ILSR's Place Matters Conference, November 1998
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Closer to Home
a conversation about local ownership and community

The Place Matters Conference, held on November 12, 1998 in St. Paul, Minnesota, drew together a mix of businesses, organizations and individuals who, by their very nature, believe that place does indeed matter. These participants were all firmly anchored in their communities, representing small businesses, financial institutions, community-based nonprofits, farmers, and local governments in Minnesota. They were a mix of people who did not normally interact, yet had much in common. They shared a remarkably similar recent history: economic and public policy trends that had made their long-term viability much more tenuous and uncertain.

The conversations from the day highlighted several challenges and strategies for these place-based organizations, which are summarized in this section of the conference report. The next section, "Defending Place," is the text of the opening remarks given by David Morris, Vice President of the Institute for Local Self-Reliance. The final sections are Field Notes written by participants prior to the conference to provide an overview of the trends and challenges faced in their own sector and to outline strategies and potential solutions. A list of conference participants is provided in the appendix.

Trends

The trends are all very familiar: absentee-owned competitors who have gained an economic advantage through economies of scale; consumers who do not recognize or acknowledge the value of non-monetized services; changing regulatory structures; emerging technologies that may or may not be readily available to small businesses; concentration of economic power through mergers and acquisitions; and public policies that tilt the scales against community-based businesses. All of these trends have one underlying thrust: a failure to value community or even to take community into consideration. These trends value big over small, distant over local, price over value and separate the decision-makers from those who experience the impacts of their decisions. These trends have resulted in a measurable deterioration in the viability of small businesses and place-based organizations.

Yet these businesses still represent a significant slice of Minnesota's economy. Our state is home to 45 of the nation's 943 customer owned and controlled electric cooperatives, which provide the electricity for 26% of the state's customer meters. There are also 126 municipal electric utilities in Minnesota, 45% of which serve very small communities with less than 1,000 customers. Community banks number 600 and there are 197 not-for-profit cooperative credit unions in our state. While nationally only about one library or library branch exists for every 70,000 people, in St. Paul, there is one branch for every 20,000 people.

The trends are alarming, however. Twenty years ago there were twice as many credit unions in Minnesota. Local hardware stores are decreasing at a rate of about 3% per year in Minnesota and are down to 725 from a high of 1,025. More than 25% of retail sales of books are made from Barnes & Noble or Borders Books; in 1972, independent booksellers claimed 58% of the market. Minnesota's community pharmacies are declining at a rate of 5% per year and pharmacy reimbursement rates are approximately 30% lower today then they were 20 years ago. Minnesota has lost 100,000 farms since 1958.

In the face of these trends, it is no wonder that many conference participants wondered aloud, "Does place really matter? If it does, who does it matter to?" Kevin Chandler, president of the Minnesota Credit Union Network, mused, *"In a lot of communities, place doesn't matter. In White Bear Lake, where I'm from, I see why people live there--it's because they don't want to talk to me or anyone else."* Residents can go to virtually any place to do their shopping and very few stay within the community for their employment.

Community as Place

Community as a concept has been bandied about for so long that it no longer has a specific meaning. Community is now often defined as a group of people with common interests, who have a common background or who are organized around a particular issue. Community only rarely means people or groups with a common geography. Ken Stone of Newsnight Minnesota, who belongs to the Naval Federal Credit Union, asked, "*Is there a difference between interest-based and place-based? What's the reason for community? In lots of places, place* ***doesn't*** *seem to matter."* For some people, communities of interest seem more familiar than geographic communities, so how should we differentiate between types of community? The underlying question is **what value does community as a geographic entity hold for people and for our form of government?**

The answer to this question transcends political ideology. Conservatives believe in dispersed economic and productive capacity and in local control. Liberals maintain faith in the ability of government to have positive impacts on people's lives. The defense of community and local economies will require both convictions in order to succeed. The conference participants represented diverse political backgrounds, yet all believed the public should be educated as to the value of community and that typical media messages are harmful and need to be recast.

"We've got to tear the notion of the invisible hand of the market down. There is a predisposition among government consultants for example, toward the market orientation, toward efficiency. Consultants will come in and bottom-line us. They have no connection with place. There's been a complete ignoring of the role of institutions in communities.

