CHAPTER 3.1

Revitalizing Communities from the Inside Out

Michael Shuman, *research and public policy director of the Business Alliance for Local Living Economies (BALLE), does much more than advocate for buying local. He argues that nurturing and encouraging local businesses, investing locally, and shifting our policies, can have enormous impact on jobs, the environment, and the life of our communities. Examples from places such as Austria, Vermont, and Michigan reflect the diversity of tactics within this approach, and the successes they've brought about.*

As we wade further into the rocky waters of climate change and globalized trade, Michael Shuman presents an economic response, and the practical inspiration to make it happen. As he says, "None of these things are easy to implement, but they are easier than not doing them."

The starting place for invigorating our communities, in my world view, is understanding that there is a gigantic wrestling bout going on between two archetypes of capitalism: TINA and LOIS.

TINA

TINA comes from Margaret Thatcher's invocation, "**T**here **I**s **N**o **A**lternative to global economy!" Economic development departments around the world have embraced TINA with three big strategies:

- Attract Toyotas to your back yard.
- Export your goods as far and wide as possible, because exports are the only way you can get "real" wealth into your community.
- Reassure all the local businesses that all of this is in their interest.

It's interesting to me that the words that come up repeatedly in economic development are "attract" and "retain." What's weird about this is that you cannot attract local business. That's an oxymoron. And if the only way you can retain a local business is by bribing it not to seek, say, one more percentage point of return in China, how local is that business really? The entire focus of economic development has become non-local business.

We can now empirically prove that this is the case in the United States. I just finished a four-year study for the Kellogg Foundation where we looked at the three largest economic development programs in 15 states, 46 programs in all. We found that 80% of these programs were spending most of their money on non-local business and that around 30% of these programs were spending 90% of their money on non-local business. This turns out to be the worst way of doing economic development.

LOIS.

The alternative to TINA is LOIS, as argued by the late, great Canadian Jane Jacobs, urban economist and intellectual godmother of many of the ideas I'm talking about. The LOIS perspective emphasizes:

LO = Locally Owned Business, meaning the majority control is in the community where the business operates, and
IS = Import-Substituting Development, an economists' term for self-reliance.

If you can produce the goods and services you consume in your own back yard, it doesn't make sense to import them. Every time you import something unnecessarily you give away a piece of your economy. A key to economic vitality is diversifying your economy with as much self-reliance as possible. Since this runs counter to conventional economic thinking, let me give you a couple of examples of communities that have become wealthy through self-reliance.

Güssing, Austria is a former forestry and agricultural town, which saw great days in the middle of the twentieth century, and whose fortunes declined as Europe opened up to the global economy. In the mid 1990s, under the leadership of a new mayor, the town made a move toward self-reliance in energy. They set up a district heating system, using wood from the old forest industry. They became a little more self-reliant and imported a little less oil, natural gas, and electricity. And then they used that wealth to create another energy business, and then another and another and another. Flash forward fifteen years: this 3,000-person community created 1,000 new jobs in 15 new energy businesses, and brought their carbon footprint down by 95%!

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Closer to home, Hardwick, Vermont is a struggling agricultural community, also with about 3,000 residents. They decided that the key to their prosperity was to become ground zero for the local food movement in New England. They organized themselves around a bunch of fabulous new local food businesses: High Mowing Seeds, Pete's Greens, Jasper Hill Cheese, Clare's Restaurant, and Vermont Soy. They created a food business incubator. At a time when most rural communities were shedding jobs, Hardwick created 100 new jobs just in the local food sector.

And closer still, we have Zingermans in Ann Arbor, Michigan. Zingermans is a great delicatessen. The proprietors did pretty well for the first ten years of operation in the 1980s, and they were ready to grow. But they didn't want to become a chain. They didn't want to lose quality control and their connection with the community. They decided that rather than growing wide, they would grow deep.

So they looked at the things coming into the deli and considered that as they used bread, they could create our own bakery. They served cheese and ice cream, so could create their own creamery. They brew coffee, so they could create their own coffee roasting company.

