

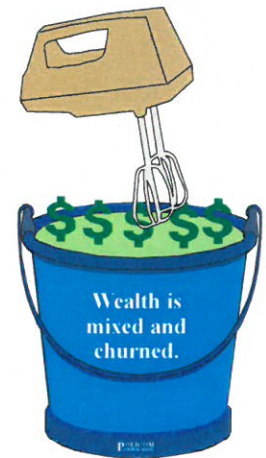
## How a local economy works – the Flow of Money.

Now that we know what a local economy is, we can discuss how it will grow or decline.

Imagine all of the wealth of a 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 teacher pays the water bill. 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 around and around as it circulates throughout the economy.



But there is a hole in the bucket and all the wealth of the community is leaking out.



Every time you purchase an automobile, a good share of the purchase price is returned 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 in which 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, pervasive, and ongoing. Nothing can be done to stop it, no matter how small the hole.

So what can 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, which 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 which is a primary industry sells its goods or services outside the area, importing money to the local area.

When an automobile is purchased in one area, the community where the car was assembled imports money from the purchasing community.



In turn, the communities which manufactured the tires, fenders, headlights, seat cushions, and all of the other components import a portion of the purchase price to their respective areas, replenishing their supply of money, filling their bucket.

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, it likely is “primary” in nature.

A vast majority of all businesses in an area are consumptive in nature. 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 which companies advertise in the Yellow Pages, a local marketing tool, you will quickly get a list of consumptive, dependent businesses.

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

**“An expanding retail sector is the result of a growing economy, not the cause of it.”**

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.