That's what we're fighting here. We have to devise a way to inject these other strategies into the discussion." Peter McLaughlin, Hennepin county commissioner, was frustrated at a recent recommendation from outside consultants who had counseled the county to consolidate libraries in two culturally distinct neighborhoods. He knew that the combination wouldn't work, as did those who lived in the neighborhoods. But the consultants had not devised a way to measure the social and community benefits of the libraries and recommended a bottom-line approach of consolidation. Though the recommendations were not followed, Commissioner McLaughlin noted these types of recommendations are the norm from outside consultants.

"*It's sad that the whole world had been reduced to money, what my stocks did today. Old ladies and cab drivers are talking about their money markets. We tell people to put their money here* (in Security State Bank) *because we put money in the Boy Scouts and Little League ball fields. And people look at us like we're nuts."* –Randy Schwake, president, Security State Bank.

*"I heard an ad by TCF saying **they** were the small, community bank. Our appeal is that we are in the local community. How do we, as the real McCoy, make those connections with the community?"* –Kevin Chandler, president of MN Credit Union Network

Other participants noted that the younger generation is not familiar with the history of cooperatives and credit unions. Their concept of community is much less rooted in place than is the experience of an older generation. Dave Frederickson of the Farmers Union noted that we need to reach out to our members' children and grandchildren. Emily Anderson of the Roots and Fruits Coop commented that in her business, the story of the origin of the coop is always the favorite part of new member workshops. She believes that *"learning to tell the story is a challenge; you've got to meet people where they're at."*

Richard Ya Deau, of the National Council of Community Hospitals, said, *"We need to articulate new values. Physicians won't help, won't take responsibility and complain of big companies running their lives. The problem is ours to solve."*

Strategies

Place-based organizations and businesses recognize the value they add to their communities and the quality they add to the lives of their neighbors. But much of that value goes unnoticed by their customers and community. Keith Pearson, National Community Pharmacists Association, argued the case, *"What happens when the prescription being scribbled down gets sent to Omaha and the people there can't read it? They can't do what I do locally. What I'm there for is to be an advocate for the patients. Who's going to do that when I'm not there to answer the phone when patients call? They're sure not calling their mail order companies."*

He cited a 1994 *New England Journal of Medicine* study that showed that in the US for every dollar spent on drugs, another was spent to correct the problems of inappropriate use or drug combinations. It's the "$23 billion question" and Keith Pearson ascribes it to the fact that more and more drugs are prescribed and supplied from a distance. Currently, the reimbursement process doesn't recognize the added value of a pharmacist who is readily available and knowledgeable about the customers. And even if the local pharmacist is the preferred choice of the consumer, patients are often not allowed by their health plan to choose their pharmacy. The centralized control of the health care field has reduced the role of the consumer in determining options and outcomes in medicine.

Richard Ya Deau noted that, "*In the US we're rationing health care through mega-organizations because the government won't be involved. 40 million have no health coverage, 20 million have lousy coverage and everybody else wants better coverage than they have. Allocations will be made and if they're made close to home, they'll more likely take into account who you see tomorrow. Health care decisions should be made close to home.*"

Pharmacies in Minnesota have begun to address some of the problems they have encountered by joining together to form a network, the Pharmacy Network of Minnesota, which will identify and implement programs to enhance the therapeutic outcomes of drug therapy. However, the broader concerns of managed care still need to be addressed. Keith Pearson observed, "*I'm providing services to people who aren't the actual purchasers; they're big corporations elsewhere and they don't care about community. Discrimination is rampant throughout the system so it's hard to compete against mail-order companies. But I can deliver the order in 30 minutes rather than 10 days, can take it to their home, can answer questions that others can't or won't. News stories don't really measure what's going on in the health care industry - I don't even know what's going in and I work on it.*"

Create networks

Vertical integration has created significant barriers for small, independent businesses. David Unowsky, who owns the independent bookstore The Hungry Mind, related how vertical integration in the book business not only reduces the number of suppliers for independent bookstores, but also reduces choices for consumers. Barnes & Noble recently announced a merger with Ingram Book Group, one of the largest wholesalers for independent bookstores, and has formed a web site alliance with the German company Bertelsmann, owner of Random House publishing. This new business configuration essentially forces independent bookstores to buy their merchandise from their primary competitor and allows a single business to determine to a large degree which books will be presented to the public.