Then they looked at things coming out of the deli and decided that as they made good food they could create a sit-down restaurant, which they named The Roadhouse. They made good cakes, so decided to open a mail order cake business. They had great customer service, so they trained businesses with a consultancy called Zing Train.

In all, Zingermans created nine independent businesses. They licensed the name, and the partners meet together regularly to coordinate their businesses. All together, Zingermans' businesses employ 550 people and have annual sales of $30 million a year.

What is remarkable to me about Zingermans is that economic development folks would have pronounced it impossible, because they only look at clusters of strength. Here in BC, forestry or health science would be clusters of strength.

Zingermans did just the opposite. There was nothing happening in the food sector in Ann Arbor. But they decided to build a cluster from scratch. That kind of philosophy can make any community in North America a wealthy one.

BALLE.

Out of these ideas has come the **B**usiness **A**lliance for **L**ocal **L**iving **E**conomies (BALLE), where I work half time. BALLE was founded about ten years ago, and currently has 80 networks in North America, with half a dozen in Canada. Our worldview can be summarized in three principles:

1. Local owned. The wealthiest community will have the highest percentage of its jobs in locally owned businesses.

2. Both self-reliant and exporting. A really prosperous community is going to simultaneously be as self-reliant as

possible and as globally engaged as possible. Those goals are not contradictory. One of the mistakes that economic development thinkers have made is their assumption that if we just focus on the global side of the picture, the local side takes care of itself. We know that the causality goes in exactly the opposite direction. If we focus and nurture local businesses, many of them will naturally reach out into global markets.

3. Socially responsible. Finally, we're not interested in just any kind of local businesses. We're interested in businesses that model the highest possible labour and environmental standards. We think the high road is possible, but only if we look for it. We look for great labour-friendly, environmentally friendly businesses, we shine a spotlight on them, and we try to spread these models as far and wide as possible.

WHY EMBRACE LOIS?

Let's talk about why LOIS is a better idea that TINA. There have been studies done in at least two dozen places around the world comparing local businesses and non-local businesses of similar types. In the United States these studies all show that the same amount of consumer spending generates between two and four times as many jobs in a local business than in a non-local business.

Why do we get these results? Because the local businesses spend their money locally, and when they spend locally it multiplies in the economy. I should also point out that there's not a single study that shows the opposite.

Don't take my word for this. To quote the Harvard Business Review summer issue 2010, "More small firms means more jobs. Cities relying on a few large non-local businesses have slower subsequent job growth than cities with an abundance of small firms."

The Business Alliance for Local Living Economies recently completed a study for Metro Cleveland that will give you a sense of the myriad advantages that come through locally owned business.

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My partners and I were asked to look at what the impact would be if Cleveland moved 25% of the way toward total self-reliance in food. We looked not just at Cleveland, but also at 16 surrounding counties, including some rural parts of the region.

Direct benefits.

The big news was that a 25% shift just in food self-reliance would create 27,000 new jobs, enough in principle to re-employ 1 in 8 of the unemployed people in the region.

Where would the jobs come from? About 10,000 in farming, 5,000 in retailers, 4,000 in processing, and another 8,500 indirect jobs. It's true farming and retail are not the highest paying jobs, but the processing and indirect jobs can be high wage jobs. There would be $1 billion of new wages in the region every year, and $126 million of new state and local taxes collected.

This is your tax-revenue home run! The more local businesses and self-reliance you create, the more tax revenue you're going to bring in.

Indirect benefits.

A 25% shift in food localization would mean more tourism, would naturally attract more business, and would nurture entrepreneurship. Not only would there be more taxes coming in, there would be a reduction in costs such as unemployment benefits. The net result would be improved fiscal health for the region and more money to spend on infrastructure. There could be more rural development and more economic security through reduced dependence on unreliable supplies of foreign food and energy.

Other benefits.

We're not sure how to count all of the benefits of the 25% shift, but we know they're real. For example, there are environmental benefits. By using more land for farming, there is better control of water. You can take blighted areas in the city and convert them to urban farms. Biodiversity both inside the city and in rural areas is improved. And it the city's carbon footprint.

