

We recycle our paper, our cans, and our bottles; why not recycle (and control) our incomes?

Why the ‘Local Multiplier Effect’ Always Counts

By Tricia Truit, Earth and Sky Collective

A Valuable, but Hidden Economic Reality

The Local Multiplier Effect (LME) is a very valuable, hidden feature of our economies. The term refers to how many times dollars are recirculated within a local economy before leaving through the purchase of an import. Famed economist John Maynard Keynes first coined the term "Local Multiplier Effect" in his 1936 book *The General Theory of Employment, Interest and Money*.

A Hypothetical Example

Imagine a hypothetical influx of money, say one million dollars, entering a local economy. Now imagine these dollars are spent on local goods and services. Imagine that each of the local vendors who earned those dollars then re-spends that money on more local goods and services. Envision this cycle happening several times before this money is finally spent on imports – goods or services from outside the region.

In this case, those one million dollars recirculating eight times would act much like eight million dollars by increasing revenue and income opportunities for local producers.

Now another scenario: picture that same amount of money being spent immediately at stores (or online) with businesses headquartered in other regions on imported goods. These transactions would add very little or no value to the local economy; one million dollars would act just like one million dollars instead of several million dollars.

History and Impact

Over the past 50 years, the expansion of national businesses into local domestic markets has diverted this vital monetary stream and redirected it to centralized corporate coffers. There it is spent on large capital expenditures, overseas goods and all too frequently inflated executive salaries. This interception of funds has depleted local towns and cities across our nation of an important source of funds: recirculated income.

It has been estimated that about a century ago, thriving industrial communities had a LME in the high 20s or low 30s. Today it's estimated to be in the single digits. This reduction in the number of rounds that monies make has had an extremely negative effect on our local economies. All areas of community life are affected by this deficit. This lost treasure of local economies was never measured, monitored, managed or even acknowledged.

Besides the obvious poverty-related problems of unemployment, underemployment, homelessness, and lack of funds for social and public health needs, there is also the issue of creating an unhealthy reliance on a vast commercial network of imported goods. Many areas of life become vulnerable to natural or man-made disasters which can interrupt this flow of goods. Securities as diverse as food to homeland could be greatly compromised by this kind of dependence.

Two Studies of the Impact of Buying Local

Two recent studies—one in Austin, Texas, the other in Maine—compared locally owned businesses with nationally owned book stores as far as their impact on their local economies. They reached very similar conclusions: \$100.00 spent at a national retailer yielded a return of about \$15.00 to the local economy. However when that same \$100.00 is spent with a local retailer it returns about \$45.00 or 3 times as much income to the local economy. When further defined, these returns from the national chain store were usually in the form of lower-level service job wages.

Many factors are at work here. The large national chain store doesn't buy local services or goods in most cases. On the other hand the local store does use local services such as accountants, bookkeepers, advertising, legal services, possibly office supplies and many other small incidental expenses. (For further information, check out: <http://news.bookweb.org/news/1508.html> and <http://news.bookweb.org/news/1884.html>.)

Next Layer: Local Production and Recycling

The next deeper layer, beyond retail stores, to this equation is local production and recycling. Whereas a local bookstore selling only local authors or locally printed books wouldn't be at all realistic, it is possible to cultivate a retail climate for clusters of used book stores, other used items, recycled items or even possibly a variety of locally produced goods.

Selling recycled items has traditionally been the domain of charitable institutions such as the Salvation Army and Goodwill. However there may be a substantial and growing market in appealing to environmentally conscious, anti-globalization populations.

Some strategies to move into the next layer include:

Conducting a public education campaign to teach people about the LME;

Increasing, encouraging and assisting small business and especially micro-businesses;

Creating a Business To Business (B2B) Import Replacement program to link businesses with local suppliers and services.

Local Money Models

If you'd like to expand beyond a neighborhood/ friends barter ring or trading system, there are three basic Local Money models to choose from. Time Dollars is most appropriate for small non-profits interested in the community building aspects of local money. The famous Ithaca Hours Model is a better choice for a broader town or entrepreneurially focused approach. The electronic L.E.T.S. (Local Employment and Trade Schemes) is another system that's very popular in Europe, Australia, and Canada. Its one restriction here in the US is that the IRS requires the system managers to report member's transactions, much like the way an employer would report wages. Some people might consider that to be too invasive and therefore might be reluctant to participate. For more on each of these working models, see the following web sites:

TIME DOLLARS: www.timedollar.org;

ITHACA HOURS (local currency): www.ithacahours.org;

LETS: lentils.imagineis.com/letslist/

Earth and Sky Exchange (Western Mass.); <http://www.earthskyexchange.org/links.htm>

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