

Relocalizing Business

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To see what a “culture of sustainability” might really look like, pay a visit to Bellingham, Washington, recently named by the Natural Resources Defense Council as the #1 “Smarter” small city in the United States. This coastal town two hours north of Seattle has pioneered an economic development strategy that is radically different from the traditional preoccupation with attracting and retaining global businesses. Thanks to the leadership of a nonprofit called Sustainable Connections, Bellingham has focused on nurturing its local businesses and organizing them into a powerful collaborative network to rebuild the community economy from the ground up.¹

Here is some of what Sustainable Connections has accomplished in less than a decade. Its Local First campaign—now widely copied around the United States and Canada—uses festivals, store signs, posters, advertisements, and coupon books to motivate residents to buy local. An independent survey by Applied Research Northwest found that 69 percent of Bellingham consumers are now paying attention to the local character of businesses, 58 percent have begun localizing their purchasing habits, and business proprietors regard Local

First as one of the most compelling reasons they are thriving. Sustainable Connection’s energy program has mobilized 1 in 10 residents to buy local “green power”—the second highest percentage in the United States. The number of farmers in surrounding Whatcom County marketing directly to consumers has increased 44 percent between 2002 and 2007, twice the state-wide rate. The value of direct sales—a key strategy for boosting farmers’ income—has increased 125 percent over the same period, quintuple the state rate.²

Bellingham is among a growing number of communities worldwide that see their future sustainability and prosperity grounded in local businesses. The Business Alliance for Local Living Economies (BALLE) has more than 70 member communities in North America. Another 50 or so communities are affiliated with the American Independent Business Alliance. Internationally, more than a thousand communities are beginning to undertake similar work through organizations like Transition Towns and Post-Carbon Futures.³

As these organizations see it, local business has two meanings. One is ownership. In a locally owned business, more than half the

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owners live where the firm operates. By this definition, local ownership actually characterizes the vast majority of sole proprietorships, partnerships, nonprofits, cooperatives, and public-private partnerships operating in the world. Even most privately held corporations are local. Really, the only kind of business clearly not local is a publicly traded company. The other meaning of local is the proximity of its stakeholders, like suppliers and consumers. Because locally owned businesses tend to give priority to using local labor, land, and capital and producing goods and services for local markets, these two concepts are inherently intertwined.

In an era of globalization, it is easy to forget that local businesses actually have been the economic norm for most of human history and, contrary to public perceptions about globalization, continue to account most of the world's economy today. One distinguishing feature of very poor countries is that a large percentage of the population is engaged in subsistence agriculture—that is, local farming. As countries develop, farm families migrate to the cities for industrial jobs. But vast numbers remain jobless or underemployed and effectively wind up as microentrepreneurs in the informal sector. Even in an advanced industrial economy like the United States, roughly half the economy in terms of jobs and output comes from self-employed individuals or from small or medium-sized enterprises, nearly all of which are locally owned.⁴

So localization is neither new nor uncommon. But awareness of its potential power in promoting sustainability and prosperity is.

Localization and Sustainability

For a generation, “sustainability” has been defined as meeting this generation's needs without compromising the ability of future generations to meet their own needs. There is a growing appreciation, however, that this def-

inition needs to be updated with a more nuanced understanding of place: a community should meet its current needs, present or future, without compromising the ability to meet the needs of future generations living in other communities, present or future. This new definition highlights the importance of every community maximizing its level of self-reliance, presumably through a diverse assortment of businesses behaving in a sustainable fashion. Localization, of course, does not guarantee sustainable behavior, but it increases its likelihood in at least four ways.⁵

First, an economy highly dependent on non-local businesses must continually make sustainability compromises to prevent its most important firms from exiting. For example, the state of Maryland is highly dependent on a poultry industry (dominated by two companies, Tyson and Perdue) that continually threatens to move to more “business-friendly” jurisdictions like Arkansas and Mississippi. Despite its impressive performance in other categories of sustainability like smart growth, the state has found it politically impossible to regulate the poultry industry's practice of dumping more than a billion pounds of manure into the Chesapeake Bay, the largest estuary in North America. Were the Maryland economy made up of locally owned businesses, officials could raise environmental standards with confidence that its enterprises would adapt rather than flee.⁶

Thus the absence of local ownership means that non-local corporations can dictate the terms of sustainability in the communities in which they operate. Their ability to leave a community in a heartbeat means they can more easily leave environmental problems behind. The expansion strategy of Wal-Mart, the largest chain retailer in the world, has included closing older stores (and resisting resale to competitors) while opening new superstores only a few miles away. As a result, some 350 empty Walmarts across the United

States are causing serious environmental problems from runoff, flooding, and urban blight.⁷

Second, the presence of local business owners in a community can lead to greater environmental responsibility through accountability. A business owner can be shamed into thinking twice about polluting freely, for example, if the victims are attending the same church or going to the same schools. The responsibility that local owners feel to their own neighborhoods helps explain why U.S. locally owned businesses have been found to give 2.5 times as much money to local charities per employee as non-local businesses do.⁸



Courtesy Bellingham Farmers Market

Local farmers offer up their mixed greens at the Bellingham Farmers Market.

