# Working Paper: A Local Business Policy Roadmap

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Small business has generally fallen outside of what progressives consider their core constituency and concern. One reason is the underlying assumption that the interests of businesses, both large and small, are broadly similar and run counter to those of workers, communities, and the environment. We have also tended to assume that big business could better deliver on large-scale economic needs, such as higher wages and job stability.

This prevailing belief that small businesses are merely smaller versions of big businesses and, as such, economically and politically aligned with them, has helped advance the agenda of dominant corporations. Indeed, it's a framework that groups like the U.S. Chamber of Commerce work hard to maintain in both their media messaging and their lobbying. In reality, small business owners' political views and policy priorities hew much more closely to those of ordinary Americans than to those of big businesses. And, on pivotal economic issues — such as reining in corporate power — the views of small business are often significantly more radical than the average American's.

A better and more strategic way to view small business would be to see the whole spectrum of local enterprises — family farms, independent retailers, community banks, and so on — as a key means of democratizing economic power by distributing ownership of productive resources more broadly and ensuring that business operates at a scale that is compatible with democracy and subservient to the needs of communities and regions. In this way, reversing the decline of small business is a strategy that complements other approaches to economic democracy, including constraining corporate power, expanding the rights of workers, building cooperatives, and giving communities more authority over economic development.

Indeed, these various ways of preventing concentrations of market — and ultimately political — power have worked in concert in the past. As Barry C. Lynn has observed, from the 1930s through the 1970s, Americans employed two primary strategies to disperse economic power and wealth. In sectors that necessitated a larger scale of production — industrial manufacturing and national transportation networks, for example — strong labor laws protected workers' rights on the job and facilitated the formation of unions as a countervailing power and means of ensuring a fairer distribution of income. Meanwhile, in sectors where the advantages of scale were marginal and outweighed by the benefits of robust marketplace diversity — such as banking, farming, media, and retail — public policy, in the form of anti-monopoly laws and sector-specific regulations, like the Glass-Steagall Act, impeded consolidation and ensured that much of the economy was in the hands of small, locally owned enterprises. Union jobs and small business ownership thus operated

together to form the twin pillars of the American middle class and the relatively broad distribution of wealth and income that prevailed in the middle of the 20th century.

## A Rigged Market

The U.S. economy has undergone a profound restructuring in recent decades. More than anything, what has characterized the change has been the massive consolidation that has swept virtually every sector. One retailer, Walmart, now controls one-quarter of the national grocery market, including more than half of food sales in over 40 metro areas, and thus largely dictates the parameters of food production. A handful of giant banks now hold about half of U.S. bank assets. Amazon accounts for more than half of all print and electronic book sales, as well as more than one in three online shopping orders. A similar degree of concentration has engulfed industries as varied as telecommunications and dairy processing.

Independent businesses have been losing numbers and marketshare, declining right alongside unions. Local retailers have seen their share of the market fall from more than half to about one-quarter. Community banks have likewise lost ground; in the last six years, some 3,000 local financial institutions have disappeared. And, while we continue to imagine ourselves as a nation of start-ups, in reality the number of new businesses created each year in the U.S. has fallen precipitously since the 1970s. Meanwhile, concentrated economic power has so overwhelmed our government that we struggle to exercise our citizenship in response to even the simplest of problems. More and more, decisions are made in distant boardrooms, far from those who feel the impact. Profits are privatized, and costs shifted to communities. Growing numbers of people are trapped in poverty-wage jobs, even as the economy consumes and threatens to destroy the ecological systems on which we depend.

These dark realities have begun to challenge the widespread belief that the rise of giant corporations has simply been the result of a kind of natural and inevitable evolution of the economy — that big business is inherently superior and able to deliver better economic outcomes. Mounting evidence suggests that this is far from the case. Most people are not, in fact, better off. And even in purely market or consumer terms, there's evidence that big business, at least in some sectors, underperforms its smaller rivals. Big banks suffer from diseconomies of scale, according to many studies, necessitating significantly higher consumer fees, compared to local banks and credit unions. Or consider the small municipally owned broadband network in Salisbury, North Carolina, which is one of dozens of public networks across the country providing internet service that is faster and costs roughly half of what Time Warner and Comcast charge in other markets. Or take the case of North Dakota, which has a unique pharmacy ownership law that mandates that pharmacies be operated by local owners. North Dakota has among the lowest prescription prices in the country, with a level of access, particularly in rural areas, that is unparalleled.

