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Democratizing Ownership

Traditionally, liberals and conservatives have agreed on at least one central idea: a robust economy and a vibrant democracy depend on the broadest possible ownership of property. Sadly, today’s liberals and conservatives also agree on another central idea; concentrated ownership marks the next stage of economic evolution.

The tension between our ideal—distributed ownership—and what we believe we must accept—concentrated ownership—illuminates much of current policymaking. Some of this tension would disappear if we ceased to think of increased concentration as an inexorable, unstoppable force of history. We forget that unlike an apple falling or the sun rising, the megastore and the megamerger cannot appear without our permission. We make the rules and the rules make us.

Take the case of bananas. As Daniel Kraker and I point out in this issue, the European Union’s banana policy, which guarantees a market for Caribbean producers, has nurtured egalitarian economies inhabited by tens of thousands of independent farmers and farm workers who earn a decent living. By contrast, Central America is characterized by low paid and dependent banana workers, concentrated economic power, absentee ownership, and stark inequality. This spring the U.S. successfully petitioned the World Trade Organization to declare the EU’s banana policy a violation of GATT. It was a truly hollow victory.

We forget that unlike an apple falling or the sun rising, the megastore and the megamerger cannot appear without our permission. We make the rules and the rules make us.

On the domestic front, the ownership of radio stations has become far more concentrated since Congressional passage of the Telecommunications Act of 1996 allowed far more concentrated ownership. Yet technological developments raise the promise of a dramatic decentralization of ownership in this sector. At this writing, the Federal Communications Commission (FCC) has issued proposed rules for licensing thousands of new microradio stations. Will the rules promote a diversity of views and community-serving stations, or will they encourage the same organizational structures and formats as current commercial radio stations? We report on the controversy.

While Kraker examines policies that can nurture the widest possible ownership of radio, Stacy Mitchell looks at rules that can nurture the widest possible ownership of retail stores. In an excerpt from her new publication, The Home Town Advantage, Mitchell reports on what localities and states are doing to favor enterprises whose relationship to their communities goes beyond simply selling goods or services.

Jeff Gates looks at ownership through a wider lens. He argues that although half of all households own stock, most own very few shares and that the vast majority of us own no wealth-producing assets aside from our own labor. He argues that democratic ownership should become a central tenet of public policy. Gates has the credentials to make the case, since he was one of the original designers of the 1974 law that created employee stock ownership plans (ESOPs). Today there are more than 10,000 ESOPs in the United States, and Gates urges us to expand that distributed ownership model into new structures, like customer stock ownership plans and community stock ownership plans.

From bananas to radio, from retail stores to manufacturing, this issue of The New Rules offers evidence that rules matter. The decisions we make today influence the way our communities and our economies look tomorrow.

—David Morris
Japan Jumpstarts Its Economy by Focusing on Local Businesses

Mired in a decade-long recession, and frustrated by failed attempts to increase consumer spending through traditional means such as tax cuts, the Japanese government has instituted a novel experiment to boost its economy and encourage its small, struggling, independently owned businesses: it has given away money.

By the end of March the government had put $6 billion in shoppers’ hands in the form of 1,000 yen ($8.60) coupons. Elderly Japanese and those with children younger than 15 (about 35 million people) were eligible for approximately $170 worth of coupons. The vouchers are good for six months and cannot be exchanged for cash, nor can shoppers receive change for them. In short, they have no alternative but to spend them.

Each municipality has been given the authority to design rules as to where the coupons may be spent. Most have used this opportunity to favor their local businesses. In most cases they must be used in the communities where they are issued. Moreover, some localities have favored small, locally owned businesses by forcing residents to wait 40 days before they can use the coupons at large, absentee-owned department stores. Other towns printed half of their coupons in one color that could only be spent at small stores, while the other color of coupons could be spent anywhere.

In an additional effort to help local business, the government had each municipality find its own printers, dye specialists and paper-makers to design and print their own local currency.

As to be expected with any new economic experiment, there have been bumps in the road. One major problem is that some frugal Japanese consumers are spending the coupons but then saving an equivalent amount of cash.

Nonetheless, as the first such experiment anywhere in the world, the plan signals a growing realization that for a nation’s economy as a whole to prosper, small-scale, independent and locally owned businesses must also flourish.

Booksellers Hit the Web En Masse

Independent booksellers have joined together to launch an e-commerce web site. The American Booksellers Association expects the $2 million venture, Booksense.com, to be up and running in August. Until now, independent bookstores have largely been left out of online book retailing, which is expected to reach $1.2 billion in sales this year.

Booksense.com will enable local booksellers to take advantage of a site as sophisticated as Amazon.com while retaining their individuality on the web. The “back end” functions like the database, search engine, and transaction mechanism will be shared. Each bookstore will develop its own web site (or select a template provided by the ABA), enabling it to retain its distinct identity and provide tailored content like staff book reviews, store events, and local information. Customers who visit Booksense.com will be prompted to click on a link to their local bookstore.

The database will include 1.6 million titles. Orders will be shipped from the local bookstore if the title is in stock or from Baker & Taylor, a national book distributor. In both cases, the sale is credited to the local store and its name will appear on the packing slip the customer receives. Participating booksellers will be charged a one-time fee of $500 and monthly charges will range from $175 to $400.

The web venture is part of a larger Booksense marketing campaign launched by the ABA in May. Book Sense is aimed at developing a collective brand identity for independent bookstores through in-store promotions and national print and television ads. The ABA has taken care not to give consumers the impression that Book Sense is just another chain. The ads emphasize the knowledge, community roots, and unique character of independent bookstores. The common brand enables publishers and authors to refer consumers to Book Sense stores in their own advertising. At the end of April, 800 bookstores had signed on.

Local Commerce Tangled in a Tax-free Net

Despite its rhetorical embrace of devolution, Congress has again refused to grant any local authority over internet commerce—even when its own laws mandate it do so.

The Internet Tax Freedom Act (ITFA), passed in October 1998, established a three-year moratorium on new internet taxes. The bill also created the Advisory Commission on Electronic Commerce (ACEC), to be made up of sixteen Congressional appointees: eight representatives each from business and from local and state government. Their charge is to begin studying ways to tax the internet in a manner fair to state, local and federal jurisdictions—as well as online merchants and their customers.

Yet when Congress unveiled its list of appointees in March, ten were from high-tech industry leaders, including AOL, Netscape and AT&T.
None represents the interests of main street businesses, which are more likely to support internet taxation. Even after Senator Tom Daschle replaced a Cisco Systems executive with a former state legislator, and former Netscape CEO Jim Barkdale voluntarily gave up his seat to Delna Jones, a county commissioner from Washington County, Oregon, the scales are still tipped in favor of anti-taxation interests. At least one government representative (Virginia governor and commission chair Jim Gilmore) is an opponent of e-commerce taxation.

In response, the National Association of Counties (NACO) and the U.S. Conference of Mayors filed a lawsuit on March 8 in U.S. District Court, charging that the commission “is stacked against local government,” thus violating the intent of ITFA. The groups then filed a preliminary injunction to keep the commission from holding its first meeting, scheduled for June 21. Governor Gilmore has called for the first meeting to be held as planned.

