

# Economic Forces and Trends Impacting Local Foods

Meghan O'Brien  
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Iowa State University Extension  
Department of Economics

# **Economic Impediments to Local Foods:**

1. 200 years of economic theory
2. Trade consolidation and market share
3. That pesky consumer
4. Current economic conditions

In the wildness of speculation it has been suggested (of course more in jest than in earnest), that Europe ought to grow its corn in America, and devote itself solely to manufactures and commerce, as the best sort of division of the labour of the globe---

Thomas Malthus, An Essay on the Principle of Population Book III, Chapter XII  
1798

A gardener who cultivates his own garden with his own hands, united in his own person the three different characters, of landlord, farmer, and labourer. His produce, therefore, should pay him the rent of the first, the profit of the second, and the wages of the third. *The Wealth of Nations*, Book I, Chapter VI

# Comparative Advantage:

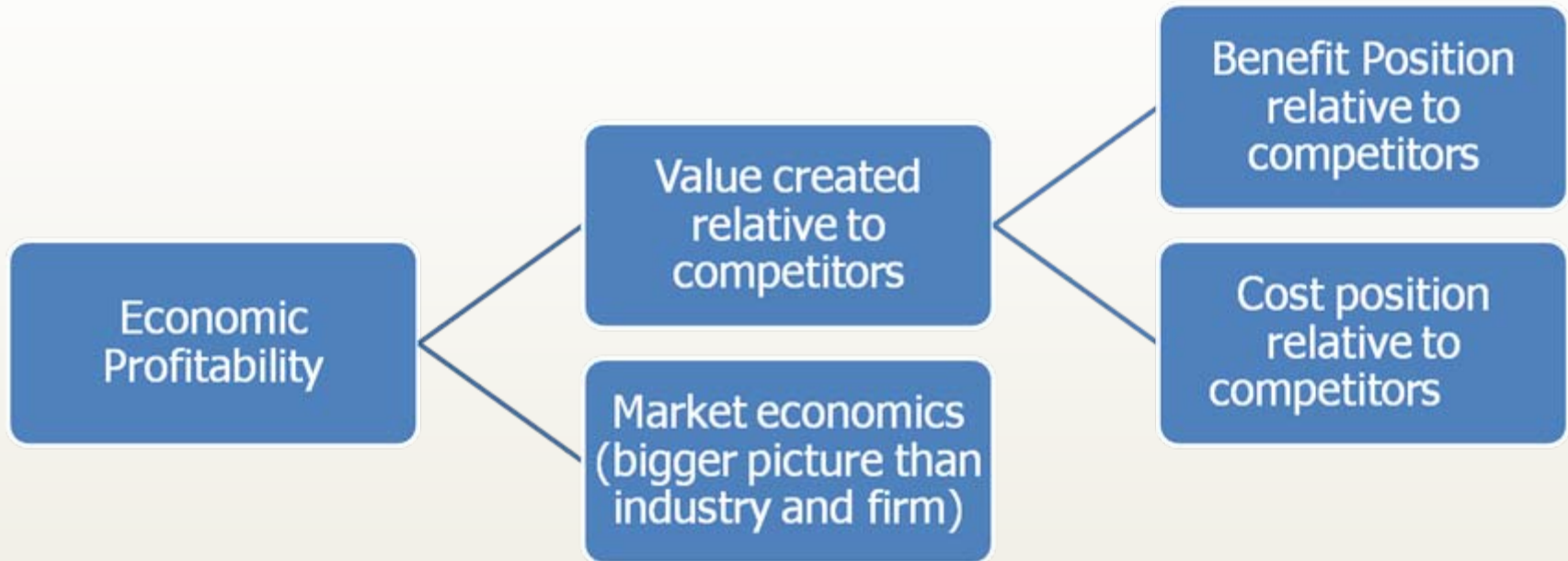
Ability to produce a good at a lower marginal cost than another.

Leads to gains from trade and specialization.

Ruthlessly efficient.

David Ricardo, 1817

## Firm Level: Framework for Competitive Advantage



In tandem comparative and competitive advantage lead to an efficient, consolidate food industry:

80% of consumer expenditures on food are in conventional U.S. food marketing system according to the USDA.

