

# “Opportunity Cost Approach, Local Foods, and Other “Stray” Thoughts”

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# Presentation Outline

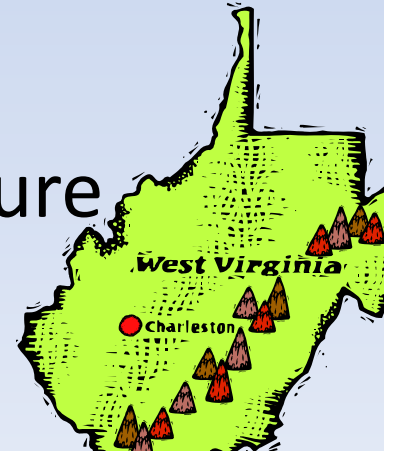
- Opportunity Cost Approach in I-O model with an Emphasis on Local Foods
- Some Additional Thoughts on Local Foods
- Need for Feasibility Studies
- Need for Distributional Analysis

# Opportunity Cost Approach with an Emphasis on Local Foods

- Extreme amount of interest
- Advocates tend to overestimate economic impact primarily by assuming that local agricultural products sold locally have no opportunity cost
- Inspired by work of Tom Johnson, others, arrived at concept of opportunity cost of spending on local foods (opportunity cost of land, water)
- Goes back to consumer sovereignty
- Assumed \$ to farmers' markets would have been spent at grocery store

# Opportunity Cost Application: West Virginia Farmers' Markets

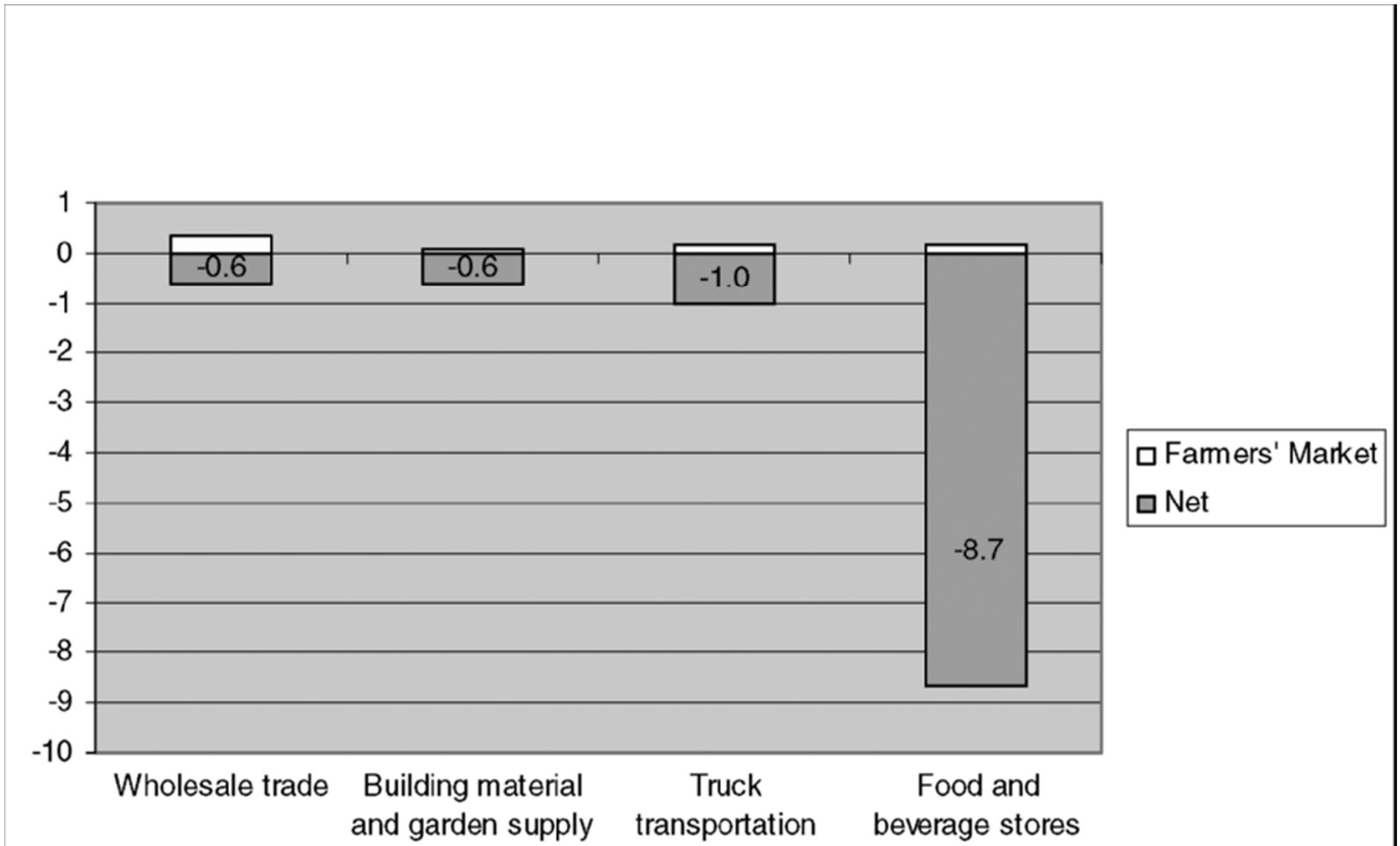
- Assume spending would have occurred at in-state grocery store
- Margin impact to grocery store via IMPLAN regional purchase coefficient (RPC)
- wholesale, transportation margin sectors, and appropriate local agricultural sector purchases via RPCs
- Relatively little impact on local agriculture



