by William H. Fruth

The Flow Of Money

How A Local Economy Grows And Expands

A local economy is simply a geographic area where a vast majority of the people live and work. Within this area, that can be as small as a single county or include multiple counties, where people earn their money and spend their money. In essence, the area is a "contained" economy.

For the most part, the geographic boundary of a local economy is determined by the commuting patterns of the people in the area. The location and number of "jobs" within an area determines how big geographically the economy will be.

But how do local economies grow or decline?

Imagine all of the wealth your local economy is contained in a bucket. It swirls around and around, like being churned with a mixer. It goes from person to person, business to business, person to business, and is constantly moving.

One person buys a house and a bank makes a loan. The realtor buys a car. The auto sales person buys a stereo. The storeowner makes a life insurance payment. The insurance agent pays school property taxes. The money moves on and on and on.

Money is like a hive of bees following the path of a three-dimensional spider web, moving from one point to another as it circulates throughout the economy.

However, there is a hole in the bucket causing the wealth of the community to leak out.

Every time you purchase an automobile, a good share of the purchase price returns to Detroit, Nashville or Tokyo, or wherever the car was made. Every time you purchase a shirt, buy a pair of shoes, make your utility payment, go on vacation, pay your income taxes, money leaves the community and goes to the area the product was made or the service performed.

Money is continuously leaving the community through the hole in the bucket. The outward flow is constant, pervasiveand ongoing. Nothing can be done to stop it, no matter how small the hole.

So what should be done? A community needs to add money to its economic bucket, replenishing its supply.

A faucet at the top of the bucket needs to be turned on, filling it with fresh, rejuvenating wealth, that enables the churning process to continue.

Money is imported to an area principally by the business activity of the "primary" or contributory industries located within the economy.

A business that is a primary sells its goods or services outside the area, importing money to the local area.

When a manufacturer ships and sells its products, money flows into the home community. When a farmer sells grain, money flows into the home community. When an engineer designs a bridge in another state, money flows into the home community. When a research firm secures a federal grant, money flows into the local area.

When the primary business is paid for its goods or services, its workers are paid and the wealth enters the local economy. It is then mixed and churned; it ripples and multiplies, until it is eventually consumed, drained through the hole in the bucket.

The churning process of the wealth in the bucket generates most of the jobs for the residents within a community as goods and services are consumed.

For the most part, a business either contributes or consumes. If the business is not dependent upon the local marketplace for its revenues, it is "primary" in nature, a wealth contributor.

A vast majority of all businesses in an area are consumptive. This means they are dependent upon and use the money flowing into the area. They include most retail stores, service companies, restaurants, banks, doctors and lawyers.

Local government is a consumptive enterprise as it depends upon local money. If you check what companies advertise in the local newspaper, you will quickly get a list of consumptive, dependent businesses.

Typically, about 25 percent of an area's workforce is employed by primary businesses with the balance working for consumptive enterprises. For the most part, only about 5 percent of the businesses in an area are primary, the rest consumptive.

A local economy, along with the consumptive businesses, will grow or decline in direct proportion to the amount of money being imported to the area by the primary businesses.

To improve a local economy, an area needs to increase the number of primary businesses, that will pay a wage higher than the area average. To do this, the economic development organization should focus on companies that can utilize the area's geographic economic assets and have the greatest impact.

Geographic economic issues are those that influence the costs to a company that are driven locally such as transportation, taxes, utilities, insurance, facilities, housing, wage rates and many others.

However, there are two important issues. The first is the availability of trained or trainable labor. If a suitable workforce is not available for a company, it will not locate to or expand in an area. Communities that are able to provide customized worker training have a competitive edge over those that do not.

The second is the availability of improved, approved industrial real estate. This is the most important issue relative to economic growth. Economic development is ultimately a real estate transaction. Without a facility, a company cannot makes its product or perform its service.

But there is one more issue that will determine if an area grows or declines. It is "local community attitude."

In order to do all the things necessary to build an economy, the support of the people and all local governments is necessary. Local laws need to encourage economic growth, not stifle it.

It is a characteristic of the strongest economies to have the full support of the people and local government to cause and drive it to happen.

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