Two major chains now represent 40% of all bookstore sales and their buying decisions have a big impact on supply. Barnes & Noble is larger than the top ten book publishers combined. Their market clout has provided discounts and promotional fees to Barnes & Noble that are unavailable to small bookstores. The independent booksellers have created cooperative purchasing and marketing alliances as a strategy to offset these market disadvantages. They have also resorted to legal strategies. The American Booksellers Association, a trade group of 3,500 independent booksellers, sued Barnes & Noble and Borders Books in March of 1998, alleging violations of both federal anti-trust and two state statutes that prohibit discriminatory pricing or soliciting discounts unavailable to other purchasers. This follows on the footsteps of their 1994 suit against book publishers that resulted in a consent decree and fines for violations.

Community banks have also chosen to unite in their efforts to defend against large corporations. Don Raleigh, president of the Lake Elmo Bank, told of his membership in the Iowa-based Shazam ATM Network. ATM networks owned by large commercial banks are charging higher and higher fees to independent banks and their customers. Unlike most networks, Shazam is a nonprofit owned and operated by its member banks and credit unions. It is no accident that Iowa was the locus for Shazam's formation: only banks with a branch in Iowa may operate ATMs or ATM networks in Iowa; any network must provide access to all banks in Iowa; and no surcharges are allowed. Shazam is the only ATM network currently operating in Iowa because the large banking corporations do not want to provide universal access and most of them charge an ATM user fee. This law created a market opportunity for a community-focused bank and credit union network and overtly valued Iowa communities as important criteria in public policy. However, it is now under attack by large corporate banking systems, which are challenging the law in court.

Promote your value

The Independent Community Bankers of Minnesota will soon embark on a association-funded ad campaign, aimed at reminding and informing consumers of the social and economic benefits of local banking. The Lake Elmo Bank makes over 50% of their loans to very small local businesses. This is a service not provided by the large banks and is important for the community. The question is how to get this message out.

Jack Kegel of the Minnesota Municipal Utilities Association told the following story that reflects how little noticed is the role of local businesses in creating and maintaining the health of the community. When St. Peter, Minnesota was hit by a tornado in the spring of 1998, crews from municipal utilities all over the state came to help support the New Ulm municipal utility's efforts to clean up and repair electrical service. The mainstream media flocked to the site to report on the damage and the clean-up efforts. A TV reporter stood in front of a New Ulm Power service vehicle and reported that NSP (Northern States Power) was working to restore power to the devastated community. Apparently, the reporter believed that all Minnesota power comes from one giant company. This story drove home the importance of better educating the public. An effective media strategy is an emerging tool for helping local business offset the trends.

The Minnesota-Dakotas Hardware Retail Association is a trade association of locally owned businesses. Because local hardware stores have a reputation for higher prices (which is not entirely deserved), Mack Hardin, the executive director, urges his members to market their knowledge, customer service and understanding of their market niche. They have embarked on an ambitious ad campaign to get this message out. Their initial ads, promoting the knowledge and service of local hardware dealers, was very well received and they intend to renew the $121,000 campaign in the upcoming year.

The electric cooperatives have developed a marketing arm, called Touchstone Energy, to market their 77 locally controlled electric companies. Their internal marketing research has shown a high level of support for cooperative power: 80% of their customers liked the cooperative structure; 64% liked having a voice in business decisions; and 62% supported local ownership. Touchstone has produced billboards that promote these themes to the public at large.

The booksellers recently created a cooperative marketing alliance to promote the value of locally owned bookstores. David Unowsky mentioned the newly created Boulder, Colorado independent business alliance that developed the slogan **Put Your Money Where Your House Is**. This alliance does joint marketing and helps business members provide support to each other. The newspaper provides discounted ad space to alliance members and the members buy from each other whenever possible.