A more accurate explanation of why giant companies have become so dominant is that public policy has rigged the market in their favor, beginning with the dismantling of anti-monopoly laws and the rolling back of labor rights, and continuing via a host of policy changes that have further tilted the playing field. The overhaul of banking policy in the 1990s, for example, gave big banks a major leg up and made it much harder for community banks, particularly those in low-income and minority neighborhoods, to survive. Or consider the federal farm bill, which has distributed $275 billion to farmers over the last 20 years, with nearly 80 percent of those dollars going to the largest 10 percent of farms. Tax policy is likewise littered with loopholes that allow big, multi-state

corporations to escape much of their tax burden while their smaller competitors are stuck footing the bill. Even municipal land use policies have played a role concentrating wealth by, for example, facilitating the expansion of retailers like Walmart at the expense of neighborhood commercial districts.

## Local Business as a Progressive Strategy

Could a progressive strategy that counters concentrated economic power by not only reasserting the rights of workers, but also advocating for expanding the market share of locally owned enterprises provide a viable path for solving our major challenges?

A new, though, so far, small, body of academic research has found that communities with a high density of locally owned businesses are better off. A recent study from the Federal Reserve Bank of Atlanta, for example, found that counties in which locally owned businesses account for a larger share of the economy had higher income and employment growth, and reduced poverty rates, in the last decade, compared with counties in which large, non-resident owned businesses dominate. Other studies have found that, all else being equal, places with a larger share of locally owned businesses have higher rates of civic engagement, including voting, and are better able to collectively solve problems.

Reducing the dominance of global corporations in key industries and shifting more economic activity to locally owned businesses may also be a promising strategy for job creation at scale. Many of the most pressing concerns about the future of work and the potential of a long-term structural unemployment crisis — offshoring, automation, systematic under-staffing, and contingent labor systems like franchising and subcontracting — are features of a consolidated corporate economy governed by the short-term demands of shareholders and possessing the market power to extract ever greater concessions from workers. These are generally not features of local enterprises. As a result, in many economic sectors, small businesses employ more people, relative to their revenue, than large businesses do. Independent retailers, for example, employ an average of about 50 people per $10 million in sales. Walmart does the same volume with 21 workers, and Amazon with just 14. To take another example, in the solar industry, which now employs more Americans than the coal industry, small residential and commercial rooftop installations create the lion's share of jobs — far more than large-scale, utility-owned solar arrays do. Locally owned businesses also rely much more heavily on local and regional sourcing for both goods and services, creating, by some estimates, two to three times as much local economic activity and indirect jobs for every dollar they take in, compared to national or global companies.

One might argue that their relatively high rates of employment are a sign of the inefficiency of small businesses. But many of the corporate efficiencies we celebrate in fact mask economic arrangements that work to extract wealth from the many and move it into the hands of the few. Walmart is perhaps the ultimate example of this. Its business model is highly efficient, but only in the narrowest sense and only to the degree that one ignores the sizable public and environmental costs it entails. Simply put, Walmart has done more to lower household incomes — not only in the retail sector, but throughout the economy — than it has consumer prices. Its efficiency, and the extreme profits earned by its majority owners, the Walton family, depend on squeezing ever more out of workers throughout the supply chain, as well as steadily reducing the durability of products and thereby accelerating the volume of goods moving from factory to shelf to landfill, with dire environmental consequences.

Reversing course, moving away from ever greater concentrations of ownership, and building economic systems and enterprises that operate at local and regional scales would create a more durable economy that roots wealth in communities and democratizes decision-making. It would also help establish more resilient communities; in times of crisis, economic resources that are controlled locally are much more readily marshaled and reconfigured to meet shifting local needs.

## A Policy Roadmap

In a surprising and encouraging development, the last few years have seen a modest resurgence of local enterprises in some sectors. Family farms, credit unions, and even independent bookstores have been growing in numbers and market share. This resurgence has come amid growing public interest and new organizing capacity among small businesses, most notably the emergence of Local First groups in over 100 cities, which now count some 50,000 businesses as members, and the establishment of new policy advocacy networks, including the American Sustainable Business Council and the Advocates for Independent Business.

