Additional Articles for April 2003 Issue

Buying local is better and now I can prove it

I'm not one who has ever before become giddy reading something to do with economics. Sleepy, maybe. I'm just not one of those people who get excited about numbers. In fact, I'd rather read nearly anything else. However, in my down-home, dirt-under-the-fingernails, sustainable-living circles, economics just keeps raising its mangy head. Just last month when I was interviewing Sandy Oliver for this column she said, "If you have to choose between buying organic produce and buying local produce, buy local. It's more important." "Of course," I thought, never questioning her reasoning. Then there's Russell Libby. I keep running into him quoted or referred to in print. Russell is the executive director of MOFGA, the Maine Organic Farmers and Gardeners Association, and he makes the intriguing statement that if each of us here in Maine spent just \$10 more per week on locally produced food items we'd be contributing an additional \$100 million to the Maine economy in just six months. Now, a \$200-million-a-year economic development return is not peanuts! But I scratched my head each time I heard this and wondered how it could be true. Now I have some solid methodology to look toward in these matters.

How a Community Economy is Like a Leaky Bucket

The New Economics Foundation, a British "do tank," as opposed to a think tank—they pride themselves on developing and promoting people-centered economic solutions respecting quality of life and environmental limits—explains the power of buying local in the Money Trail, a recent publication. Justin Sacks, author of this publication, uses a simple analogy to explain some complex economic relationships. According to Sacks, to understand a local economy, imagine a leaky bucket. The bucket contains water representing all the money businesses, organizations and individuals in a community have to use. As long as money is changing hands among members of the community, it stays in the bucket. That is, it stays until it leaks out the holes. Leaks represent money exiting the community through expenditures made to entities outside the local economy.

Using this analogy, it's easy to see that there are two ways to fill the bucket—pour money in faster or plug the leaks. On the whole, wealthy communities have lots more water pouring into their communal buckets; less well-off communities have less. But the main difference between a prospering and an impoverished community is related to how quickly the bucket loses water through the leaky places.

The New Economics Foundation recently developed a simple tool for measuring the vitality of a local economy. Called the LM3, or local multiplier 3, this indicator illustrates the flow of money through a community. In doing so, it demonstrates for people and organizations how they can change spending behaviors to improve the local economy. Finally, and perhaps most importantly, it encourages people, organizations and businesses to use their existing expenditures to strengthen their community by creating new linkages among members.

Two Lifestyles, Two Outcomes

Perhaps an example might be helpful now. Imagine you receive a $10 gift from your Aunt Sadie. You're the frugal type so you get yourself a few second-hand books for $8.00 at the local used bookshop and a $2.00 take-out cup of fancy coffee. The bookseller then runs across the street and spends $6 on pens at the stationer and $2 on stamps at the post office. Another way to look at this is to say that Aunt Sadie's gift was worth $26 to the community while $2 went right out-of-town via the post office.

The local multiplier for these three generations of transactions, or LM3, is 2.6. For those who are still following my example closely, the LM3 math looks like this: $10 gift + $8 books + $2 coffee + $6 pens = $26 flowing around town. Now divide this $26 by $10, the original gift, and you get a healthy LM3 of 2.6. (The maximum multiplier in a perfectly circulating community that lost nothing to the outside world would be 3.)

Next, imagine that your sister, who has entirely different habits, receives $10 from Aunt Sadie, too. Your sister is an inveterate online shopper so sends $8 right out of town to get a book from Athena.com. She also decides to buy some fresh tomatoes at the farmers' market with the remaining $2. The farmer then spends $1 on coffee at the local java joint and saves $1 toward his Cancun vacation. The Internet purchase and the Cancun vacation funds are lost to the communal bucket. In this example the total effect of Aunt Sadie's gift is only $13; $10 + $2 + $1. The LM3 is a lowly 1.3. (The worst a community can do is an LM3 of 1.)

I hope it's clear from this simplistic illustration that merely increasing the number of times money changes hands locally before it exits the community increases the economic impact of that money within the community. As you can see, where you spend matters and where the people you buy from spend matters.

How We Can Benefit from Understanding Our Local Multipliers

In Britain, where this tool was developed, it has been applied in more than ten locales and across five economic sectors. Surprises abounded. In one study, a hotel that brought in 1.7 times the income of a local B&B was found to have a significantly lower economic contribution to the community because so many of its procurements and services came from the outside. “It was a case of the tortoise and the hare,” notes Sacks. The town where these two businesses reside will now have correct information when weighing hotel development against B&B development.

In another instance, in the British town of Knowsley, a local contractor was found to contribute less to the community than an out-of-town firm. In this surprising case, the contractors’ self-identifications as local or out-of-town were misleading. The “local” firm was really a branch of a national company and so sent much of its income directly away. The “out-of-towner” was really a smaller company based in a nearby community. It hired local help and services and bought more local supplies. Once armed with an understanding of local multiplier effects, Knowsley municipal officials were able to rewrite bidding preference guidelines to award contracts in such a way as to maximize positive benefits to the community.

Using the local multiplier effect, LM3, to measure the impact of everything from tourism, to municipal contract awards, to public welfare schemes, to the effects of Big Box stores could be an important tool for improving the economic health of the midcoast. Perhaps local multiplier guidelines could even be written into zoning codes.

Look for the power of LM3 to come to a community near you. In Rockland, Going Local, a grass-roots group exploring the importance of strong local economies will begin doing evaluations of area businesses soon.

To participate in the extensive data collection process, help fund this important work, or to request that your organization or business be considered for inclusion, call Holly Antolini at 354.2263. To obtain a copy of the Money Trail or one of the other interesting New Economics Foundation publications, download them from www.neweconomics.org.

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