There are public health benefits too. Around a third of children in Cleveland are at risk of developing diabetes and other problems associated with obesity. This is because they live in awful food deserts, where it is much easier to find fast food and corner stores selling old, processed foods than a supermarket.

And finally, the global image of Cleveland is much improved. A city once seen by the world as having a river so dirty it caught fire ("Burn on Cayahoga!") is now viewed as the home of great Iron Chefs like Michael Symon.

TYPICAL SKEPTICISM: ECONOMY OF SCALE

> My point is that economic developers are very cavalier about this issue of economies of scale. Even if you are a local official in a very small community, your mission should be to find just the right scale appropriate for your community. And if you make that your mission, you will find brilliant models across nearly all of these 1,100 economic sectors.

These views are not universally embraced by the economic development profession. Not because they challenge any of these points I've just presented—most of them are uncontroversial. But economic developers say that although local business will get you jobs, tourism, entrepreneurships, and so forth, it will always cost more. Bigger is better. Bigger box is cheaper. Bigger businesses achieve higher economies of scale.

A lot my book The Small-Mart Revolution tries to take apart this argument. Let me give you a couple of data points that should at least make you skeptical of the view that bigger scale is always more economic.

1. NAICS.

In the book, I looked at the 1,100 categories that Canada and the United States use to analyze their economies. This framework is called NAICS (the North American Industrial Classification System).

In how many of these 1,100 categories do we have more examples of successful large business than small? The answer is a whopping seven. That is, in 1,093 categories, we have more examples of successful small businesses than large ones.

What are the examples of the seven businesses that are really, really hard to localize?

1. Running your own central monetary system.
2. Nuclear power.
3. Missiles and rockets. Surely if there was a category that would be hard to localize it would be one with an intergalactic mission! And yet we have about ten of these companies in the United States, and three of them are small and locally owned.

My point is that economic developers are very cavalier about this issue of economies of scale. Even if you are a local official in a very small community, your mission should be to find just the right scale appropriate for your community. And if you make that your mission, you will find brilliant models across nearly all of these 1,100 economic sectors.

2. Jobs.

Here's another way of thinking about the economy of scale issue. If it were true that globalization has shattered local businesses, we would have seen a shift of employment from local small businesses to much larger businesses.

But here is what we have seen in the United States: starting at around 1990, small businesses were responsible for about 53% of the jobs in the economy, and today it's about 52%. And this is jobs. It doesn't include self-employed people. If you add the self-employed, whose ranks have exploded, that curve goes in the other direction. So, even though there's been all this rhetoric about globalization, the truth is that local businesses have been remarkably competitive.

Data from Canada says the same thing. What's the percentage of the economy, of the GDP, of Canada, generated by self-employed individuals and businesses of under 50 employees? From 2000 to 2008, the most recent year for which we have data available, the percentage of GDP for small business steadily increased from 26 to 29%. Again we're seeing local businesses becoming more competitive.

What about profitability? Surely local businesses are not as profitable as Fortune 500 companies? And yet, in the United States, sole proprietorships, per unit of sales, generate three times more net revenue than corporations do. I have no doubt that the same is true in Canada.

FUTURE COMPETITIVENESS OF LOCAL

If you think local businesses are profitable now, wait until you see what's going to happen in the next ten years. The Walmart economy, where we ship goods ten thousand miles from China to Canada to be sold in big box stores, is not going to make sense any more. Oil prices mean it will be too expensive to ship this junk across the ocean. Rising transportation costs are going to totally outswamp tiny labour costs.

> The conclusion then? Local businesses are highly competitive. They're highly profitable. They've done great, despite massive inattention by economic development departments.

OUR CURRENT PRIVATE INVESTMENT STRATEGY

We know that local businesses are essential for the vitality of our economy and yet all of us are systematically overinvesting in the Fortune 500 companies we distrust and underinvesting in the local businesses we know are essential for our future. This is crazy, self-destructive behaviour.

In Canada two-thirds of all businesses are small and local. Let's look at your long-term savings. You have about two trillion dollars invested in things like bonds, stocks, mutual funds, pension funds, and RRSP's. Let's generously assume that 20% finds its way into local business today. Again, two-thirds of your economy is local business. If capital markets were operating efficiently, two-thirds of that would be is going into local business.

