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TOWARD UNDERSTANDING OUR ECONOMY
Community Economic Bases and Income Multipliers

The fictitious island of Paradox has no inhabitants. It could be that no one has discovered the island. More likely, it is because it has no basis for supporting a population with food, clothing, shelter and "luxuries" in keeping with today's standards.

There are a number of ways it might support inhabitants. If the island can grow food, people could live or at least survive there. If it were fertile enough it could support a population much larger than the number of workers who actually farmed the land. This could be done either by the people producing food and other goods for their own use, or by producing food which would be sold or exchanged for things the islanders wanted and needed; or by some combination of these.

If the island is untillable, but has other attributes such as good fishing or mineral deposits, the people could survive by selling these items and buying food and other goods and service from others.

A good location in the trading channels of the world would allow the island to prosper merely by importing raw materials, manufacturing or processing them, and exporting the products to other countries in exchange for more raw materials and the necessities of life. England has for centuries followed a pattern similar to this. Many of our largest cities depend on this import-export arrangement. These city workers do not raise their own food or mine their raw materials, but process them after receiving them from others and then export them to other sections of the country. Many are engaged in getting food to city people and others manufacture goods or provide services to make farmers and other producers even more efficient.

Most people in South Dakota would answer in unison that the "reason for being" for most of our small towns is the economic base provided by agriculture. Many of these small towns are in trouble because this base is dwindling away by the trends toward larger and fewer farms, less local processing, fewer people and the changes that are accompanying these trends.

This situation means to many that the agricultural economic base must be replaced or supplemented by some other reason for being if the small town is to survive. The new bases usually proposed are industry or tourism. The main trouble is that South Dakota is not strategically located, particularly for manufacturing. Most of the small towns in trouble are not well located for either type of new base.

These situations all emphasize one problem. In our "money" world of today, to be prosperous it is necessary to "export" - sell to someone outside the "community" - a major share of the produce of the community and use the funds obtained to purchase the items we need and want. This is particularly true in a state which derives a major share of its basic income from agriculture, with few of the manufacturing facilities for turning even this into the types of food that we eat. We need, then, to sell our produce (or our services such as tourist accommodations) to outsiders in order to get the money to buy the things we want.

The economic bases referred to here are not necessarily the same as the basic industries which are usually considered
to be agriculture, mining, forestry, and commercial fishing. Manufacturing for example is a basic for community income but is not a basic industry. Nor should the reader infer that trading among ourselves cannot produce more income. While exports are important in maximizing our total real incomes, the U.S. has attained a high standard of living by trading, investment, and the accompanying increases in productivity. Part, however, is due to the multiplying effect of "new" money brought into the economy by new production. This, however, is not as great as many people imagine, and is particularly low in an economy in which a large proportion of the people are engaged in one of the basic industries, such as agriculture.

If a farmer gets a dollar for some produce he sells outside the community and spends it outside the community, the total income is restricted to the original dollar. If he spends it with the grocer and the grocer has to spend 85c outside to buy his goods, then the grocer has only 15c to spend inside the community for wages, other services and his own personal desires. Since such a large portion went immediately outside the community, the multiplier cannot be very great as additional rounds are made. If the farmer used the new dollar to buy a haircut from the local barber and the barber in turn used the whole dollar to rent a boat to go fishing, the multiplying effects would be much greater because there are few "leakages". Savings that are not reinvested in the community also reduce the multiplier.

Seldom can all of these transactions be traced clear through, but there is a formula that can be used. The total number of dollars of spending resulting from one new dollar can be approximated by dividing the percentage of leakages into 1.0. For example, if the people in an area typically, or on the average, spend, say 80 percent of their income in the community, then it can be shown that one new dollar in the community will result in a real total of $5 for the community (1.0 ÷ .20 = 5). If they spend on the average only 50 percent in the community, the result would be a total of $2 from the introduction of the one dollar. In South Dakota, studies indicate that multipliers range from about 1.5 to 2.5, meaning that $1.00 of "new" money will result in increased total incomes of from $1.50 to $2.50.

These concepts are most useful in examining the possible results of such things as changes in farm programs or for the planners in a community interested in making an analysis of their situation with the hope of finding new sources of income.

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