The Justice Department has appointed attorney Allie Giles to defend the business interests in the lawsuit, showing that the government is taking a real interest in protecting the make-up of the panel. Industry leaders claim the tax ban is necessary to further the internet’s growth, but it’s clear that the internet’s explosive success is due to its convenience, low cost, and ability to store huge amounts of information—not its sales tax exemption.

The internet will continue to grow regardless of any taxes placed on it. There is no reason to tilt the playing field further in favor of absentee retailers with an online presence, or to jeopardize the services provided by local governments. Retail sales on the internet surged to $9 billion in 1998, and the growth curve is nearly vertical. Larry Naake, executive director of NACO, estimates that states, counties and cities could lose as much as $50 billion per year in tax revenue by 2005. The result will inevitably be either a decline in services or an increase in property and income taxes. [1]

Visit the New Rules Webpage: www.newrules.org

The New Rules webpage brings together the rules needed for creating politically strong, economically vibrant communities. From land use to electricity, from international trade to mainstreet business, we’ll give you the laws, regulations and court rulings that can help strengthen communities in this time of technological and economic change.

The New Rules Project Announces Two New Reports...

Seeing the Light: Changing the Power Rules—By David Morris
State legislatures, utility commissions and the U.S. Congress itself are busily revising the structure and scale of electricity distribution. Seeing the Light proposes policies that can democratize, decentralize and decarbonize our power future.

The Home Town Advantage: Keeping Retail Locally Owned—By Stacy Mitchell
Communities across the U.S. have lost local businesses as a result of the proliferation of chain stores. Now some towns are fighting back. The Home Town Advantage looks at policies that citizens are using to defend their homegrown economies.

To order call 612-379-3815 or e-mail smitchell@ilsr.org
The Buck Starts—

Thousands of communities have lost local businesses to the clout of national chain stores. But other towns have learned how to protect their homegrown economies. By Stacy Mitchell

In 1992, Warr Acres, a town of 10,000 located about 25 miles from downtown Oklahoma City, experienced what thousands of other communities have: Wal-Mart constructed a 120,000-square-foot store on the outskirts of town. Just seven years later, Wal-Mart has decided to abandon Warr Acres in favor of opening a 200,000 square foot super-center closer to Oklahoma City. Warr Acres stands to lose $500,000 in taxes annually, nearly 8 percent of the town’s budget. This is the second time Wal-Mart has dealt a blow to Warr Acres. When the giant retailer came to town in 1992, several local businesses, including the town’s grocery store, were forced to close their doors.

The loss of local merchants and growing dependence on absentee-owned corporate retailers is a predicament Warr Acres shares with most of the nation. Large national corporations now dominate much of the retail and service sector, while independent, locally owned businesses are struggling, and often failing, to survive.

The level of retail consolidation is staggering. Wal-Mart alone, with 3,400 outlets and $139 billion in sales last year, now commands 6 percent of all retail spending. Borders Books and Barnes & Noble are driving out independent booksellers, whose market share has declined from 58 percent in 1972 to just 17 percent today. While many communities have lost their neighborhood hardware stores, the two giants of this business, Home Depot and Lowe’s, now account for one-quarter of all hardware sales. Thousands of community pharmacies have closed their doors, while Walgreen, CVS, and Rite Aid have expanded to a combined total of 9,000 stores and $37 billion in annual revenue.

Proponents of chain store expansion insist that corporate retailers have brought a host of benefits to consumers including wider selection, greater convenience, and above all, lower prices. Chain stores do achieve certain efficiencies in distribution and management, but while these efficiencies translate into lower prices initially, in the long term consumers may find that they got less than what they bargained for.

Stacy Mitchell is a researcher with The New Rules Project of the Institute for Local Self-Reliance. She is the author of The Home Town Advantage: Keeping Retail Locally Owned, forthcoming from ILSR.
Chain stores tend to price low when entering a new market and, unlike their smaller competitors, can afford to operate at a loss for many months. In some cases chains will price entire lines below acquisition costs, as Wal-Mart has done with its pharmacy department, in order to gain market share. Once rivals have been eliminated, prices tend to rise. In Virginia, for instance, researchers found that prices on specific items at several Wal-Mart stores varied by as much as 25 percent depending on the level of local competition.

While a large-scale retailer will initially provide a small community with a big boost in terms of selection and convenience—sometimes doubling a town’s total retail space—retail spending is a relatively fixed pie. Gains at one location will be offset by losses at existing businesses. A town of 10,000 might support 50 to 60 small merchants, providing economic diversity and stability. When a large corporate retailer moves in, the host community as well as several smaller towns in the vicinity often lose their main street merchants altogether, leaving many of the region’s residents with little option but to drive long distances for even the most basic of daily necessities. As Warr Acres has discovered, this dependency carries risks. While local merchants will do their best to weather economic hard times, absentee owners are far more mobile and will abandon a community if profit margins do not meet their expectations.

Public officials court corporate chains on the basis of new jobs and higher tax revenues. But the public costs of development and declines in property values and sales taxes in existing retail centers may actually exceed the tax revenue generated by the chain.

Resources
Cape Cod Commission
3225 Main Street, Barnstable, MA 02630; telephone 508-362-3828; website www.capecodcommission.org.

Vermont Environmental Board
National Life Records Center Bldg
Drawer 20
Montpelier, VT 05602; telephone 802-828-3309; website www.state.vt.us/envboard/
The authority of communities to nurture and defend local businesses is substantial. Courts consistently grant local governments considerable leeway to exercise their authority to preserve the physical and commercial character of the community. Increasing numbers of communities are using this authority to fashion regulations and ordinances that encourage a more rooted economy. The rules they are adopting tend to fall into five major categories.

**Limiting Size**

Bigness, absentee ownership, and concentration of retail power tend to go hand-in-hand. More than half of all new retail space in the U.S. in recent years has come in the form of superstores or “big boxes.” These massive retail outlets range from 90,000 to 250,000 square feet, two to five times the size of a football field and 20 to 50 times the size of a typical downtown retailer. New stores of this magnitude almost certainly lead to significant sales losses and potential failures at dozens of existing businesses. Moreover, these sprawling, monolithic structures place tremendous burdens on public infrastructure—especially roads—and are at odds with the compact, walkable neighborhoods that many communities prefer.

A number of cities and towns have responded to this problem by capping the size of new retail developments. Skaneateles, New York, for instance, limits retail development to no more than 45,000 square feet and shopping center sites to no more than 15 acres. Westford, Massachusetts, enacted a zoning ordinance banning retail stores larger than 60,000 square feet and requiring a special review and permitting process for stores between 30,000 and 60,000 square feet.

The weakness of municipal zoning restrictions in the age of the automobile is that large-scale retailers denied approval in one community may well find acceptance in an adjacent town. These retailers are large enough to affect an entire region’s economy, and the town that declined the development may find itself not only lacking the new tax revenue generated by the retailer but with a shrinking local economy as well.

Regional cooperation offers a solution to this problem. A handful of regions have taken this approach, creating joint planning agencies charged with reviewing applications for developments that exceed a certain size. The Cape Cod Commission, established by Cape Cod voters in 1990, has the authority to approve or reject proposals for new construction larger than 10,000 square feet and changes of use for commercial sites that exceed 40,000 square feet.

### Assessing Community Impact

The Cape Cod Commission’s review process involves a public hearing and focuses on the project’s impact on the environment, traffic, community character, and local economy. Applicants bear the burden of proving that the project’s benefits outweigh its detriments.