Strategic Opportunities: food for thought

Although many of these individual efforts may pay off for specific economic sectors, the long-term strategy must be focused on maintaining a viable mix of small businesses and community-focused organizations. Marketing will do some good, but can only go so far. Trade alliances have become too broad and straddle too many issues to be effective for all members. Randy Schwake noted that *"(Security State Bank) belongs to the Minnesota Bankers Association because it provides more access to programs like education and insurance. Big banks in the MBA don't use the services, they just want to use the Association to push their agendas. Their agenda is different from mine. So do we form a strategic alliance with credit unions and look for other coalitions or just stay in the rut we're in?"*

Create mutually supportive cross-sectoral alliances

Many of the small groups pondered the option of creating a new alliance, one that could speak in a unified way about the value of place-based businesses. One group suggested a cross-pollination strategy that uses existing communication tools to work for each other: advertise to each other's members; inform each other of policy issues; establish 4-5 universal objectives; identify opportunities for mutual support. Using the internal capacity of a strategic alliance to promote and support its members would in and of itself be helpful. Keith Pearson noted that his rural electric coop requires their employees to buy prescriptions from mail-order firms, not the local pharmacist. The booksellers suggested that local schools could order text books and/or supplies from the local, independent store. And many local governments buy goods from distant suppliers, rather than their local merchants.

Broaden the conversation with your own employees and customers

Most trade groups and businesses promote their own business to their customer base, but much more could be done to promote the full range of local businesses and organizations that comprise a stable local economy. (As the family farmer goes, so goes the local bank... and hardware store and IGA, etc.). This could be accomplished through jointly sponsored events, such as a mainstreet festival, a **Put Your Money Where Your House Is** promotion or by including columns and information about other businesses and communities in your trade newsletters.

Overcome the aversion to working with government

Several participants noted the bias in public policy that creates disadvantages for small business. A community banker remarked, *"We can compete with anyone, big or small if we are allowed to compete fairly. But if monopoly is allowed, we'll shut down."* The pharmacist agreed, *"You give me the ability to compete one on one and I can win."*

But negative perceptions about government are likely to make changing public policies a difficult objective unless participants agree that doing nothing is worse than trying to affect legislative decisions. As Don Raleigh noted, *"If we don't focus on government regulations, it won't mean we're not being regulated. We won't be regulated by government, we'll be regulated by decisions made by big corporations."*

Despite this aversion to government, two-thirds of the conference participants noted they will have a presence at the state capitol this year. This provides an opportunity to do much more networking around issues that could benefit all place-based businesses and organizations. Several thought that exploring the possibilities of providing testimony and political support for each other could be a very effective relationship. A cross-sectoral alliance will likely be much more effective in impacting broad public policy decisions than are individual efforts.

Work with potential allies - youth

Public education was a commonly mentioned strategy, but many felt it would be best utilized if focused on youth, whose experience is limited but whose relative immobility provides an intuitive place-based understanding of community. The small groups pondered the option of creating a place-based curriculum for junior and senior high students to help explore the ingredients of successful communities and how to better value the contributions of place-based businesses. Tony Kuznik, president of Hibbing

Community and Technical College, mentioned that they now allow students to earn credit from working in the community. This policy has been very successful in teaching kids about the community. Many more colleges now require community service as part of graduation requirements. This could provide an opportunity for internships/service projects with local businesses and organizations. Students could interview customers, conduct market research, organize alliances or write media pieces. Youth are clearly an underutilized resource for community-based enterprises.

Defending Place

By David Morris

It is an honor and a pleasure to address this distinguished audience, especially about so important a topic. When we first decided to hold this meeting we were uncertain what the reaction would be to our thesis: that even in the age of the global economy and the World-Wide Web, place matters, that we face the common challenge of the consolidation of economic and political power and would all benefit from a conversation about how we might develop a common strategy and language to confront that challenge.

We have been heartened by the almost universally positive reaction to our invitation. We are here to share information about what each of us is doing in our own sector, and to put our heads together to see if there are lessons to be learned that can be applied across sectors. This is a conversation about message and strategy and policy.

And with respect to policy, what better state or better moment to be having this conversation than in Minnesota in 1998, where one party controls the executive branch, another controls one legislative chamber and still another controls the other? This gives us an opportunity perhaps never before presented to have a conversation and develop a strategy that cuts across parties and political philosophies and resonates with the man and woman on the street.

