

## Is local food good for the economy? Looking at the full picture



One of the motivations of the local food movement is to develop buoyant regional economies that provide jobs for the local people and enable local farmers to stay in business. So, is buying local is good for the economy?

This is the question raised by two academic papers published in 2017 by scholars from the University of Idaho. The papers present a methodology to calculate the economic contribution of local food systems to a given economy and urge to go further than existing, short-sighted analysis. Moreover, they point to the fact that local food advocates should focus on identifying and quantifying externalities associated with local food systems rather than trying to assess their overall economic impacts.

### Not just about calculating purchases from shorts chains

Any initial thought on assessing the economic impact of local food system? *"Let me estimate the amount that households spend on short-chains or farmers' markets, and calculate the amount of jobs this creates"*, you would say.

Well, this is a little more complicated than that... **You cannot just calculate how much households buy, because this only captures a small part of the story.** Indeed, much of the added value lies in exchanges between producers and manufacturers, so we need to explore this as well.

The methodology developed by the scholars looks at all the activities an economy is made up of. Not only what households, but also what farmers, manufacturers, etc., do. It takes stock on who these actors are buying from (and where the sellers are located), and what and who they are selling to (and where). Such data is captured in what is called an "input-output matrix". It accounts for everything that gets in and out of a region, and all that is exchanged between actors within that region. With such data, it is easier to get a full picture of the local food system.

It then asks the question: **"what if local food activities did not exist?"** and calculates the size of that gap. How? By taking out of a regional input-output matrix anything that represents the local food economy, from households purchasing food from local producers to local producers selling to local manufacturers, to local producers selling to households and manufacturers outside of the region.

By comparing the current situation to the hypothetical one where local food systems does not exist, you are calculating their current contribution to the economy.



## Setting a baseline and realistic targets for your policy

This methodology is very useful for local food policy as it provides a robust baseline against which process can be monitored.

Any region that has input-output data can carry out such analysis. This data is used to calculate GDP, so it is fairly common and of good quality in developed countries. It will certainly make more sense to do it at the regional level than at the city level, because cities are rarely big enough to be, by themselves, a labour market.

Policy-makers should bear in mind, however, that **coming up with a number that is not fragile requires hard work**. But it is worth it if they want their policy objectives to be realistic. With such methodology, local food advocates can be realistic about what they can actually achieve and not make promises they cannot hold

In the US, the Department of Agriculture and researchers from Colorado State University have developed a [toolkit to understand the economic potential of local and regional food systems](#). The toolkit gives a good indicator of the magnitude of the effects to be expected.

## Understanding who wins, who loses, and potential transition pathways

By forcing policy makers and local food advocates to ask themselves the "what if" question, the methodology set out in these papers provides very useful insights for food transitions.

Indeed, too often, analysis attempting to calculate the economic impacts of local food do not take into account the counterfactual situation: **if people (households, manufacturers...) start spending more money on local food, this means that they will be spending less elsewhere**. The associated decrease in that activity also has economic impacts. For instance, it could be that local farmers will stop selling to other regions and that these regions will need to start to grow food in inadequate climates, hence increasing the overall cost of producing food. Or it could be that it decreases the number of jobs offered to local people in "conventional" supermarkets (i.e. the ones that sell food coming from global food chains).

The "what if" question is about capturing the impacts that the development of local food systems would have on the economy in general, but also on the local economy itself. It is about understanding who would gain and who would lose from a transition to local food systems, and, when relevant, imagining possible transition pathways.

## Local food advocates may not find in economics the arguments they are looking for...

Classical economic theory postulates that trade is good because it enables regions to share products and to concentrate on what they are best at (what economists call their "comparative advantage"). So economics sees trade as an efficient way of allocating resources. Less trade would lead to a decrease in overall efficiency and therefore, welfare.

This is why **local food advocacy does not fit well with classical economic theory**. Indeed, this is interpreted, in economics, as an import substitution strategy. In other words, rather than importing food from another region or another country, you choose to substitute that food for locally grown or manufactured products. The relevance and impact of import substitution strategy is heavily debated in economics. Indeed, as economics favours efficiency in the allocation of resources, it is more difficult for it to include considerations about other values. As far as local food is concerned, for Philip Watson, who authored both papers, it boils down to a debate over values, namely efficiency vs self-sufficiency.

According to the author, **local food advocates should rather focus on identifying and quantifying externalities associated with local food**. Externalities are impacts of the economic activity that are not reflected in the price. They can be positive, for instance, when buying a product leads to social benefits (jobs...), or they can be negative, for instance when it leads to more pollution. By definition, externalities are not taken into account by trade (unless a policy implements taxes or subsidies to incorporate them into the prices). So, somehow, trade is blind to them.

Typical externalities to look for in local food systems are:

- helping local producers stay in business,
- safeguarding or creating local jobs,

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- creating benefits from maintaining a local community, including those regarding land conservation, vibrant rural areas...,
- reducing the negative impacts of transport,
- getting better quality food,
- getting safer products.

**Local food advocates should therefore not so much try to demonstrate an overall positive economic impact, but positive externalities.** Externalities are key to the overall positive or negative impact of local food systems. For example, if it happened that local food does not create local jobs or reduce transport externalities, or produce safer products, then it would increase the total cost of producing food, and therefore decrease the overall welfare of the population. This is not easy, because many externalities are context or operation-specific. It clearly is an agenda for research as no one, for the moment, has the last word on that. Analysis of the transportation impacts of short food chains is a good example of a less-than-obvious issue [[see our article on this topic](#)].

**Therefore, only by carefully comparing the externalities of local and global food systems, and systematically asking the "what if" question, can we figure out what the right balance between local and global food systems is.**

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**Source**

[Watson, P., Cooke, S., Kay, D., Alward, G., Morales, A. \(2017\), "A Method for Evaluating the Economic Contribution of a Local Food System", \*Journal of Agricultural and Resource Economics\*, Vol 42\(2\), p. 180-194](#)

[Winfree, J., Watson, P \(2017\), "The Welfare Economics of "Buy Local"", \*American Journal of Agricultural Economics\*, Vol 99 \(4\), p.971-987](#)

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