Cape Cod’s regional policy plan, which provides guidelines for reviewing development applications, states that the Commission “should take into account any negative impacts that the project would have on the Cape Cod economy and should encourage businesses that are locally-owned and that employ Cape Cod residents.” Armed with strong land use rules, Cape Cod residents have given a number of corporate retailers the cold shoulder, including Wal-Mart and Sam’s Club in 1993, Costco in 1994, and Home Depot in 1997.

Vermont pioneered this approach on a statewide level in 1970 with Act 250 that requires developments of regional impact to obtain a land use permit from one of the state’s district environmental commissions. District decisions may be appealed to the state environmental board and ultimately the Vermont Supreme Court.

In most cases, commercial developments require Act 250 review when they encompass ten or more acres of land. Approval depends on meeting several conditions that focus on the project’s environmental and...
economic impacts. Act 250, for instance, discourages sprawl and scattered growth and specifies that developments must not exhaust a town’s ability to accommodate growth or place unreasonable fiscal burdens on the ability of local governments to provide services.

Act 250 has limited the number of large-scale retailers in Vermont. The state was the last U.S. frontier for Wal-Mart, which opened its first store there in 1995. The state now has four Wal-Marts, but as a result of Act 250 review, three of these stores are about half the size of a typical Wal-Mart and are located in existing buildings, one of which is in a downtown.

**Demanding Diversity**

Local retail businesses reflect the diversity of our local cultures and enhance our sense of place and community identity. As these retailers are displaced by national chains, America’s towns are becoming marked by a stark uniformity. Retail landscapes are often indistinguishable from place to place.

Thanks to a creative local ordinance, this is not the case in Bainbridge Island, Washington. “We struggle with how we can legally keep our island from becoming Anyplace, USA,” remarked Mayor Alice Tawresey in 1989, following the town’s adoption of a zoning ordinance banning formula restaurants. The law defines a formula restaurant as a food service establishment that is required by contract to have standardized menus, food preparation techniques, and decor and is virtually identical to restaurants in other locations. In short, the rule prohibits chain restaurants.

In the mid-1980s, Carmel, California, became the first town to adopt a formula restaurant ban. Since then several communities have followed Carmel’s lead. One of those towns, Solvang, California, also considered banning formula retail establishments. At the time the town decided that such a ban was not necessary to protect its local merchants and ultimately dropped the proposal. To date no community has enacted such an ordinance, but the language Solvang considered provides a useful model for others to follow. A formula retail business was defined as “a single-source, high traffic retailer operated directly by, or under contract with, a manufacturer of the merchandise offered for sale therein, and required to adopt standardized layout, decor, uniforms, or similar standardized features.”

**Favoring Community-Serving Retail**

Large-scale retailers draw customers from a wide area, inundating neighborhoods with traffic and pollution and often diminishing the quality of life and property values of area residents. An invasion of national retailers drawing from a regional market may also drive up commercial rents, making survival difficult for neighborhood-oriented businesses that supply basic daily goods. Enacting a town-serving zoning ordinance, as Palm Beach, Florida, has done, provides a solution to this problem. This island community requires retail and service businesses in its main commercial district to be smaller than 2,000 square feet and to primarily serve those living and working on the island. Businesses larger than 2,000 square feet may apply for a special permit provided that they can satisfy the town council that not less than 50 percent of their anticipated customers reside or work in Palm Beach. The ordinance was upheld in a 1991 court case in which the judge determined that the law served legitimate public interests and reflected the community’s desire to “limit displacement of businesses serving the Worth Avenue neighborhood by larger, regional establishments.”

**Favoring Local Ownership**

Zoning rules provide citizens with powerful tools for shaping the retail character of their communities and encouraging a locally rooted economy. Zoning, →

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**Resources**

For the complete 1997 opinion of the Vermont Supreme Court upholding the Environmental Board’s decision to reject a proposed Wal-Mart store under Act 250 review, see [www.newrules.org/cgi-bin/access/rules/biz/court/walmart.html](http://www.newrules.org/cgi-bin/access/rules/biz/court/walmart.html).
however, cannot be used to ban developments on the basis of ownership; that is, communities cannot legally exclude absentee-owned retail stores. As mentioned before, however, they can use “local ownership” as one of the criteria used to decide whether to grant a permit to a new business.

Communities may also have the authority to impose special taxes on absentee-owned stores. Such taxes were once fairly common.

The first wave of U.S. chain store expansion occurred following World War I when the market share of chain stores shot up from 9 percent of all retail sales in 1926 to more than 25 percent in 1933. This trend met with vigorous opposition. Unlike the narrow focus on efficiency and consumer welfare that dominates current debates about corporate retailers, Americans in the 1930s were primarily concerned with community. Many were convinced that absentee ownership would drain local economies and undermine democracy by concentrating economic power. More than half the states responded by enacting chain store taxes designed to curb the growth of corporate retailers. Most of these laws were challenged in the courts, but in 22 states they survived.

Chain store taxes usually took the form of a graduated license or occupation tax that increased according to the number of outlets operated by a chain. Some were fairly mild at $25 to $30 per store per year. Other states were more aggressive. Texas, for instance, assessed $750 per store for systems with more than 50 outlets. This was fairly substantial considering that the average annual net profit for grocery stores was $1,694 in 1929 and $950 in 1935. Iowa collected both a per-store tax of $155 for chains with more than 50 units and a gross-receipts tax of 10 percent on income exceeding $1 million. Most states counted only those outlets within their borders. The exception—Louisiana—based its tax on the number of stores the chain operated nationally.

The anti-chain store movement began to fade by the late 1930s, in large part due to a massive campaign mounted by corporate retailers who argued that the community-building aspects of local retailers were merely secondary functions. Their primary purpose was to benefit consumers through selection and low prices, and here, they argued, the chains were enormously successful. No new chain store taxes were enacted after 1941, and over the years all of the existing state taxes were repealed.

The decline of independent retailers is by no means inevitable. Indeed, the displacement of these businesses by national chains has been aided in no small way by public policy. Land use rules have all too often ignored the needs of communities and undermined the stability of existing retail centers. Development incentives frequently favor national corporations over local merchants.

Increasing numbers of communities are beginning to use policy to nurture rather than harm homegrown businesses. These new rules put community first, intent on restoring the vitality of local economies and resurrecting main street. [1]
Getting a Slice of the Pie

Capitalism has done a lousy job of rewarding workers who help build corporate profits. But through new ownership solutions, more “up-close capitalists” could be created. By Jeff Gates

For the first time in human history, a single economic system encircles the globe. Yet even as capitalism reigns triumphant, its deficiencies are becoming ever-more apparent. The fundamental problem is that while capitalism has proven a remarkable system for increasing wealth, it has been far less effective at increasing ownership. And it is the ownership of productive assets, not, as the conventional wisdom would have it, hard work, that increases income and wealth. In brief, capitalism has done a lousy job of creating capitalists.

The data tell the tale.

In the United States, the most capitalist country on earth, total assets increased threefold from 1980 to 1992 while median household income declined. From 1989 to 1995 the stock market soared but the net worth of the typical household, including home equity, was the same as in 1989. One reason is that 71 percent of American households own no shares at all or less than $2,000 in any form, including mutual funds, according to MIT economist James M. Poterba.

