

ECONOMIC BRIEF NO. 2

**MEASURING IMPACT OF NEW \$\$\$\$**

The Community and Economic Development Program at Clemson University has the capability of estimating local economic multipliers for any South Carolina county. At the present time, however, it is not possible to produce reliable estimates of multipliers for economies that are not defined geographically by county boundaries except by custom data collection necessitating a large research expenditure.

*In the first of these economic briefs, we learned that every community must have something to sell to the outside world in order to bring in new dollars.*

*Dollars obtained from selling factory goods outside the community are used to pay factory workers. Factory workers use some of their pay to buy groceries. Grocers use some of their revenue to hire clerks who spend part of their checks getting their hair cut at the local barber or styled by the local hairdresser. So a new dollar coming into the community can eventually change hands several times; and each time it changes hands, it adds to the total income of the community.*

*The circulation of new money in a community is easy enough to understand. But how do we measure the economic impact of that circulation? We use a local economic multiplier.*

*Consider the following examples. A new dollar enters your county; and we count it as it enters, meaning that it has produced one dollar of effect on the local economy. Those who receive that new dollar spend fifty cents of it locally within the county. Hence, the new dollar has now produced an effect on the local economy of \$1.50. Suppose that those who receive that fifty cents also spend 50 percent of their income locally, then the initial dollar*

*has multiplied to cause an effect on the local economy of \$1.75. Hence, the multiplier is 1.75.*

*We could carry this process on for several successive rounds. But if the people in the community spend anything less than 100 percent of their income locally, the initial dollar will gradually leak out of the commu-*

***A local economic multiplier measures the economic impact of new money circulating in a community.***

*nity. So with each successive round of circulation, the effect of the new dollar on the local economy becomes smaller and smaller.*

*The size of local multipliers is determined by what percentage of new dollars gets spent within the local economy.*

*When the local grocers must purchase their stock from distant wholesalers, local barbers pay electric bills to utilities that bring in power from distant places, and local consumers go to other towns to shop, the local multipliers will be reduced to that extent. These purchases of goods and services from outside the local economy are called leakages. A totally self-sufficient*

*economy will have zero leakages.*

*Generally, the bigger and more diversified the local economy is, the larger the multipliers because there are fewer leakages. For any given situation, the multiplier for a county will be greater than for a town or city; and the multiplier for a state will be greater than for a county.*

*Counties with big cities will have larger multipliers than counties with small towns, and states with big cities will have larger multipliers than states with smaller cities.*

*Actually, there are many different types of multipliers. The impact of changes in the economic base on local retail sales is determined by a sales multiplier. The impact on income is determined by an income multiplier. And the impacts on total employment or tax revenues are determined by their own special types of multipliers. In almost every case, income and employment multipliers are considerably smaller than sales multipliers.*

*Whatever the type of multiplier, there are few that are larger than 5.0. Most multipliers for South Carolina counties will generally be no larger than 3.0, and for smaller communities, no larger than 2.0. In some rare cases, multipliers larger than these may reflect reality, but larger multipliers should always be treated with some healthy suspicion.*