Imagine what you could do with $1 trillion new dollars pouring into local business! I don't think we would need to agonize so much over tax and budget debates if we got our capital system to begin operating effectively.

HOW TO NURTURE LOIS?

How to get from here to there? There is an agenda that I have organized around what I call the six Ps.

1. Planning. Plug the leaks. Analyze all of the places in your local economy where you are unnecessarily buying outside goods and services.

2. People. Support LOIS entrepreneurs.

3. Partners. Compete through collaboration. Try to organize local business alliances so that businesses working together are more competitive than they would be working apart.

4. Purse. Harness pensions locally. (This is how we create the $1 trillion dollar shift.)

5. Purchasing. Spearhead "local first" campaigns.

6. Policy-making. Remove anti-LOIS biases.

POLICY: SEVEN MAGNIFICENT IDEAS

There are at least seven powerful policy ideas that ought to be the focus of your attention as policy makers.

1. Smart planning

Do a state of the city report. We need a new generation of annual reports that come out of our communities letting us know where all the economic leakages are. What kind of progress is being made each year in plugging those leaks and becoming more self-reliant? What's the inventory of LOIS businesses? What's their labour and environmental performance like? What's the startup success rate?

2. Smart growth

Engage in place-making and create walkable, connected communities. Jane Jacobs argued that we should scrap most of our zoning codes, which separate our functions. We also have to stop waging war on home-based businesses, and loosen up a lot of the regulatory barriers that stand in their way. And we need to respect and encourage neighbourhood schools. Just like a mega-mall is a deadening shopping experience, a mega-high school is a deadening education experience.

3. Smart regulation

In Maine a wonderful ordinance was passed that says whenever a big-box project is proposed, you have to pause for a month or two and perform an economic analysis. Look at what the impacts are going to be on jobs, wages, and so forth. Then the local council, has the ability to give the project a thumbs up or thumbs down. That's a reasonable way of getting some good information on the table before a community commits to disastrous commercial development.

4. Smart taxes

I would like to replace all taxes with a carbon tax. You don't want to tax things you want more of, like sales, income, wealth, and property use. You do want to tax what you want less of, like energy use, pollution, and carbon footprints. To me this is a no-brainer. Let's do a little Gedanken experiment:

Canadian end use of energy = 8 quadrillion BTU's
All Canadian taxes at every single level = $634 Billion

Therefore, the green tax needed to replace all taxes = $7.687 per 100 000 BTU's, which works out to $2.25 /litre of gasoline.

Of course you would have to charge not just gasoline, but all energy uses in your economy. So that would mean increasing the price of gasoline to between three and four dollars per litre. Worth eliminating all other taxes in your economy? I think that's an interesting discussion to have.

5. Smart procurement

Buy more local more of the time at the local government level. In the United States two dozen municipalities and a lot of states are preferentially buying more locally. "If it exists, it's possible!"

6. Smart business support

I know that Canadians think that you never subsidize or provide incentives to big business, so I'm not even going to suggest that happens here. What I would encourage you to think about is just putting a little bit more money into nurturing local business. In my view, the smartest ways to support local businesses are to think about programs that actually self-finance, which I call meta-businesses. You can support small businesses in a number of ways:

1. Buy local. For example, rather than promoting local purchasing in the abstract, let's learn, from Edmonton's Originals Card, a gift card that encourages holders to dine at local restaurants. Oregon Market Place is another example. It was set up by the state of Oregon in the 1980s. I view the Oregon Market Place as a structural yenta, a matchmaker. Say a flag maker needs cloth. He asks the Market Place to find a source. The Market Place finds the cloth and gets a 5% fee for setting up the contract. That was how they self-financed. In their peak of operation, they were doing $40 million dollars of contract work a year. And this in the pre-internet era.

2. Scale up local. What about scaling up local businesses through local partnerships? An example of a great partnership is a purchasing cooperative such as the Tucson Originals, a group of local food businesses in Tucson. In Minnesota,

local government and local businesses do procurement in bulk together to reduce costs.

