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HUNGER AND THE LOCAL ECONOMY: INTEGRATED STATE-LEVEL APPROACHES TO FOOD ACCESS

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I. INTRODUCTION

Food insecurity does not occur in a vacuum; it occurs, and persists, in relation to certain contextual factors in the communities where it is present. Naturally, where unemployment is high, where the local economy is weak, where fresh food is hard to access, and where social ties are unstable, food insecurity will be higher. Solutions will always be complex and will involve a number of levels and approaches according to the complexity of the systems involved. The provision of food is obviously the basic goal of food-access policy, but an integrated approach will seek to provide it in ways that also address some of the contextual factors that contribute to food insecurity in the first place.

Across the country, states have been increasingly innovative in finding ways to integrate the goals of eliminating hunger and strengthening local food systems. The late U.S. Supreme Court Chief Justice Louis Brandeis famously called states the “laboratories of democracy.” In reviewing the present challenges to food security and the results of experiments in integrated food policy taken by various states in the past several decades, this paper aims to identify policies that have been effective in supporting food access within a stronger local food system.

II. THE CHALLENGES TO LOCAL FOOD SYSTEMS

A. RURAL FOOD INSECURITY

In the U.S. today, poverty rates are highest in rural areas. In a 2017 U.S. Department of Agriculture (USDA) analysis, total poverty rates in rural America were 16.4%, compared to urban America’s 12.9%. In 2018, 22.4% of rural children were considered poor, compared to 17.4% of urban children.¹ Of the 41 counties in the country where the child poverty rate was more than 50%, 39 are rural. Persistent poverty is found mostly in rural areas, especially in the South, although the rates of poverty are growing in the Pacific, Southwest, Midwest, and Northeast rural areas. Nearly 80% of counties considered high poverty in the country are rural, and all counties with extreme poverty are in rural areas.²

1 Farrigan, Tracey. “Rural Poverty & Well-Being.” U.S. Department of Agriculture, Economic Research Service, Dec. 17, 2020, ers.usda.gov/topics/rural-economy-population/rural-poverty-well-being. Accessed March 2021.

2 Farrigan, Tracey. “Extreme Poverty Counties Found Solely in Rural Areas in 2018.” U.S. Department of Agriculture, Economic Research Service, May 4, 2020, ers.usda.gov/amber-waves/2020/may/extreme-poverty-counties-found-solely-in-rural-areas-in-2018. Accessed March 2021.

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Other factors that contribute to food insecurity also tend to be higher in rural America. The population of rural America skews older, with 19% of the population older than 65, as compared to 15% in metropolitan areas.³ Along with other indicators of poverty, unemployment has significantly fallen nationwide since the great recession, however it has remained consistently higher in rural America than in metropolitan areas.⁴ Rural America accounts for 14% of the country's population, but only 4% of employment growth. These higher rates of poverty and unemployment are factors in the higher rates of food insecurity in rural areas compared to urban, at 16.5% vs.13.5% in 2018, respectively.⁵

In Nebraska, food insecurity sits higher than the national average, at 12.3% vs. 11.1%, and that rate is even higher for rural counties. The highest rates of food insecurity are in the rural counties of Thurston, Sheridan, and Hooker, at 18.9%, 15.2%, and 17.4%, respectively. The problem is a universal one in Nebraska, however, given that lower rates in urban areas still indicate higher gross numbers of the food insecurity within the state.

A. THE ROLE OF LOCAL GROCERY

Among the chief challenges to food access in rural areas are population and job loss. As people move out of rural counties, and out of the smallest towns, resources concentrate in urban and suburban areas. While some formerly rural counties are growing, and therefore reclassified as urban, they exist mostly adjacent to larger metropolitan areas and constitute an element in the growing trend of

suburbanization. Since 2000, the remaining rural counties continue to lose population or see depressed growth.⁶

At the same time, the supermarket industry continues to consolidate. The top 20 grocery chains now account for more than 66.6% of all U.S. grocery sales, up from 42.2% during the major consolidation of the 1990s.⁷ Economies of scope, economies of agglomeration, economies of scale, and complicated regulatory schema mean larger grocery chains can sell more cheaply than their small, independent counterparts.⁸ To sustain high volumes and cheap prices, these stores depend on establishing themselves in large markets where the demand is adequate to their methods of inventory procurement. These stores, then, exist only in towns of adequate size, and therefore are able to price their local and regional competitors out of the market. The result is that small grocery stores in small towns, and even in larger towns, are closing at a rapid rate, and, increasingly, rural communities have to depend on stores such as Dollar General or gas station convenience stores, which typically lack healthy and fresh foods.⁹ Or, they are forced to make long drives—if they have a vehicle—to supermarket chain stores in larger cities.

