



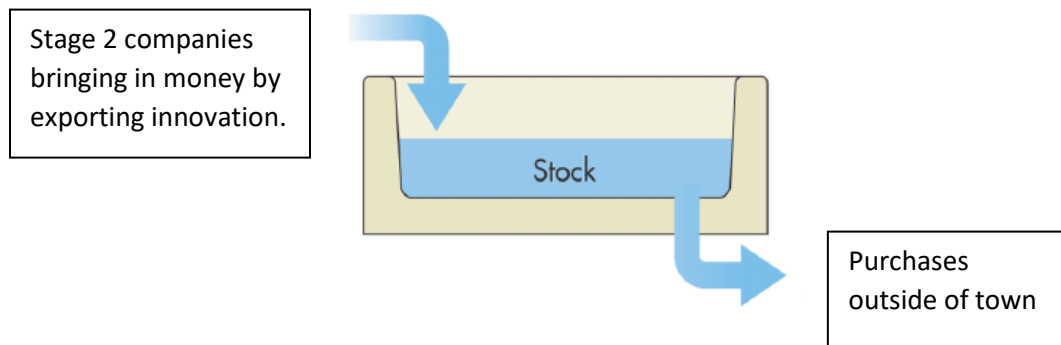
BATHTUB ANALOGY

A simple way to think about community economic health is a bathtub analogy. If the bathtub is the community and the water in the tub represents money, then we can think of money flowing from store to store in the community. The office supply owner dines at the restaurant. The restaurant owner uses the local attorney. The attorney buys office supplies from the office supply store, who dines in the restaurant again. The money circulates around various parts of the tub.

In this simple version, a community should be able to go on forever, supplying each other's needs. The problem is that no community in the world makes everything it needs. New York City does not make its own cars or its own carpets or raise its own wheat. Every village, town, and city buy some things made in other areas. So, when you buy a car from Detroit or go to Disney World in Orlando, you take some of the money out of the community.

In essence, this amounts to a drain in the tub – a drain in the local economy. The water level drops a little bit every time it happens. The office supply owner may eat one less meal a week at the restaurant. The restaurant owner may not confer with the attorney this year. The attorney may not reorder business cards this year. Everyone is just a little bit poorer because someone sent money out of town for cars or carpet or clothing.

On the other end of the tub is the faucet that refills the tub. When you make something and sell it outside of town, it brings some money back in. It refills the tub with water (or the community with money). If the faucet runs at the same rate as the drain, the town has a stable economy. If the faucet runs faster than the drain, the community has more money and starts to grow.



If the community starts growing, it can support additional kinds of stores. A gift shop opens up and the attorney buys an anniversary gift with the extra money she has been making. Before that, she ordered her gifts from Chicago and sent money out of town. Now she keeps it in town where it continues to circulate from store to store.

The people who sell outside of town are considered the economic base. The economic health of the community is determined by this select group of companies. In many rural communities, the economic base is a natural resource (farms, fishing, timber, mining, ranching, oil). That's why the town was founded – to *ship out* the wheat, coal, lumber and cattle, and to *ship in* the cars, carpets and clothing. The problem is that this kind of economic base is being commoditized.

A commodity means the two items are the same and so the lowest price wins. To compete with the lowest price, you need to lower expenses. So, you replace people with machines on a farm or in a mine. A manufacturer may outsource the labor to China. All of this results in fewer jobs which means fewer customers for the local restaurant, attorney, and office supply store. It's a death spiral.

Communities that grow and prosper have stage 2 companies that sell innovation to the outside world. Profit margins are high, wages are good, jobs are secure and money flows in from the faucet. Water in the tub increases and the restaurant does more business, as does the office supply store and the attorney.

This story has a simple moral with a simple solution: Towns caught in commodity traps die. The solution is to *export innovation*.