

A NEW DEAL FOR LOCAL ECONOMIES¹

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Let me begin by sharing some good news. Scattered here and there, in my country and in yours, the seeds of a new, more local, and more durable economy are taking root.

The Power of Local

Locally grown food has soared in popularity. There are now 5,274 active farmers markets in the United States. Remarkably, almost one of every two of these markets was started within the last decade. Food co-ops and neighborhood greengrocers are likewise on the rise. Some 400 new independent bookstores have opened in the last four years. Neighborhood hardware stores are making a comeback in some cities. Most students graduating from pharmacy school report that they would rather open their own drugstore than work for a chain. Last April, even as Virgin Megastores prepared to shutter its last U.S. record emporium, more than a thousand independent music stores were mobbed for the second annual Record Store Day, a celebration of independent record stores that drew hundreds of thousands of people into local stores, became one of the top search terms on Google, and triggered a 16-point upswing in album sales.

Driving is down in U.S. over the last two years, while data from a dozen metropolitan regions show that houses located within walking distance of local businesses have held value better than those isolated in the suburbs, where the nearest gallon of milk is a five-mile drive to a superstore. In city after city, independent businesses are organizing and building an increasingly powerful counterweight to the big business lobby on issues as varied as tax policy and global warming. Local business alliances have now formed in over 130 cities and collectively count some 30,000 businesses as members. These alliances are calling on people to choose independent businesses and locally produced goods more often, making a compelling case that doing so is critical to rebuilding middle-class prosperity, averting environmental catastrophe, and ensuring that our daily lives are not smothered by corporate uniformity.

And there is growing evidence that these initiatives are succeeding. During the 2009's slow holiday season, a nationwide survey by the Institute for Local Self-Reliance found that independent businesses actually outperformed chain competitors. What accounted for this relative good fortune? Many of those surveyed said that more people are deliberately seeking out locally owned businesses.

But here's what is perhaps the strongest—and, undoubtedly, the most bizarre—evidence to date that people's priorities are changing: Many massive, globe-spanning corporations are now trying to figure out how they can be "local" too. Hellmann's, the mayonnaise brand owned by the processed-food giant Unilever, is test-driving a new "Eat Real, Eat Local" marketing campaign. Frito-Lay is using farmers to pitch its potato chips as local food. Barnes & Noble, the world's top seller of books, has launched a new campaign under the tagline, "All bookselling is local." Winn-Dixie, one of the largest supermarket chains in the U.S., has a new slogan: "Local flavor since 1956." The International Council of Shopping Centers, a global consortium of mall developers, is pouring millions of dollars into television ads urging people to "Shop Local"—at their nearest mall.

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Most astounding of all, Starbucks, a company that has spent untold millions developing one of the most recognizable brands on the planet, is now beginning to un-brand some of its outlets. The first of these reopened as "15th Avenue Coffee and Tea" in Seattle. Unless you read the fine print on the menu, you would quite easily assume it was an independent coffee house. Corporations desperately want to turn the local economy movement into nothing more than a cheap marketing trick they can appropriate for their own ends. These attempts at imitation are unnerving. But in the end I think this new variation on corporate green-washing—let's call it local-washing—will backfire. In the meantime, I'm heartened by what it says about the current consciousness. After all, these companies spend enormous sums on market research—they would not be doing this unless they had detected a sizeable shift in public attitudes.

Changing the Rules

While signs abound that people are rediscovering the benefits of an economy rooted in community and small-scale enterprise, all of this activity, though widespread, is still quite modest. It exists largely on the margins and is unlikely to coalesce into a wholesale reorganization of our economy unless we change the rules. About ten years ago, the Institute for Local Self-Reliance launched the New Rules Project to develop and advocate for policies that would democratize ownership, refashion the economy for long-term sustainability, and nurture strong, self-conscious, and self-governing communities. To get the economy we want, I believe that three areas of policy reform are especially critical.