Local Institutions and Community Life

Let me begin with an observation from the French poet and philosopher, Marcel Proust. "The real voyage of discovery," he wrote, "lies not in seeking new lands but in seeing with new eyes." Seeing with new eyes requires challenging the conventional wisdom that bigger is better, that separating the producer from the consumer, the banker from the depositor, the worker from the owner, the government from its citizens, is a necessary requirement for achieving a prosperous economy and a healthy society.

Seeing with new eyes means rediscovering the importance of place. If I may be allowed to quote another Frenchman, Alexis de Tocqueville who after visiting our infant Republic, proposed a key reason for the self-reliant and democratic spirit of America: the array and strength of local institutions. "Local institutions are to liberty what primary schools are to science: they put it within the people's reach."

Perhaps the finest empirical analysis of the relationship between local institutions and community life was conducted 50 years ago by Walter Goldschmidt, then a researcher for the United States Department of Agriculture. I find it instructive both for its findings and for the reaction to its findings. Goldschmidt examined two farm communities in California's San Joaquin Valley chosen for their remarkable similarity. Each had the same volume of crop production, comparable soil quality, and similar climate. Both communities were equidistant from major urban areas and were similarly served by highways and rail lines. They differed in only one major respect. The Dinuba economy was centered on many small family farms. The town of Arvin depended on a few large scale agribusiness farming operations. Goldschmidt discovered that Dinuba's family farm economy provided its residents with a substantially higher median income and standard of living. Moreover, the citizens of Dinuba, to a far greater extent than their counterparts in Arvin, were involved in building a strong community.

For example, the quality and quantity of projects that benefited the entire community, like paved streets and sidewalks and garbage and sewage disposal, were far superior in Dinuba. The agribusiness town had no high school and only one elementary school. Dinuba provided its citizens with four elementary schools in addition to a high school. The family farm town had three public parks. The large farm town had a single playground, lent by a corporation.

Dinuba's residents not only invested their money in expanding their community's physical infrastructure. They also invested their time in building its civic infrastructure. Dinuba had more than twice the number of civic associations as Arvin. In Dinuba, various governmental bodies existed that enabled residents to make decisions about the public welfare through direct popular vote. No such bodies existed in Arvin.

One would think that the government's reaction to Goldschmidt's findings would have been delight, for he had empirically validated the uniquely American belief that the key to a healthy society is the broadest possible ownership of productive assets. One would be wrong.

For 30 years the USDA suppressed the report. Indeed, under pressure from industry it went even further, abolishing Goldschmidt's position and later, the entire office that studied agriculture's impact on communities.

Hearing the story of Dinuba 50 years later, I'm sure that many of you think Goldschmidt must have been describing a mythical town—or at most, a situation long since relegated to the dustbins of history. After all, that's what we would conclude by reading the daily headlines and watching the 7 o'clock news.

Community Enterprise: Diminished but Very Much Present

The statistics are indeed sobering. A thousand farms a week have gone out of business since 1950. Community pharmacies have been closing their doors at a rate of about 1,000 per year for the last five years. In 1972 independent booksellers claimed 58 percent of all book sales. By 1997 their share had fallen to 17 percent. Almost 5 percent of all retail spending today is captured by a single company, Wal-Mart.

Last year almost one trillion dollars in mergers took place and during the first six months of this year 4,500 corporate mergers were announced with a combined value of $1.7 trillion.

It is getting scary out there. A few months ago the federal government gave its stamp of approval on the merger of Travelers and Citicorp, giving birth to Citigroup, a financial enterprise with $700 billion in assets that serves l00 million customers in 100 countries. Two days ago Cargill announced it will purchase Continental Grain, allowing Cargill to reportedly control as much as 70 percent of the grain market.

These figures cannot be ignored. To a certain degree, they are the reason many of you are here today. But they should not be overstated. For the independent sector, while under attack and no longer our dominant organizational form, is not dead. Indeed, it still commands a considerable degree of resources, and an even wider degree of respect.

- In Minnesota, over 500 independent community pharmacies still exist.

- Almost 40 percent of all electricity customers in Minnesota own their own electric company, either in the form of a municipally owned or cooperatively owned utility.

- Over 400 community banks or credit unions have more than 25 percent of all bank assets in Minnesota.

- Minnesota may be home to more than 20,000 independent farmers.

- Minnesota boasts over 30,000 second generation family owned businesses and 13,000 third generation enterprises.