But for this nascent independent business movement to make real change, it will need to build alliances with other key constituencies and forge a political identity and narrative that can drive systemic policy change. What follows is a sketch of what a local business policy platform might look like. Not all of these ideas are actionable right now; this is not meant as a short-term agenda, but rather a map of the policy landscape, which can help guide small businesses and their allies going forward.

### 1. Make tax policies fair to local businesses.

State and federal tax policies enable big companies to skirt their tax liabilities, giving them a competitive advantage over local businesses, which are obligated to pay their full-share of taxes.

- Congress should block multinational companies from using overseas tax havens, inversions, and other schemes to evade federal income taxes. Small businesses cannot, of course, take advantage of these loopholes and, as a result, pay an effective federal tax rate that is, on average, 6 to 8 percentage points higher than that of their large competitors, according to an SBA study.
- Congress should pass legislation authorizing states to require that large internet retailers collect sales taxes on purchases made by in-state residents, just as local businesses must. It's hard for local businesses to compete if they are required to impose a tax, which ranges as high as 12 percent in some places, on their customers, while their online competitors are not. A recent study of the spending patterns of 246,000 households found that this unequal treatment is in fact driving a sizable share of spending that would have gone to brick-and-mortar retailers to Amazon instead. In addition to harming small businesses, Congress's failure to correct this disparity is costing states revenue; exacerbating inequality by giving affluent households, which do relatively more of their shopping online, a tax break; and reducing overall employment in the retail sector.
- States should adopt "combined reporting" for corporate taxpayers. Fewer than half the states have done so. In states without combined reporting, multi-state corporations routinely transfer income earned within the state to out-of-state subsidiaries, thereby escaping state income taxes. Tax experts estimate that big chains, including Walmart and The Gap, use this scheme to

sidestep hundreds of millions of dollars in state taxes each year. This deprives states of revenue and puts local businesses, which cannot utilize this tax evasion scheme, at a competitive disadvantage. Combined reporting is a relatively simple solution already on the books in about half the states.

## 2. Stop using public dollars to subsidize large corporations.

Federal, state, and local governments give large corporations billions of dollars a year in public subsidies. These giveaways take many forms, but all have the effect of helping these companies gain market share at the expense of small local businesses, cooperatives, and other community-rooted enterprises. Rarely do these subsidies boost employment; in fact, there is evidence that they often result in a net loss of jobs. These funds could be redirected to support the kinds of initiatives described in subsequent sections.

- State governments should prohibit cities and counties from providing tax incentives and other subsidies to finance the construction of new big-box stores and shopping centers. These subsidies are commonplace, despite evidence that they cause more economic harm than benefit. Cities and counties in the St. Louis metro, for example, have spent over $5 billion subsidizing chain retail development. Yet, according to a recent government-commissioned study, the region has seen no growth in retail jobs. Instead, the subsidies have contributed to the closure of more than 600 locally owned businesses, pushing both their employees and owners out of work.
- Congress should take steps to end the corporate subsidy war among the states.
- Congress should develop a comprehensive replacement for the federal farm bill, which will be up for renewal in five years. Rather than directing dollars to large commodity growers, funds should be channeled to support local food producers and distributors, and to improve the availability and affordability of fresh local foods.

## 3. Adopt procurement policies that favor businesses that are owned locally and meet job quality standards.

Most government procurement policies fail to account for the economic and tax impacts of purchasing decisions. As a result, contracts often go to the bidder that is ostensibly offering the lowest price, but in fact is not offering the best deal for the public. Choosing a seemingly low-cost bidder that does not provide employee health insurance, for example, could mean higher costs in the form of Medicaid expenses. Likewise, government purchasing decisions often fail to account for the economic and tax benefits of choosing a locally owned business. Studies show that public dollars spent with locally owned businesses, rather than out-of-state contractors, generate about three times as much in-state economic activity, jobs, and tax revenue.

- Federal, state, and local governments should adopt policies that require purchasing officers to assess the public revenue effects (e.g., taxes collected and social welfare costs reduced) of bids and to give preference to businesses with the best net cost, accounting for the economic and fiscal benefits of local ownership and high job quality standards.
- State-supported universities, hospitals, prisons, and other institutions should give preference to local farmers in their food procurement bids, particularly those using sound labor and sustainable practices.