3. Invest local. This is the $1 trillion dollar shift. How do we do this? The key is to make it cheaper and easier to create and exchange local stock. Canada and the United States have securities laws that were enacted in the early Jurassic period, and these laws make it extremely expensive and difficult for us to put our money into local small business.

   There are lots of ways we could do economic development differently if we used local stock. A great example is The Merc in Powell, Wyoming. There was no place in this small mountainous town to buy socks and underwear, so they decided to build their own general store. They needed $500,000 to do so. They got some free legal assistance to set up stocks, they raised the capital, and they built it and named it The Merc. It has been profitable from year one. To be a stockholder you had to be a resident. And if you're a shareholder in the local mercantile, you're not going to go and buy your socks out of town!

   Creating local stock used to cost $50,000 to $100,000, but can now cost as little as $5,000 to $10,000. Cutting Edge Capital is producing generic forms that simplify the process, and we are beginning to see local stock exchanges being formed. Mission Markets in New York was formed during the last year, and they have an online platform that could be used to create a local stock exchange in BC. Once you get a critical mass of local stocks and get people to start trading in them, you can have some liquidity in the market. Various kinds of funds can start to invest in portfolios of local businesses, and pension funds also can start to invest in these portfolios.

   What do you think happens to the mainstream stock markets as the first couple of $100 million moves out of conventional stocks into local stocks? Those traditional stocks begin to sink in value. We may see a very rapid shift of capital once we get these stock markets in place.

4. Incubate local. With local stock markets in place, you can create a self-financing incubator. Say a business is in incubation for two or three years, and when it graduates you present a $300,000 bill. You've just destroyed that business's balance sheet. It would be better to hold on to five or ten per cent of the local stock of that business during incubation. Once it graduates, the incubator has a little share of that company. It sells the local stock out to the public, the money comes back, and it has the resources for the next round of incubation.

7. Smart advocacy

Our securities regulators are stunningly out of touch. Bernie Madoff gets a pass while everyone at the bottom can't play. We've got to change this. We've got to change trade policy and we've got to change some of the impediments to green taxation. National advocacy must be part of the LOIS agenda for local officials.

FOCUS!

To achieve all of this, you need focus. I often get feedback from economic development departments agreeing that these are good points about local business. They say that these are the reasons why they support local business. And they support big business, and they support attraction, and they support nurturing.

> Every dollar that is put into TINA is a dollar that is unavailable for LOIS. Public policy is not unlimited money. Every hour of a civil servant's time that is put into attraction and retention is an hour that is unavailable for nurturing local business.

They don't get it! Every dollar that is put into TINA is a dollar that is unavailable for LOIS. Public policy is not unlimited money. Every hour of a civil servant's time that is put into attraction and retention is an hour that is unavailable for nurturing local business.

There's a lesson from Indiana Jones and the Last Crusade. You may recall that after Indiana had suffered through snakes and spiders and terrorists and bullets, he comes to a crypt. The crypt has the Holy Grail that Indiana has been looking for. There's a

500 year old guardian who says, "Indiana, your last task will be to choose the goblet from which Christ drank," and he points to fifty goblets. "Choose the right goblet and choose wisely."

The German spy jumps to the front and says, "I know which one. It would have been the most ornate." He drinks from it and he spontaneously combusts. The guardian looks at him and drolly says, "He chose poorly."

I argue that all of us are choosing poorly. We are all choosing poorly by not doing leakage analysis that is necessary to undertake the kind of local economic development that we're talking about here. We're choosing poorly as consumers by not buying local first most of the time. We're choosing poorly as investors. And until we see the magnificent seven public policies being implemented, we're choosing poorly in the political domain.

None of these things are easy to implement, but they are easier than not doing them. I don't think any of these things are so radical that you couldn't try some versions of them in your community.

REFERENCES

Shuman, Michael. *The Small-Mart Revolution: Ideas and Tools for Building Healthy Local Economies*, Berrett-Koehler Publishers, San Francisco, 2006.

http://www.livingeconomies.org