# Current Food Marketing system:

-12.3% of GDP

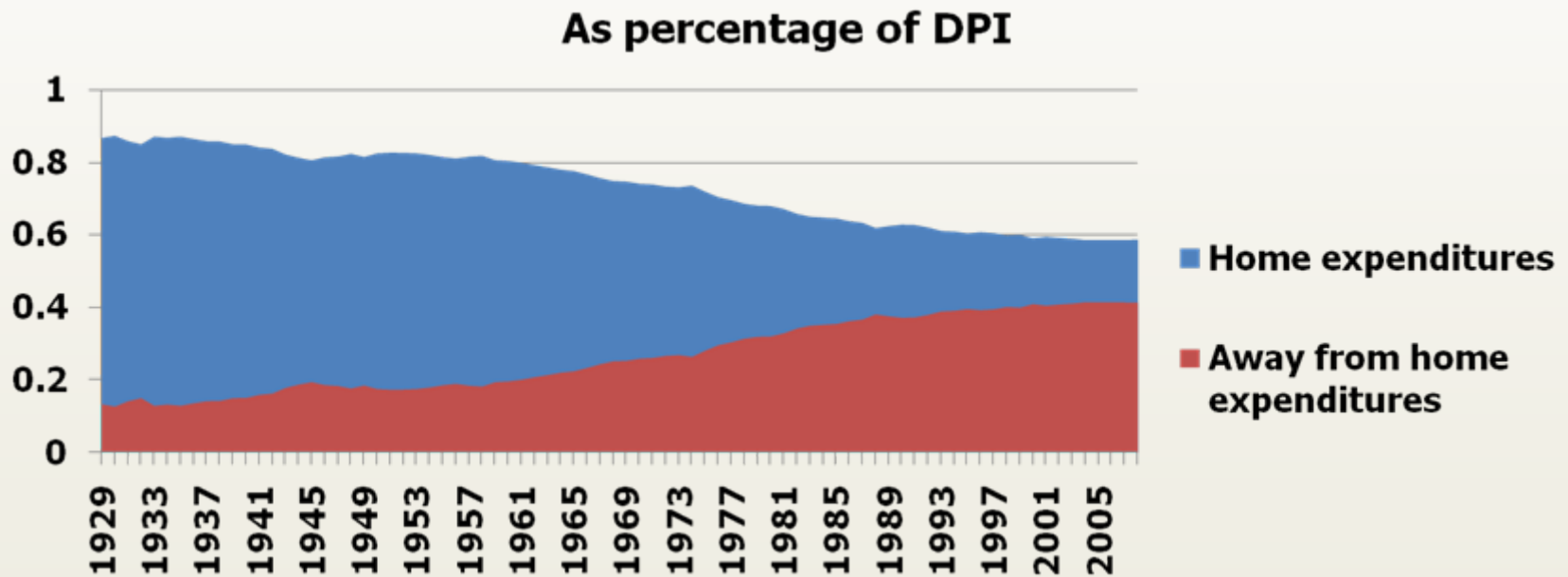
-16.7% of total U.S. employment

-9% of the value of all U.S.  
exports

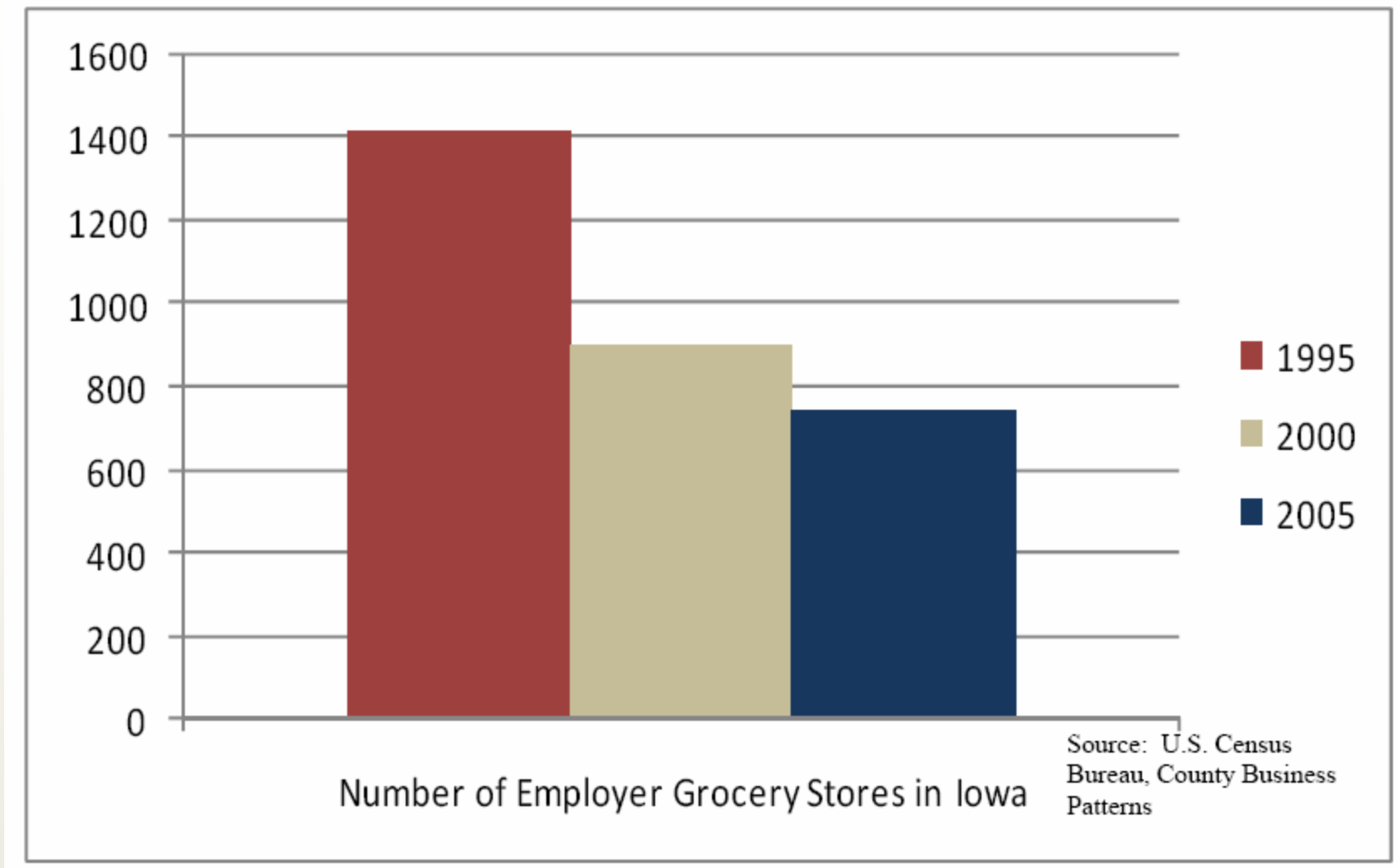
USDA, 2006

# Economic trends in Food

## Good Substitution:



# Impacts on the Grocery Industry



# Impacts from the Grocery Industry

- Rural areas struggling  
Demographics and incomes
- Population consolidation to trade centers
- Convenience and location issues

# **The Consumer:**

**-85% of grocery choices based on perception of value.**

**-Doesn't care about economic impacts.**

**-Must be stopped, I mean educated!**

# Economic Concepts

## Price Elasticity:

Describes the degree to which consumer's adjust the quantity demanded of a good when the price changes. Businesses need to understand the demand for their good or service to make proper decisions

**Inelastic Goods (over some horizon):** Gasoline, water  
Tend to be goods with no close substitutes

**Elastic Goods:** Dining out, luxury automobiles, sugar  
Goods with many substitutes

# Economic Concepts

## **Good Substitution:**

**Consumers trade between goods depending on income, other factors, and the general economy.**

**Current retail environment  
Growth of Super Wal-Marts**

# Economic Concepts

## **Relative Prices:**

**Ratio of two prices of similar goods**

**Consumers typically choose on relative prices not absolute prices**

**Increase in store brand demand**

**Non-Substantive Product Features and Choice:**  
When consumers are faced with a choice between multiple products with little differentiation *research* suggests they may

a. Defer choice (This may be true with a HD TV but if its pork will the consumer just buy chicken?)

b. Differentiate based on packaging, attractiveness, and peripheral inputs

c. Choose randomly

## **Differentiating a product on Soft Dimensions:**

**1. Through the emotions consumers experience with or attach to consumption of the product.**

**2. Experiential Aspects of consumption: perception that product is superior in absence of physical differences.**

**3. Emphasize symbolic aspects of products use, group membership, sensory pleasure.**



## **Signaling Effects:**

**When quality of unobservable and differences between products difficult to discern, quality perceptions may be made by inference.**

**1. Advertising Commitment: Idea that large advertising budget and effort leads to idea that quality must be higher.**

**2. Product Warranties/Guarantees:**

**3. Position: first in market or pioneer seen to better quality.**



**Are we entering a new  
Economic Order?**



