

Why Care about Independent, Locally Owned Businesses?

Locally owned businesses play a central role in healthy communities, and are among the best engines that cities and towns have for advancing economic opportunity and building resilient places. Small business ownership has been a pathway to the middle class for generations of Americans and continues to be a crucial tool for expanding prosperity and community self-determination. Here, we outline five important reasons for local officials to support independent businesses, based on a growing body of research.

1 | Local small businesses are linked to higher incomes and less inequality.

Enacting policies that strengthen small businesses and expand opportunities for local entrepreneurs is one of the most effective ways of reducing inequality and expanding the middle class.

In 2013, for example, an economist at the Federal Reserve Bank of Atlanta found that counties with larger shares of local small businesses outperform their peers on three critical economic indicators: they have stronger per capita income growth, faster employment growth, and lower poverty rates.¹ Using two decades of data from a number of countries, another study found that areas with more small and mid-size businesses had lower levels of income inequality.²

2 | Entrepreneurship fuels job creation.

Across the country, the rate of new business formation has fallen sharply over the last 20 years, contributing to sluggish job growth and wage stagnation. “New businesses account for nearly all net new job creation,” concludes a Kauffman Foundation research brief.³

Cities that achieve higher rates of entrepreneurship and new business creation than the national average are better off. They generate more jobs, which in turn lifts wages. While cities may be tempted to focus only on tech startups, expanding opportunities for residents to launch businesses that meet community needs in retail, services, food production, and other sectors can have even greater impact.



3 | Independent businesses generate more tax revenue at lower public cost.

Locally owned businesses in dense, mixed-use commercial districts generate more tax revenue for cities than sprawling shopping centers, while also costing less in public services.

An analysis from the *Government Finance Review*, drawing on data from a sample of 30 cities in 10 states, found that a community earns about \$7 in property taxes per acre on the average big-box retail

1 | **Local Policy Matters: How to Grow Independent Businesses In Your City** is a guide for local officials. The complete guide is available online: www.ilsr.org/local-business-city-policy-guide

store, compared to \$287 per acre on a mixed-use, mid-rise business district.⁴ The compact nature of these districts also means they make more efficient use of public infrastructure and services.



4 | Local businesses foster community cohesion and well-being.

The social fabric of a community is tightly coupled with the health of its independent businesses. Research has shown that communities with a larger share of local businesses have more social capital, stronger social ties, higher levels of civic engagement, and better success solving problems.

A 2011 study from the *Cambridge Journal of Regions, Economy, and Society*, for example, found that areas with a greater concentration of small businesses, all else being equal, have improved public health outcomes than those with fewer small businesses.⁵ The authors speculate that local ownership of business enhances a community's capacity to solve problems. Other research has found the presence of independent retailers helps communities retain their residents, especially those with college degrees.⁶

Taken together, these studies show that cultivating a vibrant independent business sector not only strengthens the economy; doing so can advance social goals as well.

5 | Community-scaled businesses reduce pollution and improve environmental sustainability.

Independent businesses help to sustain compact downtown and neighborhood commercial districts, which curb sprawl and automobile use, and enable residents to fulfill more of their daily needs close to home.

Several studies have found that people who live near small stores walk more for errands and, when they do drive, their trips are shorter. That's not all: small retailers also influence how likely people are to take public transit. A study of 3,200 households in King County, Wash. (the Seattle area), for example, found that residents of neighborhoods with the most local businesses logged 26 percent fewer automobile miles than people living in areas with few neighborhood stores, and they were significantly more likely to take public transit to work.⁷

By supporting local retailers, local officials can create a healthier, more sustainable community.

Find more details about the studies mentioned here, and others, by going to the Institute for Local Self Reliance's resource page on "Key Studies: Why Local Matters": www.ilsr.org/key-studies-why-local-matters

SOURCES: 1. "Locally Owned: Do Local Business Ownership and Size Matter for Local Economic Well-being?" Anil Rupasingha, Federal Reserve Bank of Atlanta, 2013. • 2. "Wage Inequality and Firm Growth," Holger M. Mueller et al., LIS Working Paper, 2015. • 3. "The Importance of Young Firms for Economic Growth," Jason Wiens & Chris Jackson, Entrepreneurship Policy Digest, Kauffman Foundation, 2015. • 4. "Thinking Differently About Development." Joe Minicozzi, Government Finance Review, 2013. • 5. "The Health and Wealth of US Counties: How the Small Business Environment Impacts Alternative Measures of Development," Troy C. Blanchard, et al., Cambridge Journal of Regions, Economy, and Society, 2011. • 6. "Socially Responsible Processes of Small Family Business Owners: Exploratory Evidence from the National Family Business Survey," Margaret A. Fitzgerald, et al., Journal of Small Business Management, 2010. • 7. "A Study of Land Use, Transportation, Air Quality, and Health in King County, WA," Lawrence Frank and Company, The Neighborhood Quality of Life Study, Center for Clean Air Policy, GeoStats, & McCann Consulting, 2005; "Neighborhood stores: An overlooked strategy for fighting global warming" Stacy Mitchell, Grist, 2009.