The net worth of the top 1 percent of U.S. households, according to the Federal Reserve and the Internal Revenue Service, is greater than that of the bottom 90 percent. Though average household income climbed 10 percent between 1979 and 1994, 97 percent of that gain went to the most well-to-do 20 percent. The top fifth of Americans now claim 48.2 percent of the nation’s income, according to the Census Bureau, while the bottom fifth gets by on just 3.6 percent.

As the United States goes, so goes the world. In the past 30 years, the poorest 20 percent of the world’s people saw their share of global income decline from 2.3 percent to 1.4 percent, according to the United Nations. Then they were 30 times worse off than people in developed countries. Now they are 82 times worse off. From 1965 to 1980, 200 million people saw their incomes drop; from 1980 to 1993, 1 billion experienced falls in their income.

The concentration of wealth has reached breathtaking proportions. In 1998 the assets held by the world’s 225 billionaires exceeded the combined income of 2.5 billion of the world’s poorest people.

The UN’s conclusion: “Development that perpetuates today’s inequalities is neither sustainable—nor worth sustaining.”

Today’s capitalism is also increasingly uncoupled from place and community. More than $12 trillion—up from just $673 billion in 1970—is invested by a handful of institutional fund managers in pursuit of a solitary goal: financial returns.

Capitalism is at a crossroads. The most productive economic system ever designed is channeling...
resources in a way that is making us less secure, more dependent, and, on average, poorer. Unless reconnected to personal concerns of real people in real communities, today’s detached and indifferent capital markets are destined to evoke a pageant of unsustainable practices based on financial criteria that often fail to take into account legitimate economic, environmental, and societal concerns. The result will be an even greater divide between the haves and have-nots and a greater concentration of assets—and power—in fewer and fewer hands.

There is a solution. I call it up-close capitalism, where at least some component of ownership is physically proximate to productive assets so that something more complex than financial values can inform economic decision making. Ultimately, this solution views ownership as a social tool for linking people not only to productive assets, but also to each other, to their community, and to their endangered environment.

This strategy can return us to the vision of capitalism expressed by its intellectual founder, Adam Smith, who was first and foremost a moral philosopher. Financial calculation is part of who we are, he wrote, but it is only one part. Smith’s goal for private enterprise was not to maximize financial returns but to enhance social well-being, including the well-being of those communities in which the moral nature of humankind takes form.

We need an ownership solution that democratizes capitalism and roots it in a sense of place and community. And we need government to use all the tools it possesses to encourage personalized, localized, and community-wise ownership. In 1975 the federal government took the first step by offering handsome tax incentives to businesses that made their employees stock owners. The Employee Stock Ownership Plan (ESOP) was born. Today more than 10,000 companies have ESOPs. Nine million employees are members. And recent studies indicate that those companies that give employees a significant ownership stake and more decision-making authority do better than those who do not.

We need to extend and strengthen the concept of ESOPs. Related Enterprise Share Ownership Plans (RESOPs) could encourage companies to include as stockholders not only their direct employees but also those employed by companies with which the sponsoring business has an ongoing relationship, such as distributors or suppliers. Jamaican law now encourages this structure, and one chicken processor has extended stock ownership to its contract farmers and those employed by contract truckers.

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Today’s detached and indifferent capital markets are destined to evoke a pageant of unsustainable practices based on financial criteria that often fail to take into account legitimate economic, environmental, and societal concerns.

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F.Y.I. This year, the population of the world is supposed to hit 6 billion people. The 225 richest people in the world make more money than the poorest 2.5 billion people combined. The net worth of the richest 1 percent of the American population is now greater than the net worth of the entire bottom 90 percent combined.
Customer Stock Ownership Plans (CSOPs) would allow customers to become owners. For example, over time, bill-paying customers of investor-owned utilities could accumulate shares out of revenues that are now paid to people outside the community.

Depositor Share Ownership Plans (DSOPs) would enable depositors to own shares in a bank. That makes sense. If people have sufficient confidence to trust a bank with their savings, the bank may be able to draw on that good will to persuade those customers to buy shares. Banks gain an opportunity to strengthen customer loyalty, and customers would become close capitalists—both as savers and as potential borrowers, secure in the knowledge that their borrowing enhances the earnings of a bank in which they own a stake.

ESOP-like self-financing techniques can also be used to expand ownership beyond economic relationships. One such mechanism is the General Stock Ownership Corporation (GSOC) in which ownership is based on geography or citizenship. In the only version of a GSOC thus far enacted into federal law in 1978, a for-profit corporation chartered by a state could operate tax-free provided it complied with the ESOP's three operational principles: (1) each citizen of the state must be included—the democratic principle, (2) individual ownership was limited to ten shares—the antimonopoly principle, and (3) 90 percent of the company's earnings must be paid out to shareholders on a current basis—the private property principle.

Congress, and perhaps state legislatures, could make RESOPs, GSOCs, and CSOPs a legal reality. Meanwhile, government should exercise its authority to make local ownership a public policy priority. The aphorism I recommend to policy makers is simple: where the cash flows, ownership grows. For example, roughly one of every six dollars spent in the United States originates with government, whether federal, state, or local. Procurement contracts and other taxpayer-funded commercial ties could be used to promote broad-based local ownership. Imagine, for example, if during Eisenhower's Administration all those contracts for the building of our interstate highway system had examined local ownership as part of the bid screening process.

The same preference can apply in trade assistance programs such as the Export-Import Bank. Fannie Mae, for example, could purchase mortgages only of lenders that sponsor substantial Employee Share Ownership Plans, and it could limit its securities dealings to those firms in which a broad base of employees own shares.

As William Greider has proposed in One World, Ready or Not, the Federal Reserve system could buy the debt paper of employee-owned or community-owned trusts that finance new capital formation. When these ventures pay off the debts on their new machines and factories, the loan paper would be retired, and ordinary citizens would hold title to the new capital stock. The use of government procurement or investment authority to support social ends is not unprecedented. We have Buy America provisions, small business preferences, and minority enterprise preferences. On the environmental side we have recycled content preferences and, more recently, environmentally preferable purchasing.

Democratic capitalism can—and should—be a key goal of government policy.

With the benefit of hindsight, policy makers in both the public and the private sector can sort through history's dustbin of failed ownership solutions (collectivization, plutocratization, etc.) and construct a political and commercial environment that evokes the best features of those that flourished while avoiding those that failed. Where successful, this ownership engineering will succeed in restoring to capitalism a sense of place and scale.

This is not meant to suggest that other components of a community's social capital are unimportant; families, religious organizations, schools, and civic associations are all integral to a vibrant community. A poorly conceived ownership policy—or none at all—however, is destined to undermine attempts to strengthen civil society. It is in our relationships with each other that the notion of community either gains in strength or surely atrophies. It is those associations and connections, both personal and commercial, that give a community its texture and tone.
OutLANDish TAXes?

It may be time to stop thinking about taxes as a necessary evil and start thinking about them as a tool for building healthy cities. By Pam Neary

Outraged voters, tight city budgets and intractable urban problems have all combined to encourage public and policymakers to explore alternative forms of taxation, especially a tax that could replace the vilified property tax. One of the “new” taxes under increasingly widespread examination is the land value tax—first proposed over 100 years ago by political economist Henry George. Can a land tax reduce sprawl and strengthen urban economies? The evidence is persuasive, but not conclusive, and many things have changed since 1879, when George published his famous book, Progress and Poverty.

