

# Economics of Sustainable Management

## 8b. Local multiplier and more

Adapted from Stanislav Kutáček PhD., external lecturer



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- **'Local Multiplier 3'**
- invented by John Maynard Keynes
- tracks where money is spent in your local economy
- valuable insights into the functioning of the local economy



# Why bother measuring?

The LM3 tool has been rigorously tested in 10 different communities and in five different economic sectors:

- 1) Government procurement
- 2) Food and agriculture
- 3) Social enterprise
- 4) Access to finance
- 5) Welfare benefit take-up campaigns

*The problem is not necessarily that too little money flows into a neighbourhood. Rather it is what consumers, public services and businesses do with that money. Too often it is spent on services with no local presence, and so immediately leaves the area.*

The Government's National Strategy for Neighbourhood Renewal

# How local money flows - or doesn't ?

# The Local Multiplier Effect

## KEEP YOUR MONEY IN THE COMMUNITY

Buying local products at locally owned businesses keeps money circulating closer to where you live. This creates a ripple effect as those businesses and their employees in turn spend their money locally. Unfortunately, most corporate chains send most of your money out of town.



For every \$1 spent at a local business...



45 cents is reinvested locally



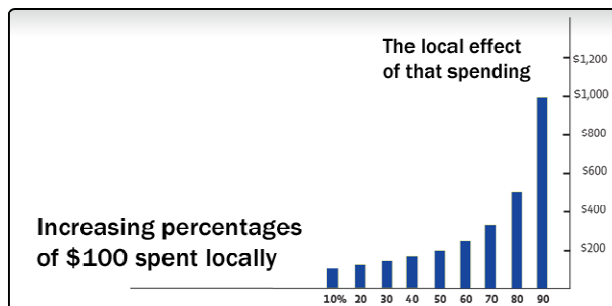
For every \$1 spent at a corporate chain...



Only 15 cents is reinvested locally

## MAKE YOUR MONEY WORK HARDER

If everyone in a community spends a greater percentage locally, the multiplier effect turns that into big bucks for the local economy. If you increase your spending with local businesses from 50% to 80% for example, the multiplier effect more than doubles those dollars. Therefore, \$200 spent locally could have close to \$500 in impact on the community.



# The Local Multiplier Effect



Lisa buys Produce from John.



John buys Vegetables from Peter.



Susan buys a vase from Lisa's antique store.



Peter has his accounting done by Susan.

[ShopLocally.com](http://ShopLocally.com)  
PUT YOUR MONEY WHERE YOUR HOUSE IS



# Who should measure money flows?

Government ?

Businesses and organisations ?

Communities and individuals ?

## So how does it work?

*Start with income, sales or turnover, which we call initial income. In the Tayside example above, the B&Bs' initial income was £100,000.*

*Then measure how that income is spent. People and organisations spend money differently so we calculate their expenditures differently. In Tayside, we first measured the spending of the B&Bs, which are organisations. Then we measured the spending of the people and organisations receiving money from the B&Bs.*

*The LM3 goes three rounds. The B&Bs' initial income of £100,000 is Round 1. Round 2 is how much the B&Bs spent locally: £80,000. And Round 3 is how much of that local spending is then re-spent by the B&Bs' local staff and suppliers in the local area which comes to £40,000.*

(adapted from The Money Trail, NEF, 2002)



## So how does it work?

*Add the money from all three rounds together (£220,000), divide by the initial income (£100,000) and presto, you get the answer 2.20. This is the local multiplier score for three rounds – or LM3.*

*Very importantly – our LM3 tool is an indicator. We use indicators all the time, such as television ratings or stock market estimates (like Dow Jones). These are indicators because they are not exact measurements but do give us a general sense of how something is doing. Likewise, when you calculate your LM3, your result will offer general insight into how one aspect of your local economy is working, rather than a fixed, unchangeable fact. And, just like television ratings, local multiplier results are open to interpretation.*

(adapted from The Money Trail, NEF, 2002)

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**For every \$1 spent  
at a local business ...**



**For every \$1 spent  
at a corporate chain ...**



# Leader

What's and Where

ECKINGTON'S more local paper Friday Aug

All the news from the Eckington area every week

NEWS

## Where does your money go? Council ask the question

COUNCILLORS in Killamarsh are trying to find out where you spend your money.

Working in partnership with an internationally respected not-for-profit group - the New Economics Foundation - Killamarsh Parish Council will be carrying out a survey to find out how much of the money withdrawn from cash machines in Killamarsh is spent locally.

Experts say the amount of the money taken from an ATM that stays within the local economy can make a huge difference to the vitality of any village or town.

"This is an important exercise that will help both Killamarsh and NEF," said parish council chair, Jane Holden.

"We hope that a large slice of the cash will be spent locally, helping local businesses and jobs. In a way, this could be seen as finding out whether the parish bus does help traders in their campaign to keep Killamarsh a lively and bustling place to shop."

The New Economics Foundation is working with Killamarsh to analyse the spending patterns there to help them to plot their future research and work with communities. The project in Killamarsh is focused on the relationship between the cashpoints and the local econ-

by Don Collins

omy. This new and exciting way of looking at the functions of cash, and the role it has in community survival, makes the Killamarsh pilot an important project to be involved in.

Cllr Jane Holden also asked members of the Killamarsh community to try to help if they could.

"If you are approached by a researcher in Bridge Street or on the Precinct (bearing parish council identification) please do your best to help. We are hoping that the research will give us data that will help us to make further improvements to community life."

Justin Sacks, an economist with New Economics Foundation who recently visited the town, said: "I was very impressed by Killamarsh and the people I met there in the

main shopping street. I'm sure that we will all learn useful lessons from this exercise. We're very much looking forward to working with Killamarsh."

### Jewels on show

There is no need to travel to the Jewel House in the Tower of London because the Crown Jewels are right here at Crystal Peaks - albeit replicas!

For this week only, the popular shopping centre is playing host to a visually stunning display of Her Majesty's 'Crowns and Regalia' in a full scale exhibition.

The exhibition brings a little bit of history to life, with lots of features on the life and times of the present Queen.

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## Measuring local money flows at \_\_\_\_\_

### Personal Spending Survey

Thank you for taking the time to complete this form!  
Please note your results will be kept in strictest confidence.

Employer/Company \_\_\_\_\_

Where do you live? \_\_\_\_\_  
(If local circle) Local Non-Local - Please state where

#### How do you spend your income?

You may use monthly or annual figures, but please be consistent for all items below.  
If you do not wish to disclose £ figures, please use this survey to assist you in completing survey B.  
For each row (e.g., 'Food'), the 'Total £' should be the total of '£ Local' and '£ Non-local'.

Item	Total £ (Local + Non)	£ Local	£ Non-local	Please name the main local business/es you use for each category.
Example - using £ figures	£100	£50	£50	John's Shop
Income tax				
Food (incl. restaurants/cafes etc)				
Entertainment (e.g. restaurants, video rental, betting, sport, pub)				
Clothes				
DIY/Garden/Household appliances and items				
Transportation (e.g. taxis, car hire, bus/ferry, petrol)				
Services (e.g. hairdressing, window cleaners)				
Rent/Mortgage				
Council tax				
Home costs (fuel and water, phone, TV tax, etc.)				
Loan Repayments				
Savings				
Other (please specify)				

Total Spending = £ \_\_\_\_\_

If you rent, please circle one of the following:

Private Landlord (Local) Private Landlord (Non-local) Housing Association Council Tenant

If you have any questions regarding this survey please do not hesitate to contact \_\_\_\_\_ at \_\_\_\_\_