

# Texas Agricultural Extension Service

## Understanding Your Local Economy: Focus on Agriculture

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No single strategy for economic development can work equally well for all Texas communities because of their diversity. Individual local economic situations determine the specific composition of successful economic development strategies. Because of this, community leaders find evaluating the structure and functioning of their local economy extremely useful.

Here, one component of the local economy — agriculture — is evaluated by addressing issues often raised by local economic leaders. Key questions raised include:

- What is agriculture's role in our local economy?
- How can we determine agriculture's local economic impact?
- In what ways can agriculture affect our local economy's development?

### Agriculture's Role and Impact

A basic illustration of agriculture's role in the local economy is provided in Figure 1. Production and sales of agricultural commodities bring dollars into the local economy which are then available for producers' business and personal expenditures. However, this type of local economic activity generally is not limited to agriculture. There usually are other sources such as manufacturing, oil/gas, retirement, etc., bringing dollars into the local economy. From this perspective, *economic activity* generated by agriculture, relative to other sources, is a key element of agriculture's local economic role and impact. Where agricultural economic activity is relatively substantial, so is agriculture's importance in the local economy.

Agriculture's role can also be affected by the extent to which dollars circulate between the agricultural and nonagricultural sectors of the local economy (see Figure 2). This supports

additional jobs and income. For example, agricultural expenditures on production inputs can support jobs and income in local businesses. But if, for whatever reason (relative cost, availability, etc.), agricultural dollars leave the local economy (see Figure 3), these benefits

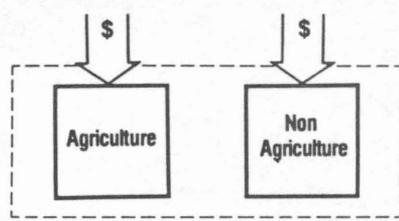


Figure 1: Dollars entering the Local Economy

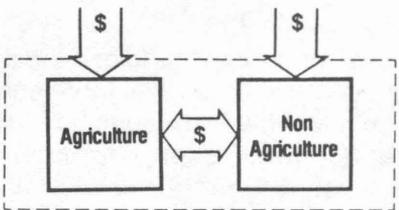


Figure 2: Dollars circulating within the Local Economy

occur elsewhere. In general, the greater the proportion of agricultural dollars entering the local economy and staying there, the greater agriculture's economic impact.

Conversely, as indicated by the double-headed arrow in figures 2 and 3, the nonagricultural sector can exert a significant economic influence on the agricultural sector. This effect occurs in a general sense through the goods and services provided to agriculture. The cost at which they are available, locally and elsewhere, has an impact on the agricultural economy — and where expenditures are made. More directly, employment in the nonagricultural sector can increase dollars available to producers and their families. Nationwide more than 60 percent of farm family income comes from

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this source. Therefore, agriculture's local economic role is also defined by the bilateral *economic linkage* between agriculture and the rest of the local economy.

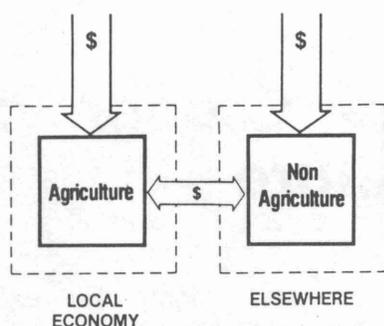


Figure 3: Dollars circulating outside the Local Economy

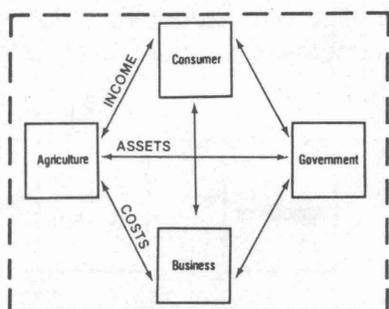


Figure 4: Complexity of the Local Economy

Obviously the functioning of a local economy, and agriculture's role in it, is more complex than this. Figure 4 shows how specific aspects of the local agricultural economy have different linkages with three other local economic sectors: consumer, business and government. The dollar value of net income generated, assets employed and inputs used by the agricultural sector, all shape its relationship to the rest of the local economy. In short, *the economic type and condition* of agriculture in a local economy

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contributes to determining its role. For example, an agricultural sector characterized by relatively low income levels, high asset values and substantial production costs can have an

economic impact different from agricultural sectors having different combinations of these characteristics.

## Local Economic Trends

It must be kept in mind that agriculture's role and impact in the local economy is affected by the nature of agriculture's economic linkage to each individual sector, *and* their subsequent linkages to each other. In closely interconnected local economies, the economic situation in one sector, through both direct and indirect linkages, is reflected in all others, and the local economy as a whole. Thus, the local agricultural economic situation affects other factors which, in turn, affect agriculture.

Where agriculture represents a significant source of economic activity, these relationships can place the local economy in a downward or upward spiral depending on agricultural economic trends. Such tendencies can, of course, be influenced by trends in other, locally important sources of economic activity. For example, the oil/gas industry can affect an agriculturally initiated economic spiral.

As this demonstrates, the structure and functioning of the local economy, and agriculture's role in it, can become quite complex and vary substantially from place to place. Change in certain aspects of individual economic sectors can soon be reflected in other sectors and the local economy as a whole — and these responses vary in different local economies. Careful evaluations of specific local economic situations are required to design and implement strategies for adapting to, or initiating, economic change and development.

## Summary

Three key factors — activity, linkages, type and condition — have been identified which influence agriculture's local economic role and impact. Evaluation of these factors on a local basis will increase community leaders' understanding of their unique economic situation. Strategies for community economic development can then be designed which incorporate potential agricultural contributions. Texas Agricultural Extension Service educational programs and publications address these topics. For further information contact your local county Extension agent.

*Educational programs conducted by the Texas Agricultural Extension Service serve people of all ages regardless of socioeconomic level, race, color, sex, religion, handicap or national origin.*

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