Henry George lived in San Francisco during one of California’s many land booms in the 1860s. During that time he observed that increasing poverty usually accompanied rapid economic growth, and a correlation existed between the increased wealth of landowners and the decreased wages of workers. He believed it was because land speculators withheld their holdings from productive activity in anticipation of greater returns in subsequent years, forcing the costs of production up and the level of wages down.

George’s solution to this dilemma was simple yet revolutionary—abolish all taxes except for a tax on land. This single tax would eliminate land speculation and thus make more land available for production. And by removing all other taxes, higher wages and lower prices would result, raising the standard of living for all.

Because land is immobile and fixed in supply, owners cannot manipulate or hide their assets to avoid a tax. In contrast, a property tax on buildings offers abundant opportunities for manipulation. Tax theory predicts that people will alter their economic behaviors in response to taxation and history bears that out. Witness the unusual placement of houses in old Charleston, where city lots were taxed according to the length of their road frontage. Not surprisingly, it didn’t take long to realize you could build a very nice mansion on a long, narrow lot and forego the road frontage. You can see the interesting effects of that tax policy today when you gaze at the lovely antebellum homes that line the streets of old Charleston. Nearly every home is situated so that the narrow end of the house faces the street and the long, porch-lined front extends along the side yard gardens of the typical deep and narrow Charleston city lot.

As James Howard Kunstler expressively describes some of the impacts of our current property tax system in Geography of Nowhere,

Our system of property taxes punishes anyone who puts up a decent building made of durable materials. It rewards those who let existing buildings go to hell. It favors speculators who sit on vacant or underutilized land in the hearts of our cities and towns. In doing so it creates an
Is Georgist tax a remedy? The evidence is convincing that it should be an element in any comprehensive strategy. But a land tax in and of itself will not revitalize our central cities nor end urban sprawl.

**How a Land Value Tax Works**

Current property taxes are based on the value of property, reflecting both the land and structure value, as determined by local property assessors. Assessments are based on the sales of comparable property or, if commercial property, on revenue streams. Decisions to reinvest or remodel currently result in higher assessment valuations and thus higher taxes. Conversely, there is no penalty to undermaintain your property. In fact, if your property value goes down because you refuse to paint, maintain or upgrade your building, you are “rewarded” with reduced property taxes.

A Georgist land tax would not include the value of the structure and so the tax would not be applied to the individual efforts to improve the property. If entire neighborhoods were improved, over time land values would also rise, reflecting higher community amenities, and the tax would capture the collective efforts of the community at improving their properties. In this way, reinvestment would not be discouraged and property owners would be encouraged to maximize the use of their properties.

There is widespread disagreement as to what portion of property value is attributable to land. Current assessments capture both the public value (neighborhood amenities, public infrastructure, quality of schools, etc.) and the private value (quality and design of the building). Taxes are levied on the whole and there is no incentive to try and attach a true value to the land portion only. Because of this, the value of land as a percentage of overall property values varies widely between cities. In Minneapolis about 28 percent of value is land and 72 percent is structure. In Quebec municipalities, the land is worth about 47 percent, the structure 53 percent. In Pittsburgh, where they use a split rate tax on land and structures (see below), residential land is valued at only 20 percent of the total property value. These wide differentials are not due to real value differences, but to different assessment practices.

Land values should be determined by the value someone would be willing to pay for vacant land that could be used for similar purposes as those surrounding properties. In its simplest form, this would mean that cities could be mapped as gradients of land value, similar to a topographical map. The highest gradients would be where there are high public amenities or investments, such as transportation systems, parks and well-designed neighborhoods. These gradients would reflect the land values due to public investments and communal investments. Lots situated next to each other would have the same values regardless of whether used for office building or parking lot, apartment or single family home.

Using any of the ratios from the examples given above, a land tax could significantly reduce the taxes on structures since the value of structures is relatively high when compared to the value of land. A land tax should be high enough to totally replace the revenues of the tax it replaces. The beneficial aspects of the land tax originate both from the characteristics inherent in the tax—neutral and nondistorting—and from the elimination of the negative characteristics of the tax that is replaced. Therefore if the land tax replaces the current property tax, one could expect to see more reinvestment and higher densities.

**The Evidence**

Only a handful of places in the United States tax land much more heavily than buildings. None has instituted a tax only on land, as advocated by Henry George.

Pittsburgh, Pennsylvania, has used a 2-tiered tax since 1913, when the land portion of property value was taxed at a twice the rate of buildings. Largely because of the vested political interests at the time—steel company executives with large land holdings—the differential remained at this relatively low spread until 1979. By the 1970s steel had lost its clout and Pittsburgh was reeling from the economic fallout. In 1979, Pittsburgh decided to increase its land tax to nearly 5 times the rate on structures in order to induce reinvestment in the city. Today, Pittsburgh taxes land at $18.45 per $100 of the assessed valuation of land, 

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**Resources**

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and $3.20 per $100 of the assessed valuation of all buildings. On the other hand, neither Pittsburgh’s school district nor Allegheny County uses the split rate tax on property, so the overall tax rate on land remains at about twice that of structures. Properties outside the city are subject to the usual property tax system in which land and structures are taxed at the same rate.

Several researchers have tried to analyze the effects of the Pittsburgh policies. The results are somewhat inconclusive. Construction in Pittsburgh did make dramatic gains in the years following the 1979 tax change. During the decade of the ’80s, the value of Pittsburgh’s building permits rose by over 70 percent relative to the two decades that preceded the tax reform. Other Rust Belt cities showed either static or declining construction activity in the same period.

But it is hard to conclude that the land tax was a key cause of Pittsburgh’s revived economy. Several major corporations decided to expand their headquarters in Pittsburgh and were offered public assistance to construct a series of major office complexes. Virtually all of the increased construction activity was in commercial and industrial buildings. Pittsburgh’s residential construction barely moved in the ’80s.

Perhaps the differential between suburban property taxes and Pittsburgh land taxes induced at least some of the construction activity. Since land taxes have not been enacted on a regionwide or statewide basis, structures in Pittsburgh clearly receive beneficial treatment when compared to the surrounding communities. Some researchers believe that it is this differential that most influenced Pittsburgh’s construction since 1979. Given that more expensive structures benefit the most from a land tax, it is perhaps not so surprising that commercial construction activity increased most noticeably.

Many other cities in Pennsylvania have experimented with the split rate tax system, including Aliquippa, Carbondale, Clarion, Coatsville, Du Bois, Duquesne, Harrisburg, Hazleton, Lock Haven, McKeesport, New Castle, Oil City, Pittsburgh, Scranton, Titusville, Uniontown, and Washington. In 1998, Pennsylvania enacted Act 108, which permits the state’s nearly 1,000 boroughs with a population of 2.5 million to implement split-rate property taxation.

Studies of other Pennsylvania cities have been more supportive of the benefits of land value taxation:

• Stephen Cord compared Scranton and neighboring Wilkes-Barre, cities with nearly equal revenue per capita, as well as similar ethnic characteristics. In 1979, Scranton nearly doubled the tax rate on land and removed the property tax from new construction while Wilkes-Barre kept the standard flat-rate property tax. In the two years following the tax change, average annual building permits increased 22 percent in Scranton and decreased 44 percent in Wilkes-Barre from the three previous years.