### 4. Restructure the banking system to better serve the needs of local economies.

Many locally owned businesses are struggling to secure the financing they need to grow. Since 2000, bank lending to large businesses is up 36 percent, while the volume of small business loans (under $1 million) has fallen 14 percent and "micro" business loans (under $100,000) have plummeted 33 percent. A 2014 survey found that 42 percent of independent businesses that needed a loan in the last two years were unable to obtain one. Data show that the situation is particularly dire for enterprises owned by African-Americans, Latinos, and women. Even with the same characteristics and credit profiles, these small businesses are even less likely to be approved for loans, compared to their white- and male-owned counterparts.

A primary structural driver of this decline in small business lending has been the disappearance of community banks. Local banks devote a much larger share of their resources to small business lending than big banks do. As local banks have lost ground to big banks, the amount of credit available for small businesses has shrunk. According to federal data, the top 4 banks now control 43 percent of all banking assets, but account for only 16 percent of small business loans. For these banks, speculating in Wall Street securities is more profitable than making loans to local businesses.

- Congress should pass measures, including the 21st Century Glass-Steagall Act and the Brown-Vitter bill, that would break up the biggest banks and ensure that taxpayer-backed commercial banks are focused on making productive, job-creating business loans rather than betting on securities.
- Federal and state regulators should take steps to ensure that community banks are subject to regulations that are appropriate to their size and are not saddled with one-size-fits-all rules designed to deal with the particular systemic risks associated with big banks.
- States should establish Public Partnership Banks, modeled on the Bank of North Dakota. By expanding the lending capacity of the state's community banks through partnership loans, BND has helped these institutions remain robustly competitive. North Dakota has four times as many community banks per capita as the national average and, as a result, a much larger volume of lending to local businesses and farms.
- The U.S. Small Business Administration should allocate a larger share of federal small business loan guarantees to businesses that are truly small. Over the last ten years, the number of SBA-backed loans in amounts under $150,000 has plummeted by more two-thirds, as the agency has shifted its support to bigger businesses. The SBA should return to its mission of backing loans to genuinely small businesses, especially minority and women-owned firms.
- Congress should expand the ability of credit unions to lend to small businesses. Current regulations limit business loans to no more than 12.5 percent of a credit union's assets. Congress should exempt loans to businesses with fewer than 50 employees from counting against this cap, as well as loans to worker-owned cooperatives.
- State policymakers should support the establishment of local economy investment funds that would provide equity capital to new and expanding locally owned businesses, particularly those that contribute to the state's long-range job quality and sustainability goals. Residents would be allowed to invest a small portion of their retirement savings each year in the fund, with the state providing a modest income tax incentive for doing so.

## 5. Adopt planning and zoning policies that create the kind of built environment in which independent businesses can thrive.

Zoning is one of the most powerful tools communities have for shaping business and economic development. Indeed, it's no coincidence that the U.S. cities that have the highest concentrations of independent businesses have zoning rules that protect historic buildings, favor pedestrians and public transit over cars, and insist on multi-story, mixed-used development. In cities where zoning rules do the opposite — undermine walkable "main street" business districts and encourage auto-oriented sprawl — independent businesses are often few and far between.

In a recent study, the National Trust for Historic Preservation found that neighborhoods with a mix of smaller-scaled old and new buildings sustain more small businesses, as well as more businesses owned by women and people of color, than neighborhoods where newer, larger buildings and more auto-oriented development predominate.

- City, county, and metro governments should adopt policies that preserve and foster the adaptive reuse of historic buildings, favor smaller-scale commercial spaces, insist that new development be multi-story and mixed-used, actively favor infill development over sprawl, and foster a built environment that privileges pedestrians and public transit over cars.

## 6. Make economic impact a standard component of the planning review process for commercial development.

Each year, developers submit tens of thousands of proposals for commercial projects, from retail stores to hotels. In almost every case, existing planning policies limit cities to considering only conventional zoning issues, such as traffic and landscaping, as they decide whether to approve these projects. Citizens and city officials have neither the data nor the legal authority to consider the economic impacts, including the effect a particular development will have on local businesses, wages, and employment, in the context of approving a development permit.

This narrow approach to land-use policy strips communities of an important tool for shaping their economic future and ensuring that the benefits of new development outweigh the costs. Studies have found, for example, that new big-box stores typically destroy more jobs than they create, push down prevailing wages, and cause significant numbers of local businesses to close. Yet most cities have no means of assessing these impacts and lack the legal authority to reject these projects or negotiate substantial changes based on economic factors.

