
ECONOMIC BRIEF NO. 1

WHY DOES A COMMUNITY GROW?

This is the first in a series of briefs exploring fundamental concepts in community and economic development.

What causes a community to experience economic growth? The answer to that question centers on the community's economic base.

The economic base of a community is made up of all those activities producing foods or

services for sale to buyers who live outside the community.

In some small rural communities, the economic base is agriculture, forestry, or mining. In many parts of South Carolina, the economic base is textile and apparel manufacturing. Tourism is the heart of the economic base of the Grand Strand.

Generally, a community will experience economic growth only if there is expansion of the economic base. That expansion can consist of selling more of what was already being sold or adding new products and services that are sold to nonlocal buyers.

The importance of the economic base is that it is the source of fresh dollars for the community. Those dollars circulate around in the local economy where they are spent at the local barber shop or grocery store. Eventually, the

new dollars "leak" out of the local economy when the barber buys supplies from a distributor in a distant city or the grocer restocks shelves with goods from all over the world. The fewer the "leakages," the greater the multiplier effect of

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the economic base. In a forthcoming brief, we will learn more about the multiplier effect.

Every community has leakages. So securing a regular fresh supply of new dollars from outside is critical just to maintaining the local economy at a steady state. If the local economy is to grow, the economic base must expand so that the supply of fresh dollars entering the community is increased.

What a community sells to the rest of the world does not have to be goods shipped to far away places. If the economic

base of a community is service oriented, buyers may come to the community to avail themselves of these services and spend money they bring in with them. The tourist communities of the Grand Strand do not ship out sunshine, yet they sell sun-

shine nonetheless to the thousands of tourists who come to the beach and spend dollars. Many communities have built economic bases around retirement, selling the local environment to retirees who bring in and spend pension checks.

Few communities can rest secure that they have permanent economic bases. Like human beings, the industries that make up an economic base are born, grow old, and die. A generation ago, South Carolina experienced a shift in the economic base from agriculture to manufacturing. Now we are again experiencing a shift, but this time from manufacturing to services. Communities with healthy economies will always have new firms entering their economic bases as old firms die off. If a community is to grow and prosper, it must continually be finding new things it can sell at a profit to the rest of the world.