These are impressive statistics by any measure. They reveal that in the battle for the hearts and minds of America, community-based enterprises retain considerable clout.

Community Enterprises: Effective, Efficient, and Popular

In that battle, place-based enterprises need not simply tap into our nostalgic yearning for a simpler and more rooted yesteryear. They can make a powerful case that humanly scaled institutions are the most effective way to go. When we first began to research this topic we were amazed to discover how little evidence there is to support the conventional wisdom. Indeed, the widespread belief in the inherent efficiency of bigness and absentee ownership is a little like the widespread belief in the power of the wizard in the Wizard of Oz. Once Toto pulled the curtain aside we saw that there was much less there than we had thought. In every sector of the economy, the evidence yields the same conclusion. Small is efficient, dynamic, democratic, and cost effective.

Consider education. Exhaustive studies have found that small schools have less absenteeism, lower dropout rates, fewer disciplinary problems, and higher teacher satisfaction and higher test scores than big schools. This evidence has now become so compelling that big cities like Chicago and Philadelphia and New York have literally begun downsizing their schools by subdividing existing school buildings into two or three or even four completely independent schools. And the most impressive results have occurred when the school district not only shrinks the size of the school but shrinks the distance between authority and responsibility by delegating decision making power to the individual school.

The same scale of institution that best cares for our children best cares for our money.

In 1990, 11,194 of the nation's 12,165 banks in this country had assets under $300 million and two-thirds had assets under $100 million. Happily, the Federal Reserve has found that there are no efficiencies to be gained by having banks any larger than about these sizes. In the 1980s, researchers found that savings and loans that stuck to their knitting and lent close to home did not, on average, require a federal bailout.

Community banks also serve their communities best. A l996 Federal Reserve study found that small banks made 82 percent of all commercial loans to very small business borrowers. A 1997 study by the U.S. Public Interest Research Group concluded that fees for checking accounts and other basic services were on average l5 percent lower at small banks than large, multi-state institutions.

In manufacturing, too, small scale pertains. Small manufacturers constitute over 98 percent of the 360,000 U.S. manufacturing enterprises. Two-thirds have fewer than 20 employees. From 1979 to 1989, small- and medium-sized manufacturing businesses created more than 20 million new jobs while the Fortune 500 lost almost four million jobs.

Place-based enterprises are not only efficient, they are wildly popular. Poll after poll concludes that the vast majority of the population supports community team policing, home-based health care, community banks, neighborhood schools, local businesses.

In brief, community-based enterprises and institutions still command considerable resources and even more considerable respect and admiration. Today, individually and collectively, these enterprises are building on this foundation to survive in the age of planetary corporations and electronic commerce.

Surviving the Global Economy and the World-Wide Web

In our conversations with you, we have identified at least five main strategies you have adopted.

- *Improve efficiency*. Individual firms, often with technical assistance from their trade associations, are reducing production costs, managing smarter, and improving customer service.

- *Work together to achieve the benefits of bigness without abandoning local ownership*. In almost all of your sectors, locally owned enterprises have created cooperative purchasing and marketing bodies to lower costs, improve service and expand sales.

- *Market your community roots*. Increasingly, place-based enterprises are marketing the virtues of neighborliness. They let their customers know that they have a stake in their community because their owners live there and that by shopping at their stores, their customers nurture the tissues of connectedness that form the basis of strong communities.

• *Sue to enforce existing laws against the arbitrary exercise of concentrated power*. Once upon a time, Americans fought to enact laws at the state and federal level that would prevent giantism from undermining community. Today many of these laws are unenforced. Much of the authority embodied in these laws is unexercised. Today locally owned enterprises are resurrecting these laws as weapons in their battle for survival.

The American Booksellers Association successfully sued six giant book publishers for providing discriminatory incentives to large bookstores. Last year, the independent booksellers again went to court, this time against Borders and Barnes and Noble, which together account for one third of all book sales, to stop them from demanding deep price discounts from publishers.

Community pharmacists have sued Wal Mart for selling drugs below their production cost as a way to drive them out of business.

The American Public Power Association and the National Rural Electric Cooperative Association have petitioned the Federal Energy Regulatory Commission to impose a moratorium on further large utility mergers.