3 “Rural America at a Glance, 2018 Edition.” U.S. Department of Agriculture, Economic Research Service, Economic Information Bulletin 200, November 2018, ers.usda.gov/webdocs/publications/90556/eib-200.pdf?v=7894.5. Accessed March 2021.

4 Ibid.

5 Coleman-Jensen, Alisha, et al. “Household Food Security in the United States in 2018.” U.S. Department of Agriculture, Economic Research Service, Economic Research Report Number 270, September 2019, ers.usda.gov/webdocs/publications/94849/err-270.pdf?v=5369.4. Accessed March 2021.

6 Parker, Kim, et al. “What Unites and Divides Urban, Suburban and Rural Communities.” Pew Research Center, May 22, 2018, pewresearch.org/social-trends/2018/05/22/what-unites-and-divides-urban-suburban-and-rural-communities. Accessed March 2021.

7 Zeballos, Eliana. “Retail Trends.” U.S. Department of Agriculture, Economic Research Service, Sept. 10, 2020, ers.usda.gov/topics/food-markets-prices/retailing-wholesaling/retail-trends.aspx. Accessed March 2021.

8 Ver Ploeg, Michele, et al. “Access to Affordable and Nutritious Food: Measuring and Understanding Food Deserts and Their Consequences, Report to Congress.” U.S. Department of Agriculture, Economic Research Service, June 2009, ers.usda.gov/webdocs/publications/42711/12716_ap036_1_.pdf?v=6368.8. Accessed March 2021.

9 Meyersohn, Nathaniel. “Dollar stores are everywhere. That’s a problem for poor Americans.” CNN Business, July 19, 2019, cnn.com/2019/07/19/business/dollar-general-opposition/index.html. Accessed March 2021.

The rural population has either been in decline or seen stunted growth since at least the 1970s. However, surveys from 2016 to 2018 show modest growth of 0.07% in the rural population, mostly in counties near larger metropolitan areas.¹⁰ Other counties near metropolitan areas have grown enough to lose their rural classification. Still, while some rural communities are seeing low levels of growth, more than a third continue to consistently lose population.¹¹ The overall depressed growth rate remains a concern; at 0.07%, it sits far lower than 0.82% in metropolitan areas.¹² All of this means the way of doing business which requires a large customer base per store will likely continue to result in the consolidation of food retail in a smaller number of larger communities and the loss of food retail in small towns. Jennifer Zwagermann, director of agricultural law at Drake University in Des Moines, Iowa, has presented the situation in a chicken-and-egg fashion, saying, “How do you get people to rural communities? Well, you have to offer them the services and benefits they need to live there... The flipside is how do you offer services of that kind? You have to have people to support them.”

The combined forces of population loss and economic consolidation not only result in difficulties with food access and negative impacts to local economies, they also hurt rural consumers disproportionately. As one report from the USDA Economic Research Service put it, “This lack of competition could result in shoppers facing higher prices, lower quality, and reduced selection of foods in the nearest food store. The majority of these census tracts are in portions of the Great Plains section of the Midwest, the Southwest, and the western region

of the U.S. These census tracts could lack the populations needed to support multiple large food stores.”¹³

In Nebraska, the number of local food retailers numbered more than 1,600 just 20 years ago. More than 1,100 of those stores have closed since.¹⁴ One typical story played out with Ravenna Super Foods in Ravenna, Nebraska. Paul and Kim McDowell, who had poured their efforts into the store for 23 years, closed in 2020 because it became impossible for them to compete with the new Dollar General. This means residents of Ravenna now have no local access to foods outside of the nonperishables sold at Dollar General. And unlike Super Foods, Dollar General sources its inventory from the same global supply chains as other stores in the company, meaning a greater degree of wealth is leaving the local economy. Also, the chain stores are often set up on the edge of towns, where they can catch passing traffic without bringing business toward other local enterprises.

The effects of the loss of a local grocery store have broad reverberations for the local economy. A local grocery store creates employment opportunities as well as opportunities for other contracted services (maintenance, plumbing, electric, etc). The replication rate of dollars spent at a local store is higher than at a chain, where money is exported from the community rather

10 Cromartie, John, and Dennis Vilorio. “Rural Population Trends.” U.S. Department of Agriculture, Economic Research Service, Feb. 15, 2019, ers.usda.gov/amber-waves/2019/february/rural-population-trends. Accessed March 2021.