Third, because local businesses tend to use local materials and sell to local markets, their inputs and outputs require less shipping, con-

sume less energy, and emit fewer pollutants, including greenhouse gases (GHGs). To be sure, a number of studies have argued that local food does not always minimize carbon emissions. Alaskans, for example, might find that growing bananas in their own greenhouses is more energy-intensive than transporting bananas from Guatemala.⁹

But the most widely publicized of these studies actually prove very little. For example, one report suggested that U.K. residents eating local lamb generated four times as many GHGs as they would have had they imported New Zealand lamb. But the study, whose funding by the New Zealand lamb export association went unnoticed, only compared energy-intensive, industrial-agriculture methods in the two countries, and it never even examined the GHG impacts of local production.¹⁰

Finally, every profitable green small-business model provides an invaluable jigsaw piece to the global puzzle of sustainability. A low-cost, Internet-based food distribution system—such as the Oklahoma Food Coop—can offer communities everywhere a model for greater food self-reliance. A successful local wind project, such as the suburban-subdivision -owned windmills in Hepburn Shire, just outside Melbourne, Australia, can help thousands of other windy communities worldwide see how to achieve energy self-reliance. According to localization advocates, a key to global sustainability and poverty alleviation (alongside traditional trade and technology transfer programs) might be open-source platforms that spread without charge, particularly to poorer communities, start-of-the-art business models, technologies, and practices.¹¹

Localization and Prosperity

The sustainability impacts of localization would be interesting but ultimately unconvincing if local businesses turned out to have few economic benefits for a community. In fact, a

growing body of evidence suggests that localization, done properly, can increase prosperity for three reasons.

First, the immobility of local businesses means that economic development efforts focused on them are more likely to produce enduring results. An investigative report on the cost effectiveness of tax abatements in Lane County, Oregon, found that 95 percent of the tax abatement dollars given between 1990 and 2002 had gone to six non-local companies—three of which came, took the benefits, and then shut down and moved elsewhere. The rest went to about a hundred local companies. The public cost to the region of a non-local job, in tax-abatement terms, was about \$23,800. The comparable cost of a local job was \$2,100—the same per-job cost reported by several microenterprise organizations in the western United States. Thus non-local jobs were more than 10 times costlier. On a long-term, net jobs basis (taking into account the big firms' departures), non-local jobs were 33 times more expensive.¹²

Second, a local business tends to generate a higher economic multiplier than a comparable non-local business. In the summer of 2003, for instance, two economists studied the impact of a proposed Borders bookstore in Austin, Texas, compared with two local bookstores. They found that \$100 spent at Borders would circulate \$13 in the Austin economy, while \$100 spent at the two local bookstores would circulate \$45—translating to three times the jobs, earnings, and tax collections.¹³

Many other studies in the United States and the United Kingdom all point in the same direction, and for an obvious reason: local businesses spend more of their money locally. Unlike a chain book store, for example, a local bookstore has local management, uses local business services, advertises locally, and enjoys a stream of local profits.¹⁴

Third, the uniqueness of a local business fits hand-in-glove with other theories of eco-

nomics development. For example, a community rich in local business creation attracts and retains entrepreneurs and entrepreneurial young people. As Richard Florida of the Creative Class Group argues, such “creative economies” succeed because they are tolerant, diverse, and fun, and in the end such economies depend on the ability to seed and expand local businesses.¹⁵

Most economists and economic developers are only dimly aware of these findings, since they are based on new studies and theories. But even as these new ideas spread, resistance will run deep, because most economic developers know they will get more press, political kudos, and budgetary rewards for a single big-business deal creating 1,000 jobs than for 100 deals that each create 10 jobs. From an economic standpoint, however, the jury has returned with a clear and convincing verdict: locally owned businesses are significantly better bets for income, wealth, and jobs.

Localization and Efficiency

Skeptics of localization continue to assert that local businesses simply have poorer, more expensive goods and services that cannot possibly achieve the higher economies of scale inherent in global businesses. Yet at some point increasing scale brings diminishing returns and poorer performance. The recent global financial meltdown is a poignant reminder that many global corporations, not to mention the global financial institutions facilitating these investments, carry many more risks than people ever appreciated. In fact, what is becoming clear is that the global scale of business carries many profound dis-economies.