• *Design new policies that nurture strong and diversified local economies.*

Let me spend my remaining time discussing this last strategy, because for the purposes of this cross-sectoral meeting, the creation of new place-oriented public policies may prove the most important.

Today our politicians love to gargle with the word community but when push comes to shove the policies they promote, whether liberal or conservative—the jury is still out on whether I can extend this comment to our own Governor-elect Jesse Ventura—undermine the possibility of strong communities.

Consider, for example, the way the courts and Congress have interpreted the interstate commerce clause. The United States Constitution was enacted in part to make ours one country. To do so, it prohibited states from imposing undue burdens to interstate trade. But in recent years the courts and Congress have interpreted this constitutional provision so perversely that we now have a situation where communities can legally discriminate against their local businesses but are prohibited from treating out of state competitors the same as in-state enterprises.

This has had pernicious effects. Back in 1976, for example, the U.S. Supreme Court ruled that a national bank located in Nebraska could charge Minnesota credit card customers higher interest rates than were allowed by Minnesota law. A year later South Dakota repealed its interest rate ceiling on credit cards. Three years later, after Citibank failed to convince New York to follow South Dakota’s lead, it moved the nation’s largest credit card operation to South Dakota.

In the 1960s and again in the 1990s the Supreme Court ruled that a state or locality could not tax mail order firms. The result was to give remote businesses a 5 percent to 8 percent price advantage over local firms that do have to pay sales taxes.

In 1994 Senator Dale Bumpers introduced the Tax Fairness for Main Street Business Act, which would have given states the right to impose in-state sales taxes on mail order firms. The measure had the support of neither political party. Indeed, a few weeks ago Congress with overwhelming bipartisan support passed a bill that will extend the Supreme Court decision to all electronic commerce.

Government procurement policy may be equally destructive to local businesses. More than one-sixth of the nation's GNP consists of local, state, or federal government purchases. Almost universally, public law requires that public agencies buy from the "lowest responsible bidder." The rationale behind that rule is understandable. Citizens were concerned about officials awarding high cost contracts to their friends and supporters. But the unwillingness to take into account the effect of public purchases on the local community is both instructive and disappointing.

Here in Minnesota we have had a much-publicized example of this disconnect between the public sector and the public. Remember Zeno the shoe shine man and the Metropolitan Airports Commission? A few months ago a MAC committee recommended that the airport not renew its lease with one small shoeshine company and instead give its space to another company. That decision probably would not have rated any news space except for the fact that the existing shoe shine operation was composed of elderly African-American men. Its owner, Royal Zeno, age 79, had been shining shoes at the same spot for 36 years. The new company MAC wanted to give his space to was based in Kentucky and runs shoeshine operations at nine other airports. The public reaction to MAC's initial decision was strong and negative. When I talked to Jeff Hamiel, MAC's executive director, as the letters were pouring in, he insisted, "We cannot be in the business of giving our friends a lifetime opportunity of being in the terminal." To which I answered, "Why not?" Assuming the customers are satisfied and the price is competitive, why can't we take community into consideration? The public reaction and the threat of a civil rights law suit convinced MAC to back down. But they have yet to change their procurement philosophy.

Communities around the country are grappling with ways to encourage local ownership while not interfering with the normal dynamism and entrepreneurialism of the private sector. Stacy Mitchell of our staff has identified a number of such policies, which she will be documenting in an upcoming policy report. Let me list a few.

- A number of communities, like Kent County in Maryland and Cape Cod, Massachusetts have adopted comprehensive plans that explicitly call for planning bodies to support "locally owned businesses."

- Five cities on the west coast have adopted bans on "formula restaurants." These are defined by Carmel, California, as a restaurant that is "required by contractual or other arrangements to offer standardized menus, ingredients, food preparation, employee uniforms, interior decor, signage, or exterior design" or "adopts a name, appearance, or food presentation format which causes it to be substantially identical to another restaurant." Carmel is not prohibiting MacDonald's from setting up shop. It just can't look like a MacDonald's. In essence, Carmel is outlawing uniformity and in doing so, is encouraging local ownership

- At the federal level, since the 1970s Congress has provided handsome tax incentives to companies that give stock to their employees. Over a thousand companies are now majority-owned by their employees. Employee-owned firms must operate in the same competitive marketplace as investor-owned firms. But they tend to have a different decision-making calculus. The absentee owners of a firm might well make a decision to close a profitable operation if they can make more money in another location. For an employee owned firm, such a decision would be very unlikely.

