Economic Impact of Localizing Detroit’s Food System

By Michael H. Shuman

OVERVIEW: What would be the economic impact of encouraging residents in and around Detroit to purchase more local food and beverages? In a word – major. Table 1 shows the details.

Just in the city of Detroit, shifting twenty percent of food spending would increase annual output by nearly half a billion dollars. More than 4,700 jobs would be created, paying $125 million more in earnings. The city would receive nearly $20 million more in business taxes each year.

| Table 1: Impact of a 20% Shift in Food Spending in Detroit and in 5 Surrounding Counties |
|---------------------------------|---------------------------------|-----------------|
| Increased Output | 5-Counties | Detroit City |
| $3,497,345,774 | $483,125,887 |
| Increased Earnings | $903,072,340 | $124,754,720 |
| Increased Business Taxes | $155,066,177 | $19,632,494 |
| Increased Jobs | 35,882 | 4,719 |

Were this spending shift to occur in the five counties surrounding Detroit – Macomb, Monroe, Oakland, Wayne, and Washtenaw – the increase in regional output would be roughly $3.5 billion. Nearly 36,000 jobs in the region would be created, paying $900 million more in earnings. Government entities in the region would receive $155 million more in business taxes each year.

The 2005 American Community Survey (factfinder.census.gov) puts these numbers in perspective, stating the unemployment rate in Detroit for working adults ages 16 and older is 20.5%. Put another way, of 606,790 people ages 16 and older living in Detroit, approximately 350,000 are in the labor force. Of these, nearly 72,000 are unemployed. Encouraging more local food and beverage purchases within Detroit’s food system could reduce employment by 6.5%. If a regional effort to localize food purchases focused on the city of Detroit, then its unemployment rate could be cut in half.

Detroit has 311,545 households. Localizing Detroit’s food system would increase average earnings per household by $400 per annum. A regional effort to localize food purchases focused on the city of Detroit would increase average household earnings by about $2,900.

METHODOLOGY: The calculations for the 5-county region and for the city of Detroit were produced as follows:

1. Income Distribution – Found in the 2005 American Community Survey (factfinder.census.gov). See Table 2.

2. Food Expenditures – Found in the Consumer Expenditure Survey. A “consumer unit” is roughly equivalent to a “household.” Expenditure categories were adjusted to fit income categories for households in step #1 and then multiplied by the level of households. See Table 3.

3. Multipliers – Twenty percent of each local expenditure was then modeled using 2005 data in the Minnesota IMPLAN Model. This economic modeling system, shows the overall impact of designated “events” on final output, earnings, taxes, and employment. Inherent limitations of the model meant that some events had to be simplified, as described in the next section.

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An increased expenditure on local hamburger could be modeled as increased spending at a local fast food restaurant, increased spending at a supermarket, increased hamburger processing, or increased cattle raising. To avoid double counting for each food expenditure, only one localizing purchase event was chosen -- if possible, high value-added production rather than low value-added retail.

The following events were modeled:

- More local production of dry goods, dairy, processed fruits and vegetables, sugars and sweets, fats, oils, and all kinds of beverages.
- More local processing of beef, pork, other meat, chicken, and fish.
- More local production of eggs.
- More local growing of fruits and vegetables.
- More local restaurant spending.

**CONSERVATISMS:** These calculations likely underestimate the potential impacts of localizing food expenditures, for the following reasons:

- If multiple events had been specified for each category of food expenditure, the impacts would be greater.
- The IMPLAN model shows a typical purchase at an entity within the region, but has no data about the ownership of businesses. A number of studies have shown that a dollar spent at a locally owned business within a region, like a restaurant, can generate two to four times the multiplier benefit of an entity that is not locally owned.
- Other expenditures related to food and farming systems were not included, including wood, wood products, furniture, biofuels, biochemicals, leather, leather products, shoes, fiber, and apparel.

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