11 Ibid.

12 Ibid.

13 Rhone, Alana, et al. “Understanding Low-Income and Low-Access Census Tracts Across the Nation: Subnational and Subpopulation Estimates of Access to Healthy Food.” U.S. Department of Agriculture, Economic Research Service, Economic Information Bulletin Number 209, May 2019, ers.usda.gov/webdocs/publications/93141/eib-209.pdf?v=8867.1. Accessed March 2021.

14 Pritchard, Erika. “Small town grocery stores are closing at an alarming rate, including Ravenna Super Foods. One common factor in the closures? Dollar General.” Kearney Hub, Feb. 18, 2019, kearneyhub.com/business/small-town-grocery-stores-are-closing-at-an-alarming-rate-including-ravenna-super-foods-one/article_636d1c44-338d-11e9-bd96-bf718273b007.html. Accessed March 2021.

than enriching it.¹⁵ These stores also provide a valuable, consistent, frequent source of foot traffic for a small town's commercial street, which is lost if a chain store with a large parking lot shows up on the edge of town or if the local store loses out to a supermarket in another town. In Nebraska, specifically, the local grocery store is a central hub of community life and, when it closes, traffic to other businesses in town also decreases.¹⁶ "It's the story of every small town," a small town grocer told the *New York Times*. "It's a domino effect, and it starts with the grocery store."¹⁷

The continuing decline in rural, independent grocery stores has a negative impact on local economies, local food systems, and food access for people in small towns. Those who have the time and the transportation will spend at a store many miles down the road, wasting money on gas and spending their income in a different community; those without transportation, like the impoverished, disabled, or elderly, face an increasing lack of access to nutritious food.^{18,19} People who live in rural food deserts, likewise, are more likely to have an inadequate supply of healthy foods in

their diets, and therefore to suffer more negative health outcomes.²⁰

David E. Procter, director of the Center for Engagement and Community Development at Kansas State University, notes the model of the big-box stores in nearby towns, or the chains on the edge of towns (like Dollar General) is extractive, moving local wealth toward corporations based elsewhere, whereas purchases at local stores keep money in the community. In addition to the economic benefit and the key role in food access, Procter said these "stores are also important vehicles for community development. They serve as gathering places, where folks see one another, talk about the latest issues affecting their towns, and dream together about what their communities could be. Just like our local schools, cafes, and post offices, rural grocery stores are important community assets, providing tangible evidence of local strength and stability."

In a study conducted through Kansas State University, Procter identified seven key challenges to keeping the rural independent grocery store alive, as ranked by store owners.

1. Competition from big-box retailers,
2. Operating costs,
3. Labor issues,
4. Governmental regulations,
5. Lack of community support,
6. Low sales volume, and
7. Meeting minimum buying requirements.

Clearly, a number of these concerns are inter-related. Low sales volume, operating costs, and minimum buying requirements are problems because of the distribution models and low prices at the big corporate stores. Policy solutions looking to approach food access questions must address these concerns, particularly by being attentive to regulations and finding the means to provide incentives to entrepreneurship and growth in small enterprises and alternative models of distribution, processing, marketing, and sales that make it possible for independent producers to compete in the modern marketplace.

 15 Crandall, Jim. "Cornhusker Economics: Rural Grocery Stores - More Than Just Groceries." University of Nebraska-Lincoln, Institute of Agriculture and Natural Resources, June 9, 2016, agecon.unl.edu/cornhusker-economics/2016/rural-grocery-stores-more-than-just-groceries.pdf. Accessed March 2021.

16 Ibid.

17 Healy, Jack. "Farm Country Feeds America. But Just Try Buying Groceries There." *The New York Times*, Nov. 5, 2019, nytimes.com/2019/11/05/us/rural-farm-market.html. Accessed March 2021.

18 Bailey, Jon M. "Rural Grocery Stores: Importance and Challenges." Center for Rural Affairs, October 2010, cfra.org/publications/rural-grocery-stores-importance-and-challenges. Accessed March 2021.

19 Bitto, Ella Annette, et al. "Grocery Store Access Patterns in Rural Food Deserts." *Journal for the Study of Food and Society*, Vol. 6, Issue 2, pp. 35-48, April 27, 2015, doi: 10.2752/15289790378676961. Accessed March 2021.

