

The Economics of Buy Local Initiatives



The demise of small towns across America has forced many development organizations to look inward for solutions to the current economic crisis. Many of these towns have seen shopping malls, “big box” retailers, larger towns, home shopping channels, and the Internet lure shoppers away from these areas.

In many parts of the United States, communities and development organizations are launching “buy local” campaigns in an effort to reverse this trend and support locally owned businesses.

Goals and Reasons

The primary goal of most buy local initiatives is to strengthen and grow the local economy by encouraging households, businesses, and organizations to shift some of their current spending with merchants outside of the local economy to merchants inside the local economy. Some of the reasons often cited for starting a buy local initiative include:

- Supports the community by keeping money in the area
- Supports locally owned businesses
- Supports community organizations
- Encourages unique businesses and gives the community character
- Reduces environmental impact from out-shopping
- Creates more jobs locally
- Results in better services
- Increases investments in the community by locally owned businesses
- Supports better use of taxes
- Ensures innovation and low prices
- Encourages local prosperity by improving the local economy

Lessons from Other States

Several studies suggest the economic impact of small, locally owned businesses on host communities is significant in the United States. While the specific results may vary, the overall conclusions about the benefits of buy local programs are consistent among these studies.

For example, a 2003 study in Midcoast, Maine, found that locally owned businesses spent about 44.6 percent of their income within the immediate counties surrounding the host community. The largest expense categories were wages and salaries, goods and services from other locally owned businesses, and taxes paid to local and state governments. The study also found another 8.7 percent was spent in other counties in Maine.

An Andersonville, Illinois, study found that locally owned businesses generate a substantial premium in enhanced economic impact in the city. The study found that for every \$100 in consumer spending with a locally owned firm, \$68 remained in the Chicago economy.

Application of Lessons Learned

Applying the results from these studies to Oktibbeha County, Mississippi, lends support to the unwavering research view that locally owned businesses contribute a great deal to the local economy and surrounding economies in the state.

This publication (using the IMPLAN Input-Output Model) shows the economic impact of households in Oktibbeha County shifting \$100 of their annual spending from outside (non-local) businesses to local businesses.



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Table 1. Economic Impact of Oktibbeha County Households Spending an Additional \$100 with County Merchants

Source	Direct	Indirect	Total
Business Sales	\$1,832,399	\$585,905	\$2,418,304
Employment	37	6	44
Wages and Salaries	\$738,531	\$161,972	\$900,503
Tax Revenues	--	--	\$65,058

Table 2. Economic Impact on Local Government Finances of Oktibbeha County Households Spending an Additional \$100 with County Merchants

Source	TOTAL
Sales taxes	\$33,569
Property taxes (real)	\$16,810
Subtotal	\$50,379
Other taxes	\$14,679
Total	\$65,058

Note: Total tax estimates represent the direct and indirect effects of retail spending on local government finances.

In 2006, there were about 18,833 households in the county. Shifting \$100 of spending to local merchants would generate a total impact of almost \$2.42 million annually in new sales, \$900,503 in wages and salaries, and about 44 full- and part-time jobs in the county (Table 1).

Beyond these impacts, locally owned businesses bank locally; hire local residents, accountants, attorneys, consultants, and graphic designers; and advertise with the local media (newspaper, radio, or television).

These results are further magnified when we look at the research on the economic impact of locally owned businesses on host communities. Several studies have shown that money spent in locally owned establishments circulates in the local economy and continues to improve the economic base of host communities.

For example, a 2002 Austin, Texas, study found that for every \$100 spent at a national book store in the city, only \$13 remained in the local community. The

same spending in a locally owned bookstore produced ancillary business revenues of \$45.

This suggests that almost \$1.09 million (\$2.42 million x .45) of Oktibbeha County merchants' revenues would circulate in the Golden Triangle area. Another \$210,540 (\$2.42 million x .087) would be spent with businesses in other counties in Mississippi.

Combined, this suggests almost 55 percent of Oktibbeha County households' spending would circulate throughout the local and state economies.

This increased local spending also would affect the county tax base. The current 7 percent sales tax in the county would produce almost \$65,058 in new tax revenues for city and county government officials. About \$33,569 of these revenues would be sales taxes, \$16,810 would be property taxes, and \$14,679 would consist of other taxes such as fees, licenses, and others (Table 2).

These added revenues could support existing facilities and services and help to promote retail and tourism development in the county.

Summary

Local and small businesses account for a significant portion (more than 70 percent) of the jobs in the United States. Local people—people who also are your neighbors, Sunday school teachers, little league baseball coaches, and soccer coaches—own many of these businesses. Locally owned businesses, on the average, require less infrastructure investment because the community did not have to offer huge incentives to attract them.

When local businesses decline, so do the businesses from which they purchase goods and services. Studies show that money spent in locally owned establishments circulates in the local economy and continues to improve the economic base of host communities.

Finally, most supporters of buy local campaigns realize it is not possible to purchase everything you will need locally; they simply want you to think local first. Investing in the local economy should be more important than driving out of town to shop and save a few dollars.

Policy Implications

This and previous studies suggest at least two important policy implications.

- 1) Locally owned businesses generate substantially greater economic impact than large, franchise businesses.
- 2) The loss of locally owned businesses significantly reduces the overall vigor of the local economy.



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