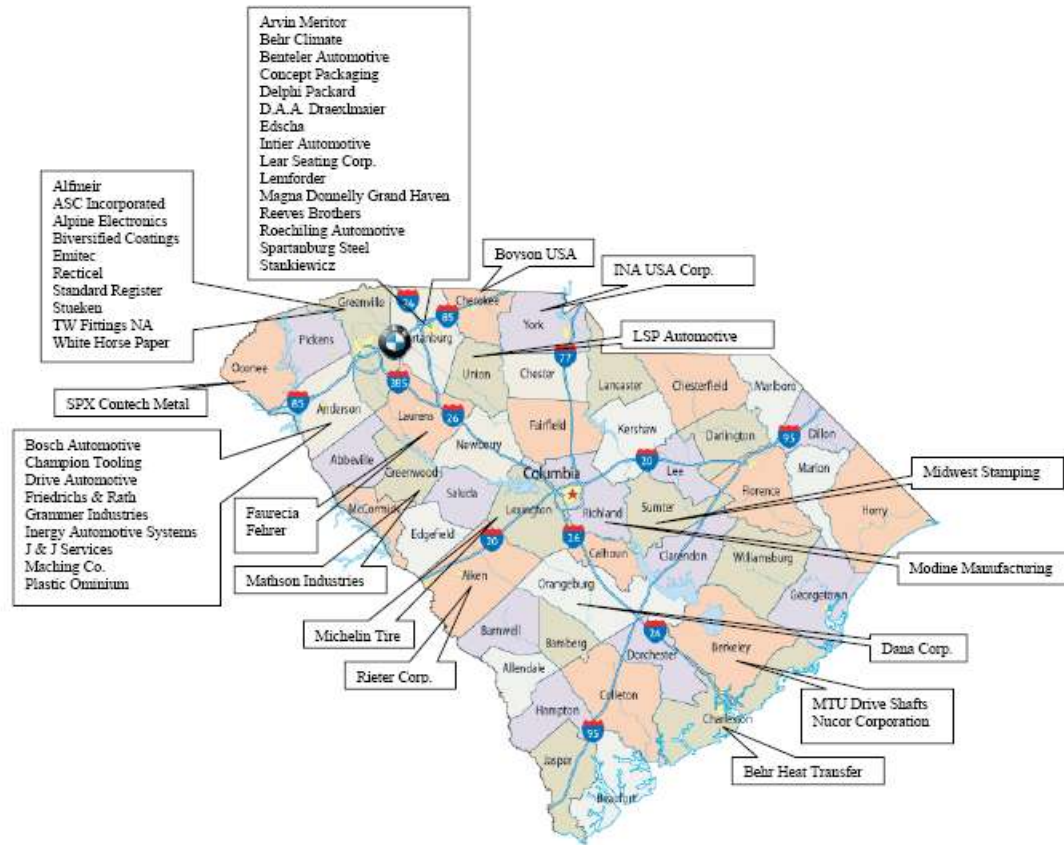


BMW's Cumulative Capital Investment in South Carolina in 2007 Dollars

Millions



Additional Benefits: Strengthening the Cluster



Fee-In-Lieu of Taxes (FILOT)

- FILOT provides a significant property tax savings.
- Without South Carolina incentive
 - the local property tax was not competitive with other states
 - high property assessment ratio placed on manufacturers
- FILOT helped attract BMW

FILOT Advantages

- Distinct advantages for capital-intensive investment
 - the ability to reduce the statutory manufacturing assessment ratio.
 - the ability to set the millage rate at a fixed level without change over time.
 - Allows for *predictability* in tax payments over a long time horizon

Evaluation: Cost-Benefit Analysis

- BMW investment has produced multiple *benefits* for state economic development.
- Evaluating incentives means looking at costs and benefits of the investment
 - What about the costs?
- What counts is the *net fiscal benefit*.

Annual Net Fiscal Impact

South Carolina State Government: \$27,647,167

Local Impact

| | <i>County Government</i> | <i>School Districts</i> |
|--------------------------|------------------------------|-----------------------------|
| Anderson | \$214,559 | \$100,593 |
| Greenville | \$518,310 | \$566,553 |
| Laurens | \$270,613 | \$200,731 |
| Spartanburg | \$1,414,250 | \$2,295,819 |
| <i>Four-County Total</i> | <i>\$2,417,369</i> | <i>\$3,163,636</i> |

Bottom Line on BMW

- Brings substantial net benefits to the state
 - Fiscal benefits
 - upgraded education
 - Employment
 - Capital
 - Supplier network
 - Cluster development
 - Enhanced image for state



Boeing in South Carolina

- \$750 million assembly plant in North Charleston
 - Could rise to over \$1 billion
- 3,800 jobs directly along with 2,200 workers already there.
- Supplier base in the Low Country



Boeing Incentives

- \$170 million in economic development bonds
- \$250 million: exemptions on sales tax and fuel used in test flights
- Justification for bonds
 - Stimulus
 - Infrastructure remains even if Boeing fails.
- Other incentives available for any qualified investor.



A Stick with the Carrot

- Incentive Controls
 - Penalties: Special charges for non-performance
 - Clawbacks: Recovery of all or part of subsidy costs for non-performance



Yet ...

**State use of
incentives is
“promiscuous”**



Film Incentives

- Very competitive rebate incentive programs
 - Up to **20% cash rebate** on in-state wages
 - Up to **30% cash rebate** on supplies purchased in-state
 - **Exemption** from sales and accommodations taxes
- Do the incentive costs outweigh the benefits?
- Has the state developed a cluster?



Film Industry Cluster

Can licentious incentives pick off pieces of Hollywood?

Hollywood is a strong cluster:

- Soundstages are located close to producer-distributors
- Film processing labs are clustered close to production studios
- Firms that rent props are clustered for comparison shopping
- Agents, casting directors clustered around Hollywood core



How to Pick Winners

- Tradable or export potential
- High-wage, skilled employment
- Total impact and multiplier effect
- State and local fiscal benefits
- Potential for deepening networks and clustering
- Extent of spillover benefits for other businesses
- No displacement of local business activity
- Reputation or halo effect for state

An aerial photograph taken from an airplane window, showing a vast mountain range with snow-capped peaks and green valleys. The wing of the airplane is visible in the upper left corner. The sky is clear blue with some light clouds.

Turbulence!

- **Low capital investment**
- **Financial instability**
- **Credit Crunch**

Financial System Flying Without Engines



Our Pilot



Hope for a Safe Landing