## Gross and Net Impacts of West Virginia Farmers' Markets.

Measure of Economic Activity	Farmers' Market	Opportunity Cost	Net Difference	
			Level	% Decline
Industry output (millions \$)	2.391	1.316	1.075	55.0
Gross state product (millions \$)	1.480	0.827	0.653	55.9
Labor income (millions \$)	0.656	0.463	0.193	70.6
Employment (full-time equivalent)	69.200	26.400	42.800	38.2

# Job Impacts in Selected Sectors That Lost Sales



# An Interesting Point

- How can we tell that local foods are becoming significant share of local food market? Reaction of grocery stores, other sectors that might feel the competitive pinch:  
2010, fake farmers' market at Seattle grocery stores



# More Recent Work

- Study of buy SC agricultural products campaign (Hughes, Isengildina-Massa, Carpio), used household survey results to allocate opportunity cost farmers' market spending (60% would have been on groceries or restaurants).
- Constructed a SAM (see Hughes-Shields)
- Used ARMS data to build small, medium, and large farm I-O vectors (two sets, livestock and crops)
- Results similar to WV study



# Additional Thoughts on Regional Models and Local Foods

- Need to test for differences in purchasing patterns between small farms and other size categories
  - Pattern of input use (e.g., spending on fertilizer per \$ dollar output)
  - Where purchases are made (do small farmer local sellers also tend to buy more locally?)
  - Results would indicate necessity for small farm, other farm size vectors in regional models
- SAM-type models would be useful in looking at impacts on income distribution

# Moving Local Food Systems Research Forward

- Fully investigate purported benefits
  - Social capital
  - Health benefits
  - Carbon footprint, other environmental issues

# Given Net Benefits: Need for Feasibility Work

- Food safety issues including the need for insurance tools
- Cracking other markets:
  - Organize local farmers to exploit opportunities for exploiting institutional markets (food to schools, other institutional buyers, local groceries stores)
  - Research on barriers to organizing locally
  - Conducting feasibility analysis for locally-based processing



# Finally Thought on Local Foods

- Inspired by George Goldman for tourism: “what if everybody stayed home?”
- What if everybody went “local in a big way”?
  - Who would be winners and losers in terms of regions, sectors, and households

# Regional Modeling Efforts in General

- Distribution of household income increasingly skewed
- Measuring Impact of policies and programs on various household income groups tantamount
- SAM-CGEs:
  - Leatherman, Marcouiller, Hughes-Shields
  - Rumor of EMSI developing SAM could greatly facilitate effort
  - BEA and/or ERS develop national SAM could be used in regional step down approaches

Question, Comments?  
Thank You for Your Attention!

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