- States should enact informed growth policies that require cities, or regional planning bodies, to conduct economic impact analyses as part of the development review process for large commercial projects, as well as give local officials the legal authority to reject these projects on purely economic grounds. A good model is the Cape Cod (Massachusetts) Commission, a regional planning body charged with reviewing large development projects. In deciding whether to issue a permit for proposed development, the commission is guided by a Regional Policy Plan that calls for expanding the share of the economy that is locally owned and improving job quality and household incomes.

### 7. Restore robust competition and anti-monopoly policies.

A radical shift in the federal government's approach to antitrust policy has led to a distorted marketplace in which large companies routinely use their size and market power to undermine competition and block opportunity for independent entrepreneurs. In the food sector, for example, the market power of a very small number of beef, chicken, dairy, and other food processors has left farmers virtually powerless to negotiate fair prices. In retail, powerful gatekeepers, notably Walmart and Amazon, have unprecedented power to extract special terms from suppliers and ensure that their smaller competitors are treated less favorably.

- Federal regulators should resume enforcing the Robinson-Patman Act and restore antitrust policy to its traditional goal of maintaining robust competition characterized by open markets in which large numbers of businesses compete and independent entrepreneurs and new entrants have ample opportunity.
- States should resurrect enforcement of their largely dormant fair trade laws, which in the past have been a key tool in protecting competitive markets.

### 8. Make targeted investments in rebuilding community-rooted economic systems.

In some communities, wealth and economic capacity have been so depleted that simply removing barriers and creating the right environment for local entrepreneurs is not enough. Moreover, in many sectors of the economy, key pieces of infrastructure for local production and distribution are missing (e.g, processing and distribution in the food sector). Both kinds of gaps need targeted public investment. These investments can be paid for by using a portion of the revenue saved from eliminating corporate tax loopholes and subsidies.

- States and cities should create programs to finance and provide technical support to new and expanding local businesses in low-income, underserved communities. One useful model is the Pennsylvania Fresh Food Financing Initiative. Seeded with $30 million in state money, this loan fund has financed over 80 locally owned grocery stores in low-income urban and rural communities (and provided the model for the federal Healthy Food Financing initiative).
- States should develop long-range plans to strengthen local and regional food systems and other pivotal sectors of their economies. Vermont's Farm to Plate Investment Program, for example, has developed a 10-year strategy to grow the state's food system, with a particular focus on distribution infrastructure and value-added processing.
- States should commit to investing in long-term "just transition" strategies for communities and regions that have been dependent on the old economy of fossil fuels and dying industries. Although there are no comprehensive examples yet, Virginia's investment in its Appalachian region should be explored as a partial model of asset-based development.
- The U.S. SBA should provide grant and technical support to help independent businesses form regional purchasing and distribution cooperatives — similar to Ace Hardware — to reduce costs and gain greater control over a critical link in their supply chains.
- States should establish outreach and education programs that help independent businesses develop succession plans, with a particular emphasis on employee-ownership as a exit strategy.
- Special block grant funds should be targeted to enable cities to establish Commercial Land Trusts that could buy, renovate, and maintain pivotal commercial buildings. These

community-owned properties could be used as business incubators, a means of incentivizing higher worker standards via discounted rents, and/or as a way to ensure that local businesses serving community needs are not displaced by increasing commercial gentrification pressures in urban neighborhoods.

## 9. Adopt energy policies that favor distributed ownership of generation capacity.

With the costs of small-scale rooftop and community solar installations plummeting, in many states people will soon be able to generate their own electricity at lower cost than buying utility-generated power from the grid. This dynamic presents a unique window of opportunity to dramatically shift the ownership structure of an important sector of the economy. With the right policies, states could move from a system in which electricity generation is controlled by a small number of investor-owned utilities and toward a future in which ordinary people and small businesses produce energy and reap the financial benefits.

- State regulations should require utilities to provide a fair price to households, cooperatives, and businesses that install on-site solar power generation and connect it to the grid. A fair price would account for the averted costs of new transmission lines and power plants, as well as the environmental, public health, and economic benefits of distributed renewable power.
- States should enable on-bill financing for investments in both energy efficiency and solar panels, and should incentivize cooperative solutions in low-income neighborhoods.