 20 Morton, Lois Wright, and Troy C. Blanchard. "Starved for Access: Life in Rural America's Food Deserts." *Rural Realities*, Vol. 1, Issue 4, January 2007, iatp.org/sites/default/files/258_2_98043.pdf. Accessed March 2021.

At the root of the particular problems of food access in rural areas are higher rates of unemployment, lower wages, and lack of access. When the local grocery leaves, the entire community grows weaker, exacerbating each of these roots of food insecurity. Policy must find ways to decrease the burden on small store owners and to support new organizational models that can adapt to present economic conditions.

C. HEALTHY LOCAL FOOD SYSTEMS

A strong local food economy is an important factor in the stability and persistence of a small town. The local food system includes, but is broader than, the presence of the local grocery; it describes food produced nearby, processed, distributed, and purchased locally. This local food system need not be seen as exclusive or at odds with broader food systems and supply chains, which are a necessary structure in contemporary economy. A strong local food system, however, can be precluded by wider networks that are not built to serve small or rural communities.

A 2010 summary report from the USDA on local food systems and economic development notes these shorter supply chains can keep more dollars circulating in the local economy through import substitution and processing substitution, that is, by paying businesses within the community for the foods and services normally imported from or processed elsewhere.²¹ A 2009 input-output study in Iowa found that increased sale of produce and meat in local markets would have a positive multiplier effect on local and regional economies.²²

 21 Martinez, Steve, et al. "Local Food Systems: Concepts, Impacts, and Issues." U.S. Department of Agriculture, Economic Research Service, Economic Research Report Number 97, May 2010, ers.usda.gov/webdocs/publications/46393/7054_err97_1_.pdf?v=763.2. Accessed March 2021.

22 Swenson, Dave. "Investigating the Potential Economic Impacts of Local Foods for Southeast Iowa." Leopold Center for Sustainable Agriculture, Iowa State University, Department of Economics, September 2009, leopold.iastate.edu/files/pubs-and-papers/2010-01-investigating-potential-economic-impacts-local-foods-southeast-iowa.pdf. Accessed March 2021.

For every dollar of local food production output, \$1.36 was produced in output elsewhere in the local economy. For every additional dollar spent in labor income, 44 cents in additional labor income is sustained in the rest of the local economy. There was also a positive multiplier effect for employment. The model used in this study predicted higher farm income and more jobs in the region it studied.

Some of the benefits are harder to quantify, but no less real:

Enhanced local foods production allows rural producers to reinsert themselves into the fabric, structure, and well-being of rural communities, and it creates the potential for reestablishing a cognitive understanding between food production and consumption among urban dwellers. In the end, mere economic gains may be the least of the reasons for promoting local foods production and consumption among community members.

One important venue for local food system exchanges is the farmers market. A study for the Review of Agricultural Economics showed a positive multiplier effect for dollars spent at farmers markets, where every dollar in sales translated to an additional 58 cents in indirect and induced sales, and every dollar of income multiplied to an additional 47 cents in income. The multiplier for jobs showed that for every two jobs created, an additional job was created somewhere else in the local economy.²³

The presence of farmers markets also tends to promote the development of new businesses, functioning as a low-risk incubator for sellers of food products and other merchandise alike. This can spur the development of business skills, entrepreneurship, and job creation. Just as with the local grocery, there may also be a positive spillover effect to other businesses in town; if customers are traveling to a small downtown to buy fresh produce and value-added goods at the market, they are more likely to stop and spend money at nearby businesses.

The relationship between food security and availability of fresh local foods is not well studied in one respect; namely, the degree to which the

 23 Ibid.

availability of local foods versus nonlocal foods has a significant impact on access to nutritious food. There is some evidence to suggest, however, that the wider availability of these more nutritious options, especially since farmers markets increasingly accept Electronic Benefit Transfer (EBT), will lead to improved access to healthy food. More research needs to be done. This is especially so if more farmers markets become aware that purchase of EBT card readers can be underwritten by the USDA.

In another respect, employment, poverty rates, and the health of a local economy, as shown above, do have an impact on food security. As a strong local food system both maintains a steady local supply of fresh and healthy foods and has a positive multiplier effect on income, sales, and employment in a local or regional economy; a vigorous local food economy is likely to have a positive impact on hunger in rural areas.

