

Money Drain in Your Community

- Do local residents go out of town to buy basic goods and services?
 - Are businesses investing their money outside the community instead of supporting local ventures? Are they buying their supplies outside the community?
 - Are community residents, local businesses, or local government investing and spending local resources on ventures that do not pay off?
- If so, money may be draining out of your community.

Where Does the Money Go?

By doing a quick analysis of your community's economy you can learn:

- How your community's current economy works
- Where to reduce income leakage from your economy
- How to increase prosperity in your community

Your Economy as a Leaky Bucket

To figure out where money is flowing out of your community, compare your local economy to a rain bucket. Water flows in and out of the rain bucket. The water level in the bucket will rise and fall depending on the volume flowing into and leaking out of the container. This water line represents the prosperity of the community.

You can look at the leaky bucket (your local economy) in two different ways. First, you can focus on how money flow in and out of the bucket, but not inside the bucket itself. Or, you can look at what is inside the bucket as well as what is flowing in and out. We will explore these models further.

The Static Model

Here, we look at what happens between your local economy and the larger marketplace.

Inflow: Money flows into the bucket in two ways:

1. When local firms sell their products to customers outside the community (exports).
2. When local government agencies or citizens bring in funding from outside sources. This can include social security and other retirement payments, interest and dividend receipts from investments, investments by outsiders, and grants from other government agencies.

Outflow: Money flows out of the bucket in five ways:

1. Local firms buy their supplies from outside sources.
2. Local households go out of town to buy goods and services.
3. Local employees pay taxes and social security to higher governmental units.
4. Community residents, local firms, and local government invest and spend local resources on ventures that don't pay off.
5. Community residents invest their money in outside ventures instead of local business opportunities.

Summary: From this simple model, we learn that new dollars must be either earned or captured from outside sources. We also learn that if we can plug the leaks going to outside businesses and if we can avoid the inefficient uses of local resources, the rain bucket may be able to fill faster than it empties.

The Dynamic Model

In this model we view the local economy as dynamic, instead of a rain bucket which has inflows and outflows only. When all firms, households, governmental units, and other producing entities are working at full capacity, the community's level of prosperity is high. When the productive forces slow down, the level of prosperity drops.

The community benefits when money is recycled within it--as it passes from one firm to another and from a firm to local households. When local businesses sell products or services outside the community, those profits help pay the wages of employees who are residents of the community. Of course, this depends on the profitability of local firms as well as their purchasing patterns. Money drain occurs when local household income is spent or invested outside the community or taxed away by state and federal governments.

Summary: When we put the static rain bucket model into motion by adding the local businesses, local governments, schools, etc., we add the dynamic element to the model. These decision-making units combine local resources, such as land and buildings, with non-local resources, such as borrowed money and new inventions, to make products and services sold both at home and away. These community efforts can generate new income within the community that will benefit local households.

Strategies To Contain A Leaky Bucket

Increase Exports: Like a small country, your local economy is stimulated by the dollars earned from exports. One way to expand the local economy is to sell more goods and services to outside customers. There are many types of economic activity that can be a part of the economic base that earns these exports dollars. The types of industries most often considered are

agricultural production, mining, forestry, fishing, and manufacturing. However, any firm in any industry can become an exporter.

Substitute Imports: Another strategy to plug leaks is to provide locally those goods or services currently being purchased outside the area. This may be a product bought by a local firm to use in its production process or purchased by many local households to consume.

Other Strategies: An additional way to plug leaks is to encourage people to invest their savings locally. This keeps the money circulating in the economy and adds to the productive capacity of the local economy.

Finally, if we put inefficiently utilized local resources (poorly spent tax dollars) to work more productively, we can plug another leak.

Additional Resources

- State departments of commerce
- Local economic development organizations
- Economic Research Service, United States Department of Agriculture
- *Understanding Your Community's Economy*, Cooperative Extension Service, Kansas State University, Manhattan, Kansas
- *Take Charge - Economic Development in Small Communities*, North Central Regional Center for Regional Development, Ames, Iowa

Additional copies are available from the Office of Community Development, U.S. Department of Agriculture, Rural Development, Room 701, 300 7th Street, S.W., Washington, DC 20024 (1-800-645-4712). Copies may also be obtained at

<http://www.rurdev.usda.gov/ocd>