• In 1980, McKeesport increased the tax rate on land, decreased the tax rate on buildings, and offered three-year tax abatements for new construction. Cord found that construction in McKeesport rose in 1980-81 relative to the preceding three years but fell in two neighboring cities that maintained the standard property tax.

• In an analysis by the Center for the Study of Economics, Washington, which adopted a graded tax in 1985 and expanded it throughout the next decade, compared favorably with the similar, neighboring Uniontown, which also adopted a graded tax but quickly rescinded the tax after one year. Average annual construction per person over the 1987-1995 period was 23 percent higher in Washington. New Castle experienced a 70 percent increase in the number of building permits issued within a three-year period following its change to a graded tax. Neighboring towns retaining their flat rate experienced a 66 and 90 percent decrease.

With a changing economy and unsolved public policy challenges, the time seems ripe for redefining our tax and revenue structures.

Challenges for the Land Tax

Despite these fledgling successes, there are obstacles to implementing an effective land value tax. One is zoning, an urban planning tool introduced after Henry George’s time. Zoning is important for thinking about property tax policy because zoning plays a major role in determining the value of land and buildings. Zoning is also subject to political manipulation, which means that speculative opportunities are difficult to eradicate from this process.

George advocated a universally applied land tax based on the value of land in its best economic use—as determined only by market forces. But market forces do not necessarily create the best communities. In Henry George’s era, cities were organized around a central core with most of the public investment concentrated in a relatively small area. Land values were determined by locational benefits with land near the core being more valuable. But the value of the core has changed as the economy has changed and as pub-
lic investments have become less centralized.

Freeways now roam through rural areas and skim by the edges of cities and towns. Without the restraint of zoning policies, there are many enhanced commercial opportunities and higher corresponding land values along freeways. But do we really want the seemingly unending commercial strips that would then result? Many cities are trying to battle wasteful urban sprawl by creating new town centers and neighborhood commercial zones, requiring businesses to locate where pedestrians and transit can easily access their services. The elimination of zoning would undermine these fledgling efforts and create less than desirable communities.

But zoning also creates the opportunity for speculative activity. A major reason for implementing a land value tax is to eliminate land speculation. It’s a tension that land value tax proponents must attempt to resolve.

For example, at the fringes of most American cities, you will find farmers fighting to retain their agricultural zoning...until it’s time to retire. At that point, many farmers determine that their land has “lost its agricultural productivity” and they petition for a rezoning to residential or commercial uses, which will bring a higher selling price for the retiree. This process is a form of speculation that will be difficult to deter, even with a land tax, unless our local land use practices are also reformed.

Communities may choose to apply only parts of Henry George’s theory, but that leaves one wondering whether the difficulty of enacting the change is worth the more limited benefits it would bring.

With a changing economy and unsolved public policy challenges, the time seems ripe for redefining our tax and revenue structures. The land tax, a concept new to some but with a dignified history, is worthy of revisiting. It clearly contributes to better equity than does the current property tax system. A land tax captures the value of public investments, but leaves the benefits of private activity in private hands. And in an ever more mobile economy, a fair but immobile tax with which to sustain our cities and towns will be an important factor in improving and maintaining the viability of our communities into the 21st century. [1]

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International Experience With Land Value Taxes

- In Denmark, as early as 1844, the national property tax was assessed on the value of the land but not the improvements on the land. The site-value property tax was abolished in 1903 and replaced with a flat rate on the total value of land and improvements. However, this tax change hurt the many small farmers in Denmark who had invested heavily in improvements but had limited holdings of land. These farmers joined together to lobby for a return to the site-value tax. Today, all cities in Denmark use a graded property tax. The effects of a graded tax on development have not been studied extensively in Denmark despite the widespread use of the graded tax because the proportion of overall revenues raised by the property tax has decreased with time.

- Prior to 1976, all of the states in Australia taxed property based on the value of the unimproved land. Today, all but the state of Tasmania continue with the land tax, although the revenue raised by the states is relatively small. Many local governments in Australia also use variants of the graded tax. Sydney, for example, began levying a tax on the unimproved value of land in 1916. Valuation of land is based on fair market value, which implies that it is based on the property’s value in the highest potential use and not current use. This is in contrast to methods employed in the United States, where typically site value is assessed as the “land value proportion of the current market value of an improved property.”

- From 1903 to 1913, Canada introduced site-value taxation in the western provinces in an effort to encourage the breakup of large areas of land held by absentee owners, to prevent land speculation, and to spur construction. Assessments reflected the highest and best use of the land in question. Provinces have since turned over the property tax to the municipalities. Today, cities in the four western provinces either exempt improvements from the property tax base, or record the improvements on the assessment roll at a percentage of their full value. [1]
Fighting Corporate Power with Low Power

FCC could pave the way to a more democratic and locally controlled radio dial. By Daniel Kraker

In January, FCC Chairman William Kennard pushed through a tentative plan to legalize low-power FM radio stations. Such a move—seemingly a huge victory for microradio advocates, who have spent the past decade fighting the FCC’s 20-year ban—could have disastrous consequences. As it stands, Kennard’s proposal would turn over most of the remaining spectrum to for-profit enterprises. Noncommercial, community-oriented and locally produced programming—what microradio broadcasters have fought for—would be virtually eliminated.

The standardized, homogeneous content we hear on the dial today is not the result of the free market, nor even the natural evolution of the radio and media industries. It is the direct byproduct of rules we have created over the past seven decades—such as the microradio ban—that have moved radio stations further and further from the communities they serve and slowly transformed the radio spectrum from a diverse, noncommercial world of ideas to a stale, corporate model dictated by the whims of national advertisers.

In the early 20th century, radio flourished as a democratic, noncommercial medium. Tens of thousands of entrepreneurs, community groups and everyday citizens took to the airwaves.

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In the early 20th century, radio flourished as a democratic, noncommercial medium. Tens of thousands of entrepreneurs, community groups and everyday citizens took to the airwaves. Congress passed the Radio Act of 1927, which created the Federal Radio Commission (FRC).

The Act viewed the radio spectrum as a public resource and directed the FRC to regulate airwaves “in the public interest, convenience and necessity.” But government immediately began to treat the airwaves more as private property than a public resource. Nonprofit stations were awarded fewer hours of air time and radio license terms were shortened to only three months, straining the already limited finances nonprofit stations had to apply for licenses.

By 1934, when the Federal Communications Act replaced the FRC with the Federal Communications Commission (FCC), noncommercial programming comprised only two percent of air time.

Although leaning toward a radio spectrum dominated by profit-oriented firms, the FCC did enact several measures that required such firms to serve the “public interest.” The Fairness Doctrine, adopted in 1949, required radio stations to provide opposing views on issues of interest to the communities they served. The FCC also required eight percent of AM air time and six percent of FM air time be set aside for public affairs programming. Both requirements were axed during the Reagan years. The end of the Fairness Doctrine gave birth to the now-ubiquitous partisan talk show.

In 1948, in an effort to encourage more diversity and more community-oriented programming, the FCC began to issue Class D low-power licenses to community groups, colleges and churches. Thirty years later, under pressure from National Public Radio (NPR), which was aggressively seeking to con-
solidate public affairs programming, the FCC banned all stations under 100 watts.