III. STATE POLICY LEVERS

Each of the policies listed below has been designed to have the integrated, multiplicative effect described above. In other words, they are designed to make food more immediately accessible and to address some of the economic causes that underlie food insecurity, including low wages, unemployment, and extractive production that retain fewer dollars in the local economy. To that end, these policies seek to increase food access by supporting local businesses, farmers, distributors, processors, or retailers whose success brings fresh local food to local markets and bolsters the strength of the entire local or regional economy.

A. EXPANDING DOUBLE UP FOOD BUCKS

Double Up Food Bucks is a public-private partnership program operating in 28 states, including Nebraska. It uses private and public funding to provide incentives for Supplemental Nutrition Assistance Program (SNAP) beneficiaries to buy fresh produce. The program matches vouchers up to \$20 for \$20 dollars of SNAP funds used to purchase fresh local produce. This program has been successful in changing the diets of SNAP users, increasing the amount of fresh food they eat, and, ultimately, leading to the better health outcomes that are predictive of better life outcomes. At the same time, Double Up Food

Bucks supports local retailers and local producers by channeling SNAP funds toward them and doubling their impact.

In Nebraska, more than 1,600 families already benefit from this program and, with only 12 locations, they have put \$116,000 into the local food economies.²⁴ In Michigan, where the program began, there are now more than 250 sites.²⁵ Since the beginning of the program, \$28.5 million has been pumped into local economies, and 18 million pounds of fresh, healthy food has made its way into the homes of Michigan residents in need.²⁶

B. REFORMING PROCUREMENT POLICIES

One policy option with growing popularity is a shift in procurement policies, where institutions in state or local government are required to source food products from local farms in whole or in part. From the food security perspective, reforming those policies has a double benefit. Local procurement supports the local economy, creating the opportunity for new jobs and increased output, which in turn creates economic conditions more conducive to food security. It also creates stable local supply chains that can be taken advantage of by schools and local groceries, creating an economically feasible pipeline for fresh foods to make their way more easily into local stores. At the same time, local procurement directly benefits those who use the relevant city, county, or state services by providing fresh, healthy local produce.

To address price concerns, some states have designed these policies with price caps that require the purchase of food from small, local farms, but only when their prices fall within the range of similar, conventionally available foods. At the same time, states could encourage

24 “Double Up Food Bucks: A win for families, farmers & communities.” University of Nebraska-Lincoln, Institute of Agriculture and Natural Resources, food.unl.edu/DoubleUp. Accessed March 2021.

25 “Double Up Food Bucks, 2019 Michigan Overview.” Fair Food Network, Summer 2020, fairfoodnetwork.org/wp-content/uploads/2020/06/FFN_DUFB_MI-Overview_2019.pdf. Accessed March 2021.

26 Ibid.

food hubs, centralized distribution, cooperative processing, or other structures to make the procurement of local foods more efficient and affordable.

Illinois' Local Food, Farms and Jobs Act was passed in 2009 with a target of 20% of state procurement sourced from in-state farms. The commission established by law also called for an effort to promote 10% of consumer purchases coming from within the state. Prior to the passage of this law, only 4% of total food purchases were products grown in Illinois.

In Iowa, Woodbury County passed a resolution in 2006 requiring county facilities that regularly serve food, including detention centers, to purchase local, organic ingredients.²⁷ Citing economic development and positive public health outcomes, Linn County passed a similar resolution calling for the procurement and promotion of local foods. This policy establishes preference rankings for food sourcing based on seasonality, locality, type of enterprise and production methods.²⁸

It is important to note, as the Growing Food Connections Policy Database does, that these procurement policies do not succeed in a vacuum: "Local governments must build supportive infrastructure, educate stakeholders, offer technical assistance, and connect local purchasers and producers."²⁹

27 "Local Food Purchase Policy, Resolution." Growing Food Connections, growingfoodconnections.org/gfc-policy/local-food-purchase-policy-resolution. Accessed March 2021.

28 "Local Food Purchasing." Board of Supervisors, County of Linn, Iowa, July 2014, s30428.pcdn.co/wp-content/uploads/sites/2/2019/09/Linn-County-Food-Purchasing-Policy.pdf. Accessed March 2021.

29 Dillemath, Ann, and Kimberley Hodgson. "Local, Healthy Food Procurement Policies." Growing Food Connections, Communities of Innovation, Planning & Policy Brief, 2015, growingfoodconnections.org/wp-content/uploads/sites/3/2015/11/FINAL_GFCFoodProcurementPoliciesBrief.pdf. Accessed March 2021.