For example, even when nonlocal production can bring down costs by siting a factory in a jurisdiction with low-wage labor and high-pollution technologies, long-distance distribution is becoming increasingly inefficient. Consider food. Economist Stewart Smith of the Uni-

versity of Maine estimates that \$1 spent on a typical U.S. foodstuff item in 1900 wound up yielding 40¢ for the farmer, with the other 60¢ split between inputs and distribution. Today, about 7¢ of every retail food dollar goes to the farmer, rancher, or grower, while 73¢ goes to distribution. Whenever the distribution costs tower over the production costs, there are huge opportunities for cost-effective localization. Food localization reduces the need for and expense of many components of distribution, such as refrigeration, packaging, advertising, and third parties. And as oil and energy prices rise in the years ahead, distributional inefficiencies like these will increase, opening up new opportunities for localization.¹⁶

Other trends also are making local businesses more competitive. For 50 years consumers in industrial countries have been shifting their expenditures from goods to services, which fuels localization because local services, where providers and clients have face-to-face relationships, have always been highly competitive. Homeland security concerns are nudging officials to promote self-reliance in commodities like food and energy. While the spread of the Internet is not unambiguously positive for localization (mass retailers like Amazon and eBay could not exist without it), it ultimately levels the playing field by providing local competitors with a low-cost tool for marketing themselves.

Even without these trends, small-scale businesses are already competitive in almost every business category. The North American Industrial Classification System, an important database produced by the U.S. Census Bureau, contains 1,100 such categories, and there are more small businesses—nearly all of which are locally owned—than large ones in all but 7 of them. The point is that even in very small communities, a smart economic developer can find exciting examples of small-scale success in almost every industry and replicate them.¹⁷

Fulfilling the Market Potential

Despite the market potential for more localization, formidable barriers stand in the way. Consumers are deluged with billions of dollars of global advertising and are often unaware of competitive local goods and services. Small-business owners—distrustful of their local competitors and overwhelmed by the daily work of keeping their firms alive—fail to forge natural business partnerships that might otherwise be beneficial. Investors are deterred from putting their money into profitable local businesses by obsolete security laws that make it unreasonably expensive. And public policymakers worldwide, despite all their positive rhetoric about small business, seem unable to break their addiction to subsidizing global businesses. The localization movement aims to dismantle these barriers.

To help consumers find and buy competitive local goods and services, Local First campaigns, like the one in Bellingham, are providing information about which businesses and products are in fact local and what their prices and quality are compared with the global competition. These initiatives are also nudging consumers to buy local through myriad tools. Local coupon books provide consumers with introductory discounts to local business. Local debit, credit, gift, and loyalty cards reward local purchases. Local barter and money systems induce participating consumers to use their credits exclusively with local businesses.¹⁸

To improve the competitive practices of local businesses, alliances like the Sustainable Business Network of Greater Philadelphia (a BALLE affiliate) are organizing conferences where they can showcase best business practices in everything from marketing strategy to energy-reduction technologies. Peer networks, especially those organized by sector (food, energy, retail, and so forth), are helping local businesses improve their competitiveness. Local businesses are learning that by working

together, they can achieve most of the economies of larger scale that might otherwise give some global businesses a competitive advantage. Tucson Originals in Arizona, for example, enables participating local-food businesses to improve their bottom line through joint procurement and marketing.¹⁹

Perhaps the biggest obstacle to localization is the unavailability of capital. Complex securities laws governing capital markets make it unaffordable for small investors to place their savings in small businesses even in wealthy nations. In Australia, for instance, local businesses account for two thirds of the economy and have steadily improved their share of gross domestic product vis-à-vis global business, yet almost none of the 9 percent “superannuation” funds that citizens must put into their retirement accounts can be placed in local business. A growing mission of the localization movement is to deregulate capital markets, help small businesses issue local stock inexpensively, provide liquidity to these markets through local stock exchanges, and create new investment professionals—advisors, broker dealers, traders, fund managers—who specialize in local investment.²⁰

Changing investment rules is really a subset of a much larger policy reform agenda. Local business alliances are beginning to stake out policy positions dramatically at odds with the traditional business community. For exam-

ple, while the U.S. Chamber of Commerce has been opposing “cap-and-trade” legislation to curb GHGs, a number of local business associations have been lobbying for the legislation. A similar split can be seen around proposals to eliminate tax loopholes for U.S. multinationals: the Chamber opposes these reforms, while local business networks support them.²¹

The biggest public policy change sought by localization advocates is to overhaul the priorities of economic development. Public dollars, they argue, should be focused exclusively on nurturing local business. Every economic development dollar and hour spent on attracting or retaining non-local business is a dollar and hour unavailable for the superior pay-offs, in both sustainability and prosperity, for localization.²²

The agenda for localization actually contains hundreds of action points for activists, businesses, and policymakers, many of whom never agree on much of anything. Localization is forging unlikely new alliances between green businesses and anti-business greens and between free-market conservatives and anti-globalization progressives. And this, in the end, might be the most compelling feature of localization and its most enduring contribution—a culture of sustainability rooted in deep democracy.

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