Little was heard on the low-power FM dial until a lone activist launched a tiny station out of the John Hay public housing project in Springfield, Illinois, in 1986. The FCC shut down M'banna Kantanko’s one-watt operation but so-called “pirate” radio stations began to appear all over the country. Since 1997 the FCC has shut down 430 such stations, ranging in power from 1 watt to 800 watts.

The passage of the Telecommunications Act of 1996—one of the most heavily lobbied and least debated bills in history—further removed radio stations from their listeners. Prior to the Act, no single company could own more than 40 stations nationwide, and no more than two AM and two FM stations within a single market. The Act abolished the national cap, and allowed one company to own as many as eight stations in a single market.

Since 1996, more than 6,200 radio stations, worth $45 billion—one-third of the country’s total—have been bought, sold or merged. Small conglomerates have been gobbled up by mid-sized ones, which in turn have been devoured by the biggest players. If, as many analysts expect, Chancellor Media soon merges with Clear Channel Communications, the combined entity would own 915 stations nationwide—23 times as many as stations as it could legally have owned three years ago.

Radio conglomerates can now compete with newspapers and television stations for big-time advertising dollars. They can also offer advertisers targeted audiences—country listeners, teen top 40 listeners, etc.—for specific products. Simultaneously many large companies have slashed costs by pumping programming from corporate headquarters to their local outlets, where sophisticated technology allows technicians to splice in some local news and weather to give the appearance of local production.

The results are disturbing. Any remotely controversial content is stymied so as not to alienate potential advertisers. Radio station owners are more and more remote from the communities and local listeners they serve. Locally focused, community-based programming is disappearing from the airwaves.

Communities, angry at this state of affairs, are petitioning to start their own low-power radio stations. In the last year, the FCC received 13,000 inquiries about starting such a station. This flood of interest, along with the continual stream of legal challenges brought by microradio stations operators who have been shut down, prompted an about-face by the FCC on this issue. In January the FCC issued proposed rules for microradio. The comment period ends in August.

“We cannot deny opportunities to those who want to use the airwaves to speak to their communities sim-
No, We Have Plenty of Bananas

But soon none of them will be grown by independent, family farmers.

By Daniel Kraker and David Morris

The World Trade Organization has ruled that Europe cannot give preferential treatment to bananas imported from its former Caribbean colonies. What if instead Europe were to give preference to all bananas produced by independent farmers who pay living wages? The WTO wouldn’t allow that either. Welcome to the Brave New World of free trade.

In 1993, the European Union (EU) guaranteed a portion of its internal banana market to former colonies in the Caribbean and Africa. In late 1995 the U.S. asked the newly created World Trade Organization (WTO) to declare the EU’s actions a violation of the General Agreement on Tariffs and Trade (GATT). In 1997 the WTO ruled in favor of the U.S. and in March 1999, with the WTO’s approval, the U.S. began imposing 100 percent tariffs on $200 million of European exports, from cashmere sweaters to pecorino cheese, threatening the economic viability of dozens of enterprises. A month later the EU agreed to eliminate its banana preference program by 2000.

The banana story generated little debate. It deserved better. It marks one more step in the creation of a new body of international law that will determine the authority of nations and states and the structure of commerce in the next millennium.

Here’s the Background

The glowing, plump bananas in most American supermarkets sport the familiar decals of Chiquita, Dole or Del Monte (all U.S. companies) and come from Central America. In Europe, consumers choose between “dollar” bananas, as the fruit from Central American plantations is called, and the smaller, sweeter fruit of Europe’s former island colonies in the eastern Caribbean.

It is doubtful if Caribbean bananas could find a significant market without a policy like that of the EU because their wholesale price is twice as high as those grown in Central America. Some of the increased cost is due to natural factors (e.g. steep terrain), the limited size of the islands, relatively poor soil quality and climatic hazards (hurricanes and floods).

But the majority of the price difference results from the vastly different structures of the Caribbean and Central American banana industries. The former is characterized by many small, independent farms and high-wage workers. The latter is characterized by a few huge, foreign-owned plantations and low-wage workers.
• The average size of a banana farm in the Windward Islands is less than four acres. The plantations that dot Latin American banana-growing regions range from 2,500 acres to more than 12,000.

• Caribbean farms are family-owned and independent. The Windward Islands host 24,000 independent farmers. The small scale of the farms and the widespread ownership have had an equalizing effect on the income levels of the Windward Island populations. In contrast, Central American plantations are either owned directly by their parent multinational or contracted to them. Chiquita employs about 38,000 workers in its Central American plantations, and the inequality of income between owners and workers is stark, Carl Lindner, CEO of Chiquita, is worth well over a billion dollars; people picking the bananas he sells make $12 on a good day.

• Caribbean banana workers earn a living wage. Their counterparts on Central American plantations earn one-half to one-sixth as much.

On first glance, the U.S. intervention in the banana issue seems odd. After all, the EU’s banana policy appears to be a perfect example of “trade not aid.” Rather than handouts to tiny nations, Europe has designed an effective policy that encourages hard-working, well-paying independent enterprises.

The Caribbean is overdependent on bananas and diversification is undoubtedly a worthy goal. But bananas are an excellent crop for these islands. Their hilly terrain makes it difficult to grow other crops and bananas are resilient in the face of the numerous hurricanes that afflict the eastern Caribbean. Moreover, unlike other fruits, bananas are produced year round.

The elimination of the EU policy could have a devastating effect on the eastern Caribbean. In the Windward Islands some 70,000 persons are employed by the banana industry—roughly one-third of the entire labor force. In Dominica, the smallest banana producer in the Windwards, bananas account for between 60 percent and 80 percent of foreign exchange. Thirty-six percent of the country’s entire labor force is employed in the industry.

“We are told that the world has changed, that because of the WTO there must be a free market in bananas,” says Winston Graham. “But the market should not be so free that it can destroy people’s lives.”

While the end of the EU policy will dramatically undermine Caribbean economies, its continuance only marginally affects the profits of planetary corporations. As a result of the EU policy, the four Windward Island nations account for just 3 percent of the world market, compared to the more than 60 percent share owned by Chiquita, Dole and Del Monte.

The U.S. grows no bananas. Few if any U.S. jobs are lost due to the EU policy. Some jaundiced observers believe that the U.S. precipitated a trade war over bananas as a favor to Carl Lindner, CEO of Chiquita and a generous contributor to political campaigns. But others believe the U.S. intervention is spurred less by political expediency than by Washington’s desire to build a body of law that will fundamentally change the way nations and corporations do business in the 21st century. With the creation of the WTO in 1995, the 50-year-old GATT was fundamentally changed and strengthened, in effect creating a global constitution. Decisions made now on issues such as banana trade will be used as precedents in the future implementation of this framework.

As Renrick Rose, head of the Windward Islands Farmers Association (WINFA), observes, “a number of the WTO rules are still untested. The U.S., from the outset, wants to set the agenda and impose its own direction and interpretation of WTO regulations. If Caribbean banana producers have to suffer in the process, well too bad for us.”

One of the most controversial sections of the GATT/WTO is Article III, which prohibits countries from discriminating against goods based on “process and production methods.” This provision has so far been interpreted as denying countries the right to ban the import of products produced in an environmentally harmful manner. The WTO has already struck down an American import ban on shrimp caught with fishing nets not equipped with devices allowing sea turtles to escape, and a European ban on the import of hormone-treated beef.