C. SUPPORTING FARM TO SCHOOL

One of the most essential venues for the positive benefits of local food procurement in government institutions is the public school system. Since such "farm to school" programs already exist nationwide, the "policy recommendations" section below will deal with the benefits of that program and ways of supporting its success in the state.

The farm to school program has three core elements: food education, local food procurement, and gardening. Through this integrated approach, the program provides students with healthy food options, educates them on nutrition, agriculture, and the food system, and supports the strength of local agriculture and food systems.

A study of the program as it exists in Georgia showed significant multiplier effects for locally procured food in the school system, with \$82 of every \$100 spent staying in the region, as opposed to the previous figure of \$79 for every \$100.³⁰ The multiplier for economic output was 1.48 and 3.35 for employment.³¹

For students, this means more access to fresh fruits and vegetables, with a more than 33% increase in fruit and vegetable consumption among students when produce is sourced locally.³² This comes in addition to the educational impact, which equips children with the knowledge and familiarity to make healthy dietary choices.

D. COOPERATIVE DEVELOPMENT TAX INCENTIVES

Missouri has developed an innovative program, the New Generation Cooperative Incentive Tax Credit Program, to promote cooperative development in food processing with the aim of strength-

30 Christensen, Libby O., et al. "Economic Impacts of Farm to School: Case Studies and Assessment Tools." National Farm to School Network, September 2017, farmtoschool.org/Resources/EconomicImpactReport.pdf. Accessed March 2021.

31 Ibid.

32 Denton, Lauren. "How Farm-to-School Programs Impact Communities." FFA New Horizons, Feb. 14, 2020, ffa.org/ag-101/how-farm-to-school-programs-impact-communities. Accessed March 2021.

ening local food supply chains. According to the program website, this incentive is intended to “induce producer member investment into new generation processing entities that will process Missouri agricultural commodities and agricultural products into value-added goods, provide substantial benefits to Missouri’s agricultural producers, and create jobs for Missourians.”³³

The relevance here to food security has to do with a model of ownership that can keep grocery stores and other food businesses in small communities. Towns like Cody and Harrison in Nebraska and Winchester, Illinois, have switched to models of community ownership of their local stores. This is a boon to the local economy that ultimately affects employment and other factors contributing to food security. More directly, it may mean the difference between having fresh groceries in town or driving 25 miles to the nearest Walmart.

An eligible applicant will be “a person, partnership, corporation, trust, or limited liability company whose main purpose is agricultural production that invests cash funds to an eligible new generation cooperative or eligible new generation processing entity.”³⁴ And the incentive received: “A tax credit issued to a member may be the lesser of 50% of the member’s cash investment or \$15,000, except for any proration of the member’s tax credits.”

E. FARMERS MARKET SUPPORT

Another policy out of Missouri is designed to encourage the development of farmers markets. A 2014 law, Senate Bill 680 and 727, established a sales tax exemption for farm products sold at farmers markets for individuals or entities who sell food worth \$25,000 a year or less at the market. This law also sought to make EBT use easier, and it included dollar matching for purchases of fresh foods up to \$10 a day. A number of states have also invested in creating easier access to EBT, including technical education and funding

33 “New Generation Cooperative Incentive Tax Credit Program.” Missouri Department of Agriculture, agriculture.mo.gov/abd/financial/taxcredits.php#:~:text=The%20Missouri%20Agricultural%20and%20Small,into%20value%2Dadded%20goods%2C%20provide. Accessed March 2021.

34 Ibid.

for EBT card readers. Mississippi’s 2010 House Bill 1566 similarly exempted products grown or processed in the state from sales tax.³⁵

F. SUPPORTING THE ESTABLISHMENT OF FOOD HUBS

One emerging solution to the structural and economic issues outlined above is the food hub, which USDA defines as “a business or organization that actively manages the aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand.”³⁶

Food hubs function as effective intermediaries that fill the gap in distribution, purchasing, and marketing of foods identified in the sections above. For small producers to compete against larger corporate models, these producers band together to share resources in aggregation, processing, regulatory compliance, branding, packaging, and distribution. Food hubs give a number of private enterprises a means of taking advantage of economies of scale while maintaining their independent, regional identities and strengthening local stakeholders, producers, groceries, and customers. Since 2007, the number of food hubs has grown by 288% nationwide, with the support of state legislatures.³⁷

G. SMALL GROCERS AND ECONOMIC DEVELOPMENT

Several states in the past decade have added small grocery store promotion and assistance to the scope of their economic development authorities. Mississippi House Bill 1328, passed in 2014,

35 “House Bill No. 1566.” Mississippi Legislature, Regular Session 2010, billstatus.ls.state.ms.us/documents/2010/pdf/HB/1500-1599/HB1566SG.pdf. Accessed March 2021.

