

Essential Definitions

Economic (Export) Base Theory - A conceptual model of a local economy divided into two sectors comprised of firms and households.

Basic Sector - Firms that sell their output outside the defined economy.

Non-Basic Sector - Also called the local trade and service sector, it is comprised of local businesses and households.

Economic Impact - The resulting changes in business activity across various industry sectors from the introduction of a new business activity.

Economic Contribution - The documentation of the activity of an existing business and its influence across various industry sectors.

Direct Effect - The contribution from an initial round of sales of goods and services.

Indirect Effect - The contribution from industries purchasing inputs from other local industries.

Induced Effect - The contribution from households due to income received from all industry activity.

Economic Multipliers - Changes in the level of activity in the non-basic sector in relation to a given change in the basic sector.

Output (Sales) Multiplier - A measure of the effect of the basic sector on the overall economic activity in the defined region.

Value-Added Multiplier - A measure of the return to resources used by the basic sector.

Income Multiplier - A measure of the effect of basic sector income on the income of households in the defined region.

Employment Multiplier - A measure of the effect of basic sector income on regional employment.

Social Accounting Matrix - A representation of the flows of all economic transactions that take place within an economy across all sectors. It provides a single-year static picture of the economy.

IMPLAN - Computer software that utilizes a social accounting matrix to measure economic activity.



The Business Owner's Guide to Discussing Economic Impacts



An explanation of the framework and language used for economic impact and contribution analysis.

John L. Park
Jonathan R. Baros
Rebekka M. Dudensing

July 2009

roy b. davis
COOPERATIVE MANAGEMENT PROGRAM

2124 TAMU
College Station, TX 77843-2124
Phone: 979-845-1751
<http://cooperatives.tamu.edu>

AgriLIFE EXTENSION
Texas A&M System

Improving Lives. Improving Texas.

The Theory Behind Economic Impacts

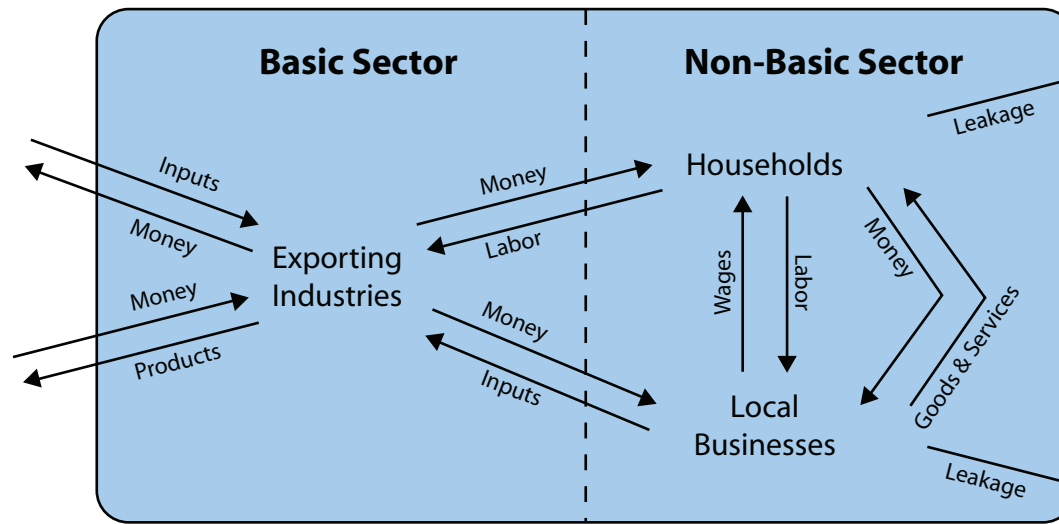
Export base theory (also called economic base theory) is a useful tool to describe a local economy and provides a framework to analyze the impacts from changes in economic activity. Thus, the method is often used to assess the “economic impact” of a new business activity within a defined region. When talking about your existing business, you are actually speaking of “economic contribution”. However, the general framework remains the same. The important thing to remember as you speak with cooperative members, lenders, and community and state leaders is that your business has a greater reach than the front door. Your business is a part of a larger economy and your business activity helps that economy to thrive. Multiple transactions resulting from an initial expenditure results in a total effect on output (sales), government revenue (value added to GDP), personal income, and employment in the region that is greater than the initial dollar spent. We can further break up these effects according to how they came about. A portion is the direct result of your economic activity, another is an indirect result of you doing business with other businesses, and another is the result from your contribution to household income.

Thus, customer purchases contribute to the activity of not only that business but also its suppliers and each of their employees in the form of income. However, some of the original expenditure leaks out of the regional economy as inventory is imported from other regions, employees commute from other regions, and businesses and households pay state and federal taxes. The portion of the money that remains in the local economy throughout these transactions constitutes the net economic gain.

The Basic Sector

The basic sector is defined as those firms that sell their goods and services to markets outside the defined local economy. A cooperative business that produces or markets goods to firms and customers outside of the region would be considered a part of this sector.

The basic sector is important because it brings in new money to the local economy which circulates to households and firms within the non-basic sector. Eventually some of these dollars leave the economy through taxes, savings, earnings to non-residents, and payments for goods and services outside the economy. Its important to note that regardless of which sector we are speaking of, cooperatives keep their profits within the local economy.



The Non-Basic Sector

The non-basic sector is composed of local businesses and households that provide goods and services within the defined economy. Money is circulated within the local economy by the spending and re-spending of firms in the non-basic sector and employees residing within the economy.

A cooperative business that sells supplies to local farmers would be considered part of the local trade and service firms that make up this sector. Some cooperatives might even participate in both sectors of the economy. The difference being

that new money is brought into the economy by activity in the basic sector, while activity in the non-basic sector helps to maintain the health of the local economy.

Economic Multipliers

The relationship between the basic and non-basic sectors is predictable. Thus, we can predict changes in the level of activity in the non-basic sector from a given change in the level of basic activity (see Liestritz 2004). These effects are referred to as multipliers. In general multipliers describe the way in which the non-basic sector (local services and households) reacts as the basic sector (firms selling beyond the local economy) expands, requiring additional inputs. The output or sales multiplier measures the effect of our cooperative group on the overall economic activity in the region. The value-added multiplier measures the return to the resources used by our cooperatives. The income multiplier measures the effect of basic sector income on the incomes of households in the region. The employment multiplier measures the effect of basic sector income on regional employment.

Resources

Leistritz, F.L. “Measuring the Economic Impact of Producer Cooperations.” Cooperatives and Local Development. C.D. Merrett and N. Walzer, eds. MESharpe: New York, (2004).

Muley, D. and A.W. Hodges. “Using Implan to Assess local Economic Impacts.” University of Florida, IFAS Extension Bulletin FE168, (June 2003).

Park, J.L., J.R. Baros, and R.M. Dudensing. “Communicating the Value of Texas Cooperatives.” Texas AgriLife Extension Service, Roy B. Davis Cooperative Management Program, Department of Agricultural Economics, Texas A&M University, (June 2009).