



Cornhusker Economics

The Economics of the 'Buy Local' Trend

With ever-changing consumer preferences, the food sector has witnessed various trends in recent years, with 'Organic', 'Fair trade' and 'Natural' being some prominent examples of popular products and concepts. Another trend that has gained significant popularity over the past decade is 'Buy Local', where consumers prefer locally grown products over the non-locally grown ones. Although the U.S. Congress, in its Food, Conservation, and Energy Act of 2008 defined 'local' as food produced in the same state or within 400 miles from the point of consumption, there are still different understandings of 'local' among consumers and product suppliers. While, for example, sellers consider anything grown within 100 miles of the selling point to be local, 'grown in state' or 'grown nearby' are the most common understandings of 'local' among consumers. The main reasons behind the consumer preference for local products have been identified to be a perceived freshness and better quality of these products, environmental concerns, and consumers' desire to support the local economy.

Despite the intended impact of the 'Buy Local' trend on local producers, the literature on the 'Buy Local' trend has focused mainly on the demand side of the market. With the main focus of existing studies being on the factors affecting consumer attitudes towards local food products, the market and welfare impacts of the trend – i.e., how the trend might impact the different consumers and producers affected by it – have received little to no attention in the relevant literature. The objective of a study conducted in the Department of Agricultural Economics at UNL and published recently is to

systematically analyze the system-wide market and welfare impacts of the 'Buy Local' trend by explicitly accounting for both the demand and supply effects of this trend on the consumers and producers of the products affected by the trend. Specifically, the study analyzes the impacts of the trend on (a) the prices and quantities/market shares of the relevant, local and non-local products, (b) the welfare of consumers of local and non-local products, (c) the welfare of local agricultural producers, and (d) the consumers and producers outside the locality who can be affected by changes in the consumption and/or production pattern(s) in the locality.

In addition, the study considers the (neglected in the literature) possibility of (negative and positive) externalities associated with local production and their implications for the market and welfare effects of the trend. Negative externalities can arise when local operations face challenges with waste, manure and/or odor management that would have been absent if the food product (like pork, poultry, beef, etc.) were produced (and imported from) outside the confines of the locality, while possible positive externalities associated with increased local food production include open/green space increases, development of more resilient local food systems, and reductions in food waste and food deserts.

To systematically analyze the market and welfare impacts of the 'Buy Local' trend, the study develops an integrated multi-market framework that explicitly accounts for the

empirically relevant differences in consumer preferences for local and non-local products and producer agronomic characteristics. In addition to being empirically relevant, the explicit consideration of consumer and producer heterogeneity enables the analysis to disaggregate the welfare effects of the 'Buy Local' trend and capture its impacts on the different consumers and producers involved. Indeed, the strength of the individual consumer preference for quality is shown to be a key factor determining consumer behavior and the perceived welfare impacts of the 'Buy Local' trend on local consumers of the goods in question.

Analytical results also show that, in addition to the consumer and producer differentiating attributes (i.e., consumer preferences and producer efficiency in production), the two crucial factors that determine the market and welfare impacts of the 'Buy Local' trend are the size of the locality where the 'Buy Local' trend is taking place and whether the locality is an importer or an exporter of the product(s) in question. Not only do the size and type of the locality affect the magnitude of the market and welfare impacts of the trend, but they also affect the qualitative nature of these impacts; whether a group is affected by the trend and, if so, whether this group ends up being a winner or a loser of the 'Buy Local' trend.

Specifically, while, for instance, the trend benefits both consumers and producers of large exporting and importing localities, it leaves producers of a small exporting locality unaffected. Similarly, while consumers and producers outside a small (importing or exporting) locality are not affected by the 'Buy Local' trend in this locality, outside consumers and producers can be very much affected by the trend when the changes in the demand conditions in the locality (due to the preference for local products) affect the regional food product prices. Not only are outside consumers and producers affected by the 'Buy Local' trend in a large locality, the nature of this impact (i.e., whether it is positive or negative) depends on whether the locality is an importer or an exporter of the goods in question.

As noted earlier, the analysis also considers the possible externalities that might arise from changes in production patterns and/or the level of production in the locality due

to the 'Buy Local' trend. Any negative externalities that might arise from increased local production can be expected to reduce the consumer valuation of local products and cause the demand for local products and welfare of local consumers (and the producers in large exporting and importing localities) to fall. When the costs of externalities are significant, the preference for local products could become aversion to these products and the results of our analysis would be reversed. While the presence of negative externalities can affect both the quantitative and qualitative results of our study, the presence of positive externalities would only strengthen the market and welfare effects of the 'Buy Local' trend identified in the study. In particular, the emergence of positive externalities could further increase the consumer valuation of local products and, with it, the market share of these products and the welfare impacts of the 'Buy Local' trend.

In identifying the system-wide market and welfare effects of the 'Buy Local' trend under the different cases considered in the analysis, the study can assist policymakers in determining the optimal policy response to the trend and the affected products. It can also inform and justify the positions of the different interest groups involved in the 'Buy Local' trend and the policies and strategies affecting the trend and the relevant products under the different market settings considered in the analysis.

Finally, the results of our study underline the significance of the explicit consideration of consumer and producer heterogeneity and the size and type of the locality when analyzing the market and welfare impacts of the 'Buy Local' trend. In addition to providing important new insights on the market and welfare impacts of the 'Buy Local' trend, our analysis can also provide a valuable theoretical grounding for empirical studies aimed at quantifying the economic impacts of the trend in different food product markets as well as the impact of current and emerging policies affecting the markets for local foods.

Reference:

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