36 Matson, James, et al. “The Role of Food Hubs in Local Food Marketing.” U.S. Department of Agriculture, Rural Development, Service Report 73, January 2013, rd.usda.gov/files/sr73.pdf. Accessed March 2021.

37 Low, Sarah A., et al. “Trends in U.S. Local and Regional Food Systems, Report to Congress.” U.S. Department of Agriculture, Economic Research Service, Administrative Publication Number 068, January 2015, ers.usda.gov/webdocs/publications/42805/51173_ap068.pdf?v=5889.5. Accessed March 2021.

authorizes the state’s development authority to create a private-public partnership that provides loans and grants to small grocers that increase access to fresh and healthy foods in underserved areas. This law prohibits state funding for the retailer but creates a process for private administration of grants and loans. Also in 2014, Maryland passed House Bill 451, which made food deserts eligible for assistance from the state’s Neighborhood Business Development Program. This assistance may come in the form of a grant or loan; reduction in the principal obligation of or interest rate on a loan or portion of a loan; prepayment of interest on a subordinate or superior loan or portion of a loan; an assurance or a guarantee; or any other form of credit enhancement.

IV. POLICY RECOMMENDATIONS

A. TAX REFORM

According to the Nebraska Sales and Use Tax Guide for Prepared Food, grocers are subject to additional taxes for value-added products. This means a store that combines meat, cheese, and bread to sell as a sandwich will pay more tax than a store that sells these same items separately at the same weight. It also means any food sold with utensils, cups, or napkins is taxable as prepared food. **We recommend an exemption to this tax for independent small grocers, defined by USDA as grocery businesses with four locations or fewer.**³⁸ Value-added products, sandwiches, and other prepared foods are a main tool for the success of small independent grocery stores; they bring in more revenue, and, because they are an attraction, raise sales on other items in the store. Because small grocers work with extremely thin margins, prepared food taxes may disincentivize or prohibit the sale of value-added products. This kind of sales and use tax makes great sense when applied to a larger store, such as Walmart or Hy-Vee, and captures important tax revenue for the state from companies whose size and profit margins make such a

38 Cho, Clare, and Richard Volpe. “Independent Grocery Stores in the Changing Landscape of the U.S. Food Retail Industry.” U.S. Department of Agriculture, Economic Research Service, Economic Research Report Number 240, November 2017, ers.usda.gov/webdocs/publications/85783/err-240.pdf?v=0. Accessed March 2021.

tax nonobstructive for the continued success of the business. For very small groceries, an exemption would not make a significant impact on state revenue but would make a great impact on the viability of the independent business.

Thirteen states still tax ordinary groceries, and three of them—Alabama, Mississippi, and South Dakota—tax groceries at the full state sales tax rate.³⁹ This kind of tax is regressive, in that it puts a disproportionate burden on the poor, since food is a basic necessity and food sales taxes ultimately constitute a far higher share of their income than those taxes do for the wealthy. This added expense can make it difficult for poorer families to build savings and thereby to enter the middle class.⁴⁰ Finally, grocery taxes are an inefficient state revenue source, because, as a proportion of yearly spending, grocery spending has decreased dramatically in the past 50 years.^{41,42} Policymakers should seek to collect revenue in places where sales are growing, particularly in ecommerce. **Because these taxes adversely affect those who need food most and are a less-effective way for states to collect revenue, we urge states to drop, or at least decrease, their grocery sales tax.**

Finally, we recommend following the example of Mississippi’s House Bill 1566 (2010) in exempting from sales tax products made or processed in the state and sold at farmers markets. This will have the double effect of advancing local products, businesses, and farmers and of making quality, local products more easily available to customers.

39 Figueroa, Eric, and Juliette Legendre. “States That Still Impose Sales Taxes on Groceries Should Consider Reducing or Eliminating Them.” Center on Budget and Policy Priorities, April 1, 2020, cbpp.org/sites/default/files/atoms/files/3-16-06sfp3.pdf. Accessed March 2021.