(1) Breaking the Curse of Bigness

If we were to boil the financial crisis down to its root cause, we could sum it up with former Supreme Court Justice Louis Brandeis' phrase, the "curse of bigness." The crisis was caused by massive industry consolidation, which leads to destructive corporate behavior because the decision-makers at these vast institutions are so far removed from the impacts of their decisions. Perhaps the best way to understand the problems inherent in an economy that separates actions from consequences is to look at its opposite. Last fall, not long after Lehman Brothers collapsed, I was speaking on a panel alongside a community banker. His bank, he said, did not offer mortgages that people could not afford, or that would balloon in cost a few years out, for two simple reasons. One was that the bank did not sell mortgages to Wall Street, but kept loans on its own books. The bank's financial well-being, therefore, was directly tied to the well-being of its customers. The other reason was that he invariably knew or got to know the borrowers. "I don't relish the idea of foreclosing on a family I regularly see at the grocery store," he explained.

Arguably even more troubling than the financial crisis itself has been the government response. So far it has resulted in even greater concentration, as failing banks have been ushered into shotgun marriages with other banks, while massive injections of public money have enabled giants like Goldman Sachs to speculate their way into even bigger profits. In the U.S., just four banks now control half of all bank assets, issue half of all mortgages, and account for two of every three credit cards. The only reasonable path forward is that banks that are Too Big to Fail must be deemed Too Big to Exist and broken up into smaller components more responsive to their communities and customers. We must place strict caps on the market share that any one bank can amass, and we must reinstate rules adopted during the Great Depression—and foolishly discarded a decade ago—that prevented banks from engaging in both ordinary retail banking and speculative investment.

Because the deference to bigness that guided policymakers' response to the banking crisis has long infected our government, banking isn't the only industry cursed by bigness. A generation

ago, we dismantled anti-monopoly laws based on the belief that bigger is more efficient. Competition policy became concerned solely with short-term impacts on prices, abandoning any consideration of the corrosive long-term consequences of concentrated power. Regulators have been especially blind to the problems caused by firms that exercise their power to gut suppliers and destroy smaller competitors. Thus we have the unchecked growth of Tesco, which now occupies one-third of the British market, and Wal-Mart, which captures nearly one in four dollars Americans spend on groceries and is the largest seller of a staggering array of goods, from toys and clothing to books and home furnishings.

These power buyers now control so much of the market that suppliers have only two options. They can shun them and try to survive by selling to a shrinking number of other retailers. Or they can submit themselves to the chains, which will lead to more revenue but ever thinner profit margins—to the point that there's not a dime left for product development and innovation, much less for taking care of their employees. Of Wal-Mart's top ten suppliers in the mid 1990s, four have sought bankruptcy protection, while others have merged in desperate bids to stay afloat. All of this led to a profound loss of economic flexibility as the entire global system of production is refashioned to serve Wal-Mart and Tesco. The food, drugs, clothing, and other goods we rely on are now made in a relatively small number of places and transported over long and highly centralized supply lines. As Barry Lynn has written, we are "slowly freezing our economy into an ever more rigid crystal ... that every day is more liable to collapse from some sudden shock." Given the ecological challenges we face, we can ill afford an economy that is the biological equivalent of a monoculture. We need the inherent creativity and adaptability of a multitude of small-scale enterprises that can evolve quickly and better respond to the unique circumstances of their own regions. Competition policy must embrace diversity as its primary aim.

(2) Planning for Local Economies

Our city planning policies promote megastores and urban sprawl rather than healthy, local economies. We can reshape those policies to support neighborhood businesses that slow the pace of life and encourage people to get to know each other. I live in a 19th century neighborhood in a small New England city. My mother-in-law, who grew up in this same neighborhood, often talks about what it was like during her childhood in the 1940s. What I find most striking about her description is how many businesses our little section of town once had. There was a grocery store, hardware store, two drugstores, a tailor, and more.

All of those businesses disappeared in the following decades. Families acquired cars and shopping migrated out to supermarkets and, later, malls and big-box stores. When I moved to the neighborhood in 2003, there were no businesses left save one lone corner store. Meanwhile, scores of big-box stores and massive shopping centers had grown up on the edge of town. This transformation was not natural or inevitable. It was engineered by government policy. After World War II, federal and state officials poured money into highway construction, dismantled public transit, guaranteed mortgages in the suburbs but not in the city, and enacted planning rules that insisted on a rigid separation of residential and commercial uses. All of this created a landscape ideal for chains and big-box stores, but inhospitable to local businesses. In recent decades, municipal governments have gone even further, doling out hundreds of millions of dollars a year in subsidies and tax breaks that directly underwrite the construction of shopping centers and superstores.

