



# ECONOMIC ANALYSIS OF LOCAL AND REGIONAL FOOD SYSTEMS: TAKING STOCK AND LOOKING AHEAD

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The recent expansion of local and regional food markets has raised questions about the extent to which these growing markets promote economic growth. Although numerous ad hoc case studies and analyses of the economic impact of local and regional food commerce have been conducted in recent years, drawing general conclusions across these studies remains challenging. There is also not a robust system in place to review and critique the design, methods, and conclusions of these studies.

The Michigan State University Center for Regional Food Systems and the Union of Concerned Scientists' Food & Environment Program convened a meeting of economists and local food researchers on January 31 and February 1, 2013, to assess how economic analyses of local and regional food systems are currently being done and discuss how they should be conducted in the future. This document summarizes key points and insights from this meeting.

## ECONOMIC ANALYSIS – MAKING PROGRESS IN THREE KEY AREAS

Discussion centered around three interrelated concepts associated with the economic analysis of local food systems: study design, methodology and interpretation.

The study design specifies the question(s) the study will answer. For example, identifying and providing rationale for the geographic scope of the region and the markets are basic parameters that must be established at the outset of a study.

The researcher(s) also must develop and share a transparent methodology for conducting the study, in addition to acknowledging any limitations. Collecting accurate data can be challenging. For example, estimating the value of a farmer's direct-to-consumer

sales (such as at a farmers market) can be difficult since the transactions are not typically recorded electronically. Also, farmers who sell in local markets may operate their farms in a systematically different way than do other farmers, and data on farmers selling into these local markets is not always available. The researcher also must accurately calculate economic "multipliers," which are ratios of the total economic impacts in a region from the industry being studied relative to the direct level of sales of that industry.

Interpreting the economic impacts of local food production and marketing is influenced by the "opportunity cost" (i.e., what would have otherwise happened without local food sales). If consumers buy more food locally, what might they no longer purchase? What changes might occur to market prices? Do local markets provide market opportunities to farmers who may not otherwise be profitable in farming? These types of assumptions should be explicitly stated and justified at the outset of the study, since they are often critical for interpreting the findings of the study.

## WHAT TO ASK WHEN COMMISSIONING A NEW ECONOMIC ANALYSIS

Many key decision makers and local food advocates – including planners, community leaders, government officials, and nonprofit organization, foundation and economic development organization members – could benefit from having access to greater analytic and documentary evidence to aid in their local or regional food system planning efforts. So where does one begin when deciding whether or not to commission an economic analysis of local and regional food systems? Though studies may exist in other regions, it can be hard to assess whether or not their results can be applied or transferred to another region. At the



same time, it may be expensive to commission a more comprehensive study to collect primary data and derive more specific results.

Below are some important questions to answer as part of the due diligence process for commissioning an economic impact study for local or regional food systems:

- What are the goals of the study? Is it being conducted to inform policy development, generate interest in investment in local foods, or build an education, research or outreach program?
- Who is the audience? Is an outreach and communications plan going to be implemented to convey the study findings?
- What geographic boundary conditions and markets will be evaluated in the study?
- What methods will the study investigators use (i.e. simplified calculations, using an economic model such as IMPLAN or performing an advanced statistical analysis)? Are the study investigators well-versed with the strengths and weaknesses of the various approaches? Are they able to identify and articulate the most appropriate and effective methodology for the study being considered?
- Are the study investigators willing to share the assumptions and methodologies used to conduct the analysis in a public report?
- Are there pre-existing data or studies representative of your community? If so, how could they be used?
- To what extent do the results depend upon coordination or support from other regions?

- Do you have an advisory team of partners who can help guide the study in cooperation with the researcher? For example, is there an economist at a nearby university or other organization familiar with the methodologies used in such studies who can offer advice or counsel?

### THE ROLE FOR POLICY IN INCREASING UNDERSTANDING OF LOCAL FOOD MARKETS

Federal and state farm policy can determine funding levels for local food system research projects. Important research questions that funding from federal, state or private sources can help answer include: studying consumer behavior at local food markets, improving data collection of prices for foods sold at local markets, and understanding the production budgets of farms that sell locally. Stable, adequate funding sources for establishing local food data collection initiatives and prioritizing local food research in existing agricultural research programs is needed to help understand these issues in greater depth and inform investment in local or regional food infrastructure. ➤

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*Meeting attendees were: Michael Hamm\*, Rich Pirog\*, Ricardo Salvador\*, Jeffrey O'Hara\*, Kate Clancy (meeting facilitator), Jess Daniel, Kate Fitzgerald\*, Wendy Wasserman\*, Mary Ahearn\*, James Barham\*, Rebecca Dunning\*, Shermain Hardesty\*, David Hughes\*, Thomas Johnson, Larry Lev\*, Richard McCarthy, Steven Miller, Michael Shuman, David Swenson\* and Dawn Thilmany\*. The asterisk indicates that the attendee provided comments used in the summary document.*