40 Ibid.

41 “Consumer Expenditure Surveys.” U.S. Bureau of Labor Statistics, bls.gov/cex/tables.htm#annual. Accessed March 2021.

42 “Summary of samples from Comprehensive Housing Unit Survey used in selecting 1960-61 CES urban samples.” U.S. Bureau of Labor Statistics, bls.gov/cex/1961/Standard/ce_196061_tables.pdf. Accessed March 2021.

B. SUPPORTING FARM TO SCHOOL AND DOUBLE UP FOOD BUCKS ON THE STATE LEVEL

Given the significant multiplier effect of these policies as an economic stimulus for local food systems and economies, in addition to their effectiveness in getting healthy meals to the food insecure, the state should take an interest in giving the farm to school and Double Up Food Bucks programs a more permanent and solid footing. As it is, in a state like Nebraska, the coordinators for these programs are employees of other institutions, either private entities or university extension offices. These coordinators have to apply for funding on an ad hoc basis and solicit private contributions to both support their own activities and the programs they facilitate. In addition to uncertain funding, these coordinators have other employment responsibilities that can limit the time and resources dedicated to these programs.

The first step for state government, then, is to provide funding as part of the Nebraska Department of Agriculture's budget for staff members to lead these programs. This would lend stability and certainty to program operations. Both Double Up Food Bucks and farm to school are popular and growing programs, and many communities and businesses are interested in participating. **Funding full-time positions to administer these programs would be a first step to expanding their positive impact statewide.** This could help a state like Nebraska bring its 12 Double Up Food Bucks participating stores closer to the 250 sites in Michigan, thereby vastly increasing the positive economic and social impact, as well as increasing the proportion of schools that source from local growers.

C. TAX INCENTIVES FOR COOPERATIVE DEVELOPMENT

Following the example of Missouri, a tax credit should be implemented for the development of cooperative food ventures. Independent, rural businesses are often unable to compete with larger corporations because of the lack of efficiencies of scale which come with larger businesses. On a cooperative model, small grocers can maintain their independent identity while pooling common resources into distribution and purchasing. Likewise, cooperative ownership often provides small towns the ability to

create or sustain grocery ventures that would require too much start-up capital for a single entrepreneur. Additionally, cooperatives are well suited to small communities, which are interested in their independent grocery and other small businesses, not for profit so much as for the health of the communities and ensured access to certain goods and services. Towns like Cody and Harrison in Nebraska have used a community ownership model to retain the presence of grocery stores in their small communities to great success.

Outside of grocery, incentivizing new generation food processing outfits, as noted by the Missouri state government, can promote job growth and economic development. These companies that produce food products can also avail themselves of the efficiencies in distribution, packing, and marketing that can come from a cooperative model. This, for instance, is the means by which companies like Organic Valley can allow independent family businesses to compete against corporate entities in the modern market. The standard in use in Missouri, i.e., "a tax credit issued to a member may be the lesser of 50% of the member's cash investment or \$15,000, except for any proration of the member's tax credits," is a reasonable and effective starting point for encouraging such businesses' development on a small scale.

V. CONCLUSION

The consistently higher rate of food insecurity in rural areas versus urban ones is a reality located in a matrix of influences on rural populations. Food insecurity is downstream from unemployment, depressed growth in population and jobs, an aging population, and the consolidated nature of the food economy. To address food insecurity in a significant and lasting way requires attending to these more fundamental factors. Public assistance programs, such as SNAP, function as public-private partnerships and prime the pump of the local economy, so they already operate as an integrated means of addressing the immediate need for food and strengthening local economies. Effective policy on food access will consider the broader context of the local food economy in the same way.

The policies recommended here are by no means exhaustive and focus mostly on how legislation

and rulemaking can help integrate the immediate, personal needs of food-insecure citizens and the long-term health of a given community. Broader economic development initiatives will be needed outside the food sector, and other considerations beyond the scope of the present paper will no doubt be at play in the implementation of the policies it recommends.

Implementing these sorts of proposals will multiply the power of our existing food policy for local economies, and in so doing, address some of the broader causes that lie beneath challenges to food access in rural areas. Rural America provides abundant and cheap food to cities across the country and around the world; it is important those who live in the places that produce that food are not left behind.



ABOUT THE CENTER FOR RURAL AFFAIRS

Established in 1973, the Center for Rural Affairs is a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities. This institution is an equal opportunity provider and employer.

