

Economic Impact Analysis for Arkansas Communities

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Arkansas communities face many economic challenges. Local budgets are being squeezed. Technological advances and a global economy have altered the kinds of industry that are profitable and provide employment opportunities.

To adapt successfully to the changing world around them, communities must plan carefully and use their resources wisely. Communities need to predict the impacts of the economic development activities they undertake. Estimating the benefits and costs of alternative development strategies increases the likelihood of economic growth and helps avoid costly and ineffective projects.

This fact sheet introduces tools to predict the economic impact of development activities on both the private and public sectors.

Private Sector Impacts

Increasing the number of jobs and income of local residents is a priority for many communities; however, there are many different strategies to create additional jobs and increase income. Some communities recruit outside industries, others expand existing industries or add value to locally produced products. Other communities may try to capture more local dollars, encourage formation of new businesses or encourage increased productivity of local firms. Different strategies have differing economic impacts on the local economy and the distribution of the impacts will vary.

Economic impact analysis can help community leaders predict changes in local output, employment and income resulting from a change in economic activity. If the activity is a new business, the primary (direct) effect is increased output, employment and income. The ripple (indirect) effects of that economic activity on income, employment and output can also be estimated.

In addition to knowing the sum of economic effects, it is also crucial to know who will benefit. Will the activity help those people in need or merely benefit those already well-off? Impact analysis can also be used to identify the beneficiaries of changes in economic activity.

Public Sector Impacts

A major function of local government is the organization and delivery of an agreed-upon level and mix of services to the people of a community. These publicly provided services such as schools, water, roads and parks are strongly related to the quality of life within a community. The quality and scope of local services is critical to the operation of many businesses, affects households and may attract businesses and visitors to a community.

The services provided by the local government depend heavily upon money generated by local taxes and user fees. Economic growth or decline and population gains or losses can

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significantly affect the demand for services and the amount of local government revenues available to provide a satisfactory level and mix of services. Economic impact analysis can help a community evaluate how economic change and different economic strategies will affect public revenues and expenditures.

Estimating Monetary Impacts

There are many ways to compute the economic impacts of a change in economic activity. One method is to use a pencil and paper to compute direct and indirect benefits from the available information on local business and industry. Then use this information to estimate additional local revenue and expenses. Two other methods are described below.

Input-Output Models

Input-output models are tools that can be used to estimate changes in production, income and employment resulting from a change in economic activity. They estimate how a change in economic activity in one part of the economy will affect economic activity in another part. These models generate information needed to estimate changes in population and local government expenditures and revenues.

Fiscal Impact Models

Identifying the benefits and costs of new and expanding economic activities, as well as who pays for each activity, provides policy makers with better information on which to make decisions. Fiscal models provide a format for estimating additional local government revenues and expenditures associated with a change in economic activity. They can be used

by local planners to quantify the benefits and costs of an economic activity. They may also be used to identify the beneficiaries and those who must pay for the activity. Fiscal impact models can help local government officials plan for their future by estimating the additional revenue and expenses that will result from a new or expanding economic activity.

Estimating Quality of Life Impacts

Economic impact analysis can provide information on monetary outcomes of economic activity but should not be used as the sole criterion for deciding to undertake a new economic development activity. The value of a planned economic development activity depends not only on the expected monetary benefits but also who will receive those benefits and how the activity will affect the quality of life in the community.

The input-output and fiscal impact models used together can provide estimates of the monetary costs and benefits associated with a particular economic development activity. They do not incorporate nonmarket costs and benefits into the analysis even though the nonmarket effects of an economic activity may be just as important as jobs and income in deciding the feasibility of an activity.

Many nonmonetary factors need to be considered in the evaluation of an economic activity. For example, what will the new economic activity do to air and water quality? Will the new activity deteriorate the social fabric of the community?

Community leaders may use economic impact models to evaluate the effects of alternative economic development activities. These models are not a substitute for planning, but provide information that can be used in the planning process.

Tracy Armbruster, former Extension associate, is co-author of this publication.

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