Most Americans, as well as a growing number of Europeans, now find themselves living in a built environment that is ill-suited to a post-carbon world—in part because it fails to support a

local economy and in part because it demands an extraordinary amount of driving. Between 1987 and 2007, total miles driven in the U.S. rose 60 percent. And this problem is self-reinforcing, because the landscape that the car has created only entrenches us ever more firmly in our role as consumers and erodes the social capital that enables communities to innovate and respond to complex problems like global climate change.

To understand how planning policy affects civic life, all you need to do is spend some time watching people in a neighborhood business district or on a high street. What you see is lots of interaction. Business owners know their customers; people run into neighbors on the sidewalk or while waiting in line at the bakery. This is an environment that slows the pace of life and encourages people to loiter and converse. Then undertake the same observation in the parking lot of a big outside-of-town shopping center and watch how differently people behave in this setting. You see very little interaction. This is a landscape built for cars, not people. The stores are sized to serve regions, not neighborhoods, so there's much less chance that you'll bump into someone you know. And even if you do, the store itself is designed to facilitate speedy consumption and deter loitering. This is an environment that fosters separation and disengagement.

Indeed, studies show that, in places with many small, locally owned businesses, people are much more engaged in community life than those living in towns dominated by big businesses. Residents of communities with a vibrant local business district are more likely to know their neighbors and to join civic and social groups. They attend public meetings more often and even vote in greater numbers than their counterparts in towns overrun by superstores.

This brings me to a theory I have about the growth of farmers' markets. The conventional explanation is that people are rediscovering local food. That's certainly true. But I think people are as hungry for the community experience as they are for the fresh broccoli. Several years ago, a group of sociologists from the University of California-Davis followed people around as they shopped in a supermarket. They found that your chances of having a conversation with another shopper are about 1 in 10. They then tracked people at farmers' markets and found that your odds of having a conversation in this setting are nearly 70 percent. It's this social pleasure that I think is driving the very modest, but noteworthy, regeneration of local businesses in some communities.

In my neighborhood, things began to change last year. First a restaurant opened and then a teashop. And then, like a gift from heaven, a small food market opened. Stop by in the early evening and you'll find a row of bicycles parked out front and the store's narrow aisles packed with people pondering their dinner options and chatting with their neighbors. But this local store and the others like it are like little green shoots growing up in the cracks of a sidewalk. They are defying the odds in a planning system rigged against them. This little store is not only a hub of social activity. It's also an economic engine of surprising proportions. Studies show that spending a dollar at an independent business generates about three times as much benefit for your local economy as spending a dollar at a chain. The reason is that, unlike chains, which siphon money out of a community, local businesses spend much of their revenue buying goods and services from other local businesses. They bank at a local bank, hire a local accountant, get their printing done at the local print shop.

My local food market stocks an extraordinary amount of food produced nearby—not only vegetables, but also locally made cheeses, yogurt, sauces, jams, biscuits, and breads. Because it's run by a local owner, this store can source from dozens of small producers much more efficiently than Tesco or Wal-Mart, saddled as they are with global distribution systems and a top-down

command structure. Local ownership enables a face-to-face economy. It closes the distance between customer and owner, farmer and eater, manufacturer and user.

Lastly, this little store is quite significant from a climate standpoint. One study in Seattle found that families living in neighborhoods that integrate small businesses with homes drive 26 percent fewer miles on average than those living in areas that lack nearby stores. But this local store and the others like it that have managed to survive are like little green shoots growing up in the cracks of a sidewalk. They are defying the odds in a planning system rigged against them. If we want to grow a whole new crop of these kinds of businesses, we must rethink our planning policies. We need to stop favoring the automobile at the expense of other forms of transportation and stop green-lighting superstore development.

A growing number of cities in the U.S. are indeed prohibiting the construction of superstores, and some, like San Francisco, are restricting the proliferation of all types of chains. At the very least, we need to adopt a kind of precautionary principle that places the onus on big retailers to demonstrate that their stores will be a net benefit, both economically and environmentally. We have enacted a policy like this in my home state of Maine, where large stores no longer have the right to open, but may do so only after their economic impacts have been independently evaluated and the community has determined that the benefits outweigh the costs.

