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Buying Local: How It Boosts the Economy

By Judith D. Schwartz

"Buy Local"—you see the decal in the store window, the sign at the farmer's market, the bright, cheerful logos for Local First Arizona, Think Boise First, Our Milwaukee, and homegrown versions across the states. The apparent message is "let's-support-local-business", a kind of community boosterism. But buying close to home may be more than a feel-good, it's-worth-paying-more-for-local matter. A number of researchers and organizations are taking a closer look at how money flows, and what they're finding shows the profound economic impact of keeping money in town—and how the fate of many communities around the nation and the world increasingly depend on it.

At the most basic level, when you buy local more money stays in the community. The New Economics Foundation, an independent economic think tank based in London, compared what happens when people buy produce at a supermarket vs. a local farmer's market or community supported agriculture (CSA) program and found that twice the money stayed in the community when folks bought locally. "That means those purchases are twice as efficient in terms of keeping the local economy alive," says author and NEF researcher David Boyle. ([See the top 10 food trends of 2008.](#))

Indeed, says Boyle, many local economies are languishing not because too little cash comes in, but as a result of what happens to that money. "Money is like blood. It needs to keep moving around to keep the economy going," he says, noting that when money is spent elsewhere—at big supermarkets, non-locally owned utilities and other services such as on-line retailers—"it flows out, like a wound." By shopping at the corner store instead of the big box, consumers keep their communities from becoming what the NEF calls "ghost towns" (areas devoid of neighborhood shops and services) or "clone towns", where Main Street now looks like every other Main Street with the same fast-food and retail chains.

According to Susan Witt, Executive Director of the E.F. Schumacher Society, "buy local" campaigns serve another function: alerting a community about gaps in the local market. For instance, if consumers keep turning to on-line or big-box stores for a particular product—say, socks—this signals an opportunity for someone local to make and sell socks. This is the way product innovations get made, says Witt. "The local

producer adds creative elements that make either the product or materials used more appropriate to the place." For example, an area where sheep are raised might make lambs wool socks and other goods.

The point is not that communities should suddenly seek to be self-sufficient in all ways, but rather, says Boyle, "to shift the balance. Can you produce more locally? Of course you can if the raw materials are there, and the raw materials are often human beings."

And what about that higher cost of local goods? After all, big-box stores got to be big because their prices are low. Susan Witt says that the difference falls away once you consider the increase in local employment as well as the relationships that grow when people buy from people they know. (Plus, one could argue, lower transportation, and therefore environmental, costs, and you know what you're getting—which as we've recently seen with suspected contamination in toys and other products from China, can be a concern.)

There's also the matter of local/regional resilience. Says Witt: "While now we're largely a service-providing nation, we're still just a generation away from being a nation of producers. The question is: what economic framework will help us reclaim those skills and that potential." Say, for example, the exchange rates change or the price of oil rises (and it has started to creep up, if not at last summer's pace) so that foreign-made goods are no longer cheap to import. We could find ourselves doubly stuck because domestic manufacturing is no longer set up to make all these products. While no community functions in isolation, supporting local trade helps "recreate the diversity of small businesses that are flexible and can adjust" to changing needs and market conditions, says Witt. ([Read "How to Know When the Economy Is Turning Up."](#))

Another argument for buying local is that it enhances the "velocity" of money, or circulation speed, in the area. The idea is that if currency circulates more quickly, the money passes through more hands—and more people have had the benefit of the money and what it has purchased for them. "If you're buying local and not at a chain or branch store, chances are that store is not making a huge profit," says David Morris, Vice President of the Institute for Local Self-Reliance, a nonprofit economic research and development organization based in Minneapolis and Washington, D.C. "That means more goes into input costs—supplies and upkeep, printing, advertising, paying employees—which puts that money right back in the community."

One way to really make sure money stays in the community is through creating a local currency. Christian Gelleri, a former Waldorf high school teacher in the Lake Chiem area in Germany, has launched a regional currency, the Chiemgauer, equivalent in value to the Euro. According to Gelleri, the Chiemgauer, accepted at more than 600 businesses in the region and with about \$3,000,000 Euros worth in circulation, has three times the velocity of the Euro, circling through the economy an average of 18 times a year as opposed to 6. One reason for the fast turnaround is that the Chiemgauer is designed to encourage spending: there is a 2% demurrage fee for holding onto the bills beyond three months.

As an economic principle, velocity has been considered a constant. According to Gelleri, it was stable in the 1950s, '60s, and '70s but starting in the '80s velocity has decreased as more money has been diverted to the financial sector. This scenario may benefit financial centers, but money tends to drain away from other places. Gelleri says that both the Euro and the U.S. dollar have slowed way down. "In the last several months velocity has declined sharply because there's less GDP and more money," he says. "The money doesn't flow. More money is being printed, but it's not going into circulation."

As the nation limps through the recession, many towns and cities are hurting. "Buy-local" campaigns can help local economies withstand the downturn. Says Boyle: "For communities, this is a hopeful message in a recession because it's not about how much money you've got, but how much you can keep circulating without letting it leak out."

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