Introduction: The basic idea is to understand the theories that explain how economic development takes place in a community. We discuss the economic base theory which is more widely accepted.


Sum of All Theories: Economic Development in a region is dependent on: natural resources, labor, capital investment, entrepreneurship, transport and communication, industrial composition, technology, export market, international economic situation, local government capacity, national and state government spending, and development supports. While all these factors are important, which factor carries more weight is difficult to ascertain.

Economic Base Theory (EBT): EBT postulates that local economy is strongest when it develops those economic sectors that are not closely tied to the local economy. By developing industries that rely primarily on export markets, the local economy can better withstand economic downturns because, it is hoped, these external markets will remain strong even if the local economy experiences problems. In contrast, a local economy wholly dependent upon local factors will have great trouble responding to economic downturns.

Basic and Non-basic sectors: The economy is a combination of basic and non-basic industries. Basic sector is made up of local businesses (firms) that are entirely dependent upon external factors. Local resource-oriented firms (like logging or mining) and agriculture, manufacturing, and tourism are usually considered to be basic sector firms because their fortunes depend largely upon non-local factors and they usually export their goods. Non-basic firms are those that depend largely upon local business conditions. Local grocery store sells its goods to local households, businesses, and individuals. Almost all local services are identified as non-basic because they depend almost entirely on local factors. Services, public schools, local government, retail are some other examples.

Base Employment Multiplier: The method for estimating the impact of the basic sector upon the local economy is the base multiplier, which is the ratio of the total employment in year $t$ to the basic sector employment in that year.

Example: In 2009, the total employment in Clay County is 6800. Let’s say the basic sector employment is 3400. Thus Clay Center has a Base Multiplier of 2. This multiplier estimates that for every one basic sector job created, 1 non-basic sector jobs are created. The value of the multiplier varies from place to place and is impacted by other factors as well.

Prepared by Dr. Biswa Das and Dr. John Leatherman. Office of Local Government, Kansas State University. Contact: bdas@ksu.edu, Tel: 785-532-1514