

Local Towns Missing The Real Secret to Economic Development

By Bruce Kaplan

Most of the municipalities I work in have declared their undying devotion to sales tax revenue as budget shortfalls strain them to seek all available sources of revenue. Some have tried to use zoning to restrict office and service uses from “clogging up” the limited vacant commercial space. They would rather see vacant store fronts so that spaces are available if and when a true sales tax generating retailer comes to town. We have made a strong case in the past as to how short sighted and detrimental this thinking is to the economic health of any community.

Retail businesses and the sales taxes they generate are beneficial. But the economic benefits to a community of “primary employers” and “primary jobs” are equally beneficial and I don’t sense that many of the elected officials understand that.

What is a “primary employer”?

Primary employer refers to industries that produce more goods and services than can be consumed by the local economy and therefore export a significant portion of them. The money from exporting the goods outside of the community is infused back into the local community. This infusion has a substantial impact on output, employment and wages.

What is a “primary job”?

This is a job that produces goods and services for customers that are predominately outside the community that creates new “outside” dollars for the community. Once an employer is paid for the products and/or services, they redistribute that wealth in the community through wages paid to employees and their suppliers. (definitions from Montrose EDC, Montrose, CO)

Those in Economic Development circles understand that there is a trickledown effect to be gained by adding (or retaining) primary jobs to the employment ranks in a community.

Economic Base Theory says that the rate of economic growth in a region is determined not by the amount of retail sales tax generated but by the amount of increase in exports from that region. If a company exports products outside the community then receives revenue for those products that revenue is often paid out as wages to their employees and then re-spent on other goods and services in the community.

So I say to the elected officials, go ahead and chase retail sales tax generating business. But don’t do it to the exclusion of primary employers – basically industrial businesses that make a product and export it. There is a prominent place for both if you wish to have a healthy economy.