## **FEUDALISM**

You have two cows. Your lord takes some of the milk.

## **SOCIALISM**

You have two cows. The government takes them and puts them in a barn with everyone else's cows. They are cared for by ex-chicken farmers. You have to take care of the chickens the government took from the chicken farmers. The government gives you as much milk and eggs the regulations say you need.



## **BUREAUCRACY**

You have two cows. At first the government regulates what you can feed them and when you can milk them. Then it pays you not to milk them. Then it takes both, shoots one, milks the other and pours the milk down the drain. Then it requires you to fill out forms accounting for the missing cows.

## ENRON VENTURE CAPITALISM

You have two cows. You sell three of them to your publicly listed company, using letters of credit opened by your brother-in-law at the bank, then execute a debt/equity swap with an associated general offer so that you get all four cows back, with a tax exemption for five cows. The milk rights of the six cows are transferred via an intermediary to a Cayman Island company secretly owned by the majority shareholder who sells the rights to all seven cows back to your listed company. The annual report says the company owns eight cows, with an option on one more. Sell one cow to buy a new president of the United States, leaving you with nine cows. No balance sheet provided with the release. The public buys your bull.

## **Current Economic Conditions:**

**-Poor economy does create opportunities**

**-Opportunity for education of consumers, changing mindset about spending**

**-Things are tough, but there is hope**

How tough are times really?

Pretty Tough...



**But things  
could  
always be  
worse**

“I found a flaw....Flaw in the model that I perceived as the critical functioning structure that defines how the world works, so to speak.”

Alan Greenspan

In testimony to House Oversight and Government Reform Committee Chairman Henry Waxman as to why he didn't control lending practices. October 2008.

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Presentation prepared by:  
Meghan O'Brien  
Retail Economist  
Extension Program Specialist  
Department of Economics  
Iowa State University