In 1993, when the EU agreed to enact its preference policy for bananas from former colonies, it agreed to phase it out within ten years. Many Europeans have proposed that it be substituted with a “fair trade” policy in which the EU would reserve a share of its market for bananas produced in an environmentally and socially sustainable manner. Such a policy would allow any bananas to be sold in Europe so long as their growth nurtured rather than threatened the social, environmental and economic fabric of their host country.

If the WTO runs true to form, it will outlaw that policy too. [1]
States Take Bull by the Horns

Nebraska, Iowa and South Dakota are leading the charge against a meat packing monopoly that has brought many independent farmers to their knees. By Stacy Mitchell

While the federal government expresses its sympathy for the plight of family farmers—but fails to act to break up concentration in meat packing—-independent producers across the plains are pushing state lawmakers to take matters into their own hands.

Meat packers claim that a mismatch of supply and demand is to blame for the woes currently facing hog and cattle farmers. But farmers insist the problem results from concentrated power. Four companies—ConAgra, IBP, Cargill, and Farmland-National—control 87 percent of the cattle slaughter, up from 36 percent in 1980, along with 54 percent of the hog slaughter and 70 percent of the sheep slaughter.

The farmers make a persuasive case. This winter prices paid to independent hog producers were at their lowest since the Depression, while consumer pork prices climbed to the second highest level ever. According to a study released by Purdue University, meat packers and retailers made at least $4 billion more on pork this year than last, while thousands of hog farmers went bankrupt.

For beef, producers' share of the consumer price has fallen more than one-fifth over the last decade, while packing companies' share rose 20 percent. IBP, the largest beef packer (with more than one-third of the market), had its second best year ever in 1998, earning nearly double the profits of 1997 despite declining sales.

Producers say that with so few companies controlling the market, they can no longer get a fair price for their livestock. By maintaining a reserve of "captive supplies"—livestock owned or controlled by packers through forward contracts and other marketing arrangements—packers are able to control the number of hogs or cattle on the market and thereby manipulate the price.

Farmers also contend that a select few large feedlots—many of which have financial ties to the packers—are receiving preferential contract terms and price premiums unavailable to smaller producers and feeders. Packers are not required to disclose prices or contract terms. They voluntarily report only about 10 percent of sales, but producers believe only low prices are being reported, which keeps the market value of livestock artificially depressed.

In the early part of this century, when concentration levels had reached significant levels, Congress enacted the 1921 Packers and Stockyards Act to curb packing concentration and maintain competition. The Western Organization of Resource Councils (WORC), which represents thousands of small producers, petitioned the U.S. Department of Agriculture (USDA) in 1996 to use its broad authority under the Act to issue new rules that would limit vertical integration and require packers to disclose prices, but three years later USDA has yet to act (see "Place Rules," Groundwork, Summer 1998). Congress has also failed to act. This fall a measure requiring price reporting was added to the Agriculture Appropriations Bill, but under heavy pressure from the packing lobby it was gutted during last-minute compromise negotiations between the administration and Congress.

Tired of federal inaction, several states are taking matters into their own hands. In March, to the cheers of hundreds of farmers crowding the balconies and hallways of the state capitol, South Dakota legislators overwhelmingly endorsed two bills aimed at giving small producers a fair shake in the marketplace.

SB164 implements portions of the Packers and Stockyards Act on a state level, authorizing the attorney general to investigate and prosecute attempts to create a monopoly, manipulate prices, or otherwise restrain commerce in

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the livestock industry. Both laws take effect July 1.

The new rules are an important first step for independent producers, but proponents believe that the most significant aspect of the legislation is the message it sends to Washington. This message is codified in the opening passage of SB164, which declares that the federal government has been remiss in its duty to enforce the Packers and Stockyards Act, leaving the state with no option but to act to protect its livestock producers.

Governor Bill Janklow argued that these “editorial comments” had no place in law and vetoed the bill, but state legislators overrode the veto by 59-5 in the House and 33-1 in the Senate.

Although SB164 forbids discrimination against any locality, the industry has implied that South Dakota’s producers will suffer as packers bypass the state in favor of livestock produced elsewhere. But this “soon to be socialist state,” as one IBP representative put it, may not be alone for long. The ire of livestock farmers has lit up state capitolis across the plains.

In Iowa, mandatory price reporting legislation was enacted in late April, but will not take effect until July 2000.

Nebraska’s sweeping livestock legislation advanced 43-0 out of committee in late March, and, as this journal went to press, stands a strong chance of clearing the full legislature in May. Like South Dakota’s SB164, Nebraska’s bill contains a searing rebuke of federal policy, stating that “in the absence of any meaningful federal response” to packer concentration and vertical integration, state action is needed to “restore the economic stability of Nebraska’s rural communities.”

The bill has provisions similar to those in South Dakota’s legislation, requiring daily price reporting and barring discriminatory pricing. Nebraska’s proposal, however, goes further. It would prevent vertical integration by prohibiting packers from owning, keeping, or feeding livestock, and restrict contract provisions that allow packers to determine when deliveries will be made.

Similar legislation has been introduced in Missouri and Minnesota. Kansas passed a resolution calling on the federal government to beef up antitrust enforcement in the packing industry.

Attorneys general from 21 states wrote to members of Congress in March, urging them to require packers to report prices and contract terms, and give “whistle-blower” protection to producers who accuse packers of wrongdoing.

Washington may be getting the message. Senator Tom Daschle and Representative John Thune, both from South Dakota, have introduced mandatory price reporting bills (S19 and HR693) that are gathering supporters by the day. “We’ve got to save the independent producer who doesn’t want to be an employee of Cargill,” said Senator Bob Kerrey of Nebraska, a co-sponsor of S19. The Clinton Administration has announced its support for reforms. [1]

Resources
The South Dakota, Nebraska and Iowa meat packing legislation can be found at www.newrules.org/cgi-bin/access/rules/biz/state/meatpacking.html

On the other side of the spectrum, so to speak, sits the National Association of Broadcasters (NAB), the powerful lobbying arm of the largest broadcasters, which is opposed to microradio. It has recruited Rep. Billy Tauzin (R) of Louisiana, the Chairman of the House telecommunications subcommittee, as its congressional flag bearer. A week after the proposed rulemaking Tauzin wrote Chairman Kennard that the FCC should “take no further actions on this agenda.”

One key question regarding microradio is whether their signals will interfere with existing radio stations. Microradio advocates say no.

Currently the FCC requires that local stations not only cannot transmit on the same channel as another station but must not transmit on the first, second, and third adjacent channels. Yet because of microradio stations’ limited power and with the use of technical devices to reduce interference, the FCC has provisionally stated that microradio would pose “minimal risk of interference to existing services,” even if the second and third channel protections are removed. If the current levels of protection are maintained, however, there would be so little room for low-power stations that the rulemaking would be made essentially meaningless.

If microradio stations are to act as a counterbalance to the national programming of commercial conglomerates and NPR and reflect the diversity and culture of the neighborhoods they serve, then microradio must be reserved for local, community-based radio service that is not based on a profit motive.

The FCC will make a final ruling based on the public comments and its own internal study. [1]
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