(3) Reconnecting Capital with Community

Our investments tend to fund consolidation and speculation. But new models are emerging that allow us to finance the economy we really want. The financial crisis has provided us all with a crash course on how much of our economy is based not on the creation of real value, but on speculation. Over the last year, we have learned that the speculative economy—the one that trades in exotic derivatives like credit default swaps and makes short-term, bubble-inducing bets on assets like real estate and tech stocks—is vast and highly rewarded. We have learned that the speculative economy undermines and consumes the productive economy. And we have learned that money made by speculation is often treated much more favorably by tax systems than money earned through real work.

We have also learned how entangled we all are in the speculative economy. If you think about it, there are very few opportunities for you and I to invest our savings in ways that would strengthen our local economies. Most of us, whether we like it or not, have our retirement and other savings invested in funds composed of stocks, derivatives, and other speculative vehicles. This de-linking of money from place and productive investment is not the inevitable result of economic evolution. Money is a human invention and the rules that control its dynamic are also a human invention. The rules in place today favor mobility over community, speculation over productive investment, volatility over permanence.

How can we reconnect capital with community needs? Global climate change has created an urgent need to retool much of our infrastructure, develop regional food systems, retrofit buildings, reestablish neighborhood enterprises, and so on. And yet our system for pooling and deploying capital is completely ill-suited to this task, oriented as it is to maximizing short-term gains rather than building long-term community capacity. There are very few opportunities for you and I to invest our savings in ways that would strengthen our local economies. How can we reconnect capital with community needs?

One way we might begin to reorient the financial system is to establish a modest tax on all financial transactions, including international currency trades. This would lessen the appeal of

high-frequency speculative trading. It would also generate a stream of revenue that could be used to establish a publicly owned wholesale bank or fund that would channel capital to Community Development Financial Institutions. These in turn would finance small businesses, cooperatives, and social enterprises.

We might also consider funding, as the New Economic Foundation has suggested, a Green Industrial Bank to provide long-term financing for green infrastructure and renewable energy development. At the local level, cities are already pioneering ways to finance the transition to renewable energy. The city of Berkeley, California, for example, is using its bonding authority to provide long-term, low-interest loans that enable homeowners to become electricity producers by installing solar cells on their rooftops. The debt, which stays with the house if the owner moves, is repaid over a 20-year period through a fee added to their biannual property tax bill.

Another useful model, which relies on a mix of public and private investment, is Pennsylvania's Fresh Food Financing Initiative. This \$120 million fund has provided low-interest, long-term loans to finance over 60 locally owned food markets in neighborhoods and small towns that lacked places to buy fresh food. All but one of these stores has succeeded, demonstrating that the reason "food deserts" exist in so many low-income communities is not that grocery stores are not viable in these areas, but rather that banks have been reluctant to finance these ventures. We ought to build on this model by establishing similar funds to capitalize a new generation of neighborhood stores, small-scale farms, and other enterprises that can expand the capacity of communities to meet more of their needs locally.

In the private sector, we should look to reform the banking industry by both breaking up big banks and adopting policies that favor independent banks and credit unions. These smaller institutions have generally been much more responsive to their local communities. And, while big banks have focused on the needs of big business, small banks operate at a scale better matched to the needs of local economies. Financial institutions are not the only way to link local capital with community enterprise. A growing number of local businesses are being financed directly by their customers. In the United States, Community-Supported Agriculture schemes, or CSAs, which enable people to fund the operations of a farm in exchange for a share of its harvest, have multiplied to well over 3,000. Hundreds of independent bookstores, restaurants, and other local businesses in both the U.S. and the U.K. have raised capital from their customers to sustain or expand their operations. Earlier this year, more than 100 customers of the Busy Bee Toyshop in Greater Manchester put up £32,000 to take over the store, which had recently closed, and operate it as a cooperative. In Brooklyn, a similar initiative made hundreds of customers investors in their local bookstore. People have come together not only to save or grow local businesses, but also to start them. Six years ago, in Powell, Wyoming, over 800 families invested \$500 each to capitalize a new community-owned downtown department store.

Many political and corporate leaders are eager to put the financial crisis in the rear-view mirror and return to business-as-usual. But we should not let them. More than ever, we need a vision for a new economy. We need a bold new deal that reorients antitrust, planning, and financial policy to shrink the power of corporations, resurrect citizenship, nurture local enterprise, and build a sustainable future.