- Recently Congress debated a bill that would have abolished the inheritance tax for family-owned farms and businesses if they were bequeathed to other family members who continued to operate the enterprise.

These are just a few of the public policies that nurture rooted economies. I'm looking forward to learning about many more novel policies from you today.

Let me end by observing, as every speaker now feels obliged to do, that we live in an era of great change. But let me also offer the distinction between change and progress offered by Bertrand Russell. Change is inevitable, Russell wrote, while progress is problematic. Change is scientific while progress is ethical.

We will have change, whether we will it or not. But we will have progress only if we develop strategies that channel investment capital and entrepreneurial energies and scientific genius in directions compatible with our dearly held values.

In the context of today's discussion, this means strategies that defend and nurture place-based enterprises as the building blocks and life blood of dynamic, self-conscious and healthy communities.

David Morris is cofounder and vice president of the Institute for Local Self-Reliance.

Field Notes: Agriculture

By Dave Frederickson

Overview

“The farm” many of us perceive and, in some cases, remember doesn’t exist anymore. Mom and Dad, Uncle Bob and Aunt Kate, or Grandpa and Grandma are still on the farm, growing crops and raising livestock. Their farm remains the enterprise that requires most of their physical labor. But it is a job—or jobs—in town that provide the economic resources necessary to stay on the farm. Nationwide, only 12 percent of farm operator household income is derived from farming and only 8 percent of all farm operator households received income from farming that was near or above the average income for all U.S. households.

Farm numbers have plummeted throughout the twentieth century. Farmers once accounted for 50 percent of the population. Today 1.8 million farms with an average size of 436 acres operate in the contiguous 48 states. Nearly 75 percent of those 1.8 million farms are classified as non-commercial, which means an operation had gross farm sales of $50,000 or less and accounted for only 10 percent of total nationwide gross sales. Commercial farm operations that had more than $50,000 in gross farm sales make up only 27 percent of total farm numbers but accounted for 90 percent of total nationwide gross farm sales.

The numbers behind those numbers are even more telling: 4 percent of all farms accounted for half of all gross sales while less than 1 percent of farms produced 25 percent of total U.S. output.

Fields that today produce massive quantities of our staple commodities—corn, soybeans, and wheat—are one of the primary reasons farm numbers continue to decline. Bigger machines, better seed, more powerful herbicides, and more effective fertilizers have combined with declining farm prices to force a farm exodus that continues today.

American farmers became so efficient they forced themselves out of business. Producing more and more crops and livestock lowered the farm price. To make up the shortfall, farmers continued to produce more and more. But the price kept dropping. The result is ironic. An average American farmer can produce enough food to feed 180 people for one year. But the income received from selling that grain on the U.S. market isn’t enough to feed a family of four for that same year.

Factors other than overproduction have played an equally influential role in the decline of the traditional farm. Since 1910, the farmer’s share of the consumer food dollar has declined 23 percent while the marketing and processing share has increased six fold. In 1956 a farmer received 2 cents of the 28 cents a consumer spent on a 15.1 oz. box of corn flakes. Today the farmer receives 4 cents of the $3.92 that same consumer pays for that same box of corn flakes.

The profitability of the processing and marketing sector of agriculture has created a concentration of wealth and resources among a handful of multi-faceted, transnational agribusinesses. Decatur, Illinois-based Archer-Daniels-Midland buys grain, makes ethanol, and processes byproducts into sweeteners. ConAgra and Cargill buy farmers' grain at country elevators and livestock at collection points and stockyards. Those agribusinesses, in turn, process those raw commodities into the food consumers buy from the grocery store. Half of all domestic beef cattle fed for consumers to buy at the meat counter is produced by four corporations on 20 feedlots.

Concerns about the concentration of wealth and resources do not start and stop at agriculture. After all, the Justice Department is taking Microsoft to task for its alleged anti-competitive practices. And while farmers have felt the direct economic crunch caused by concentration in the food sector, consumers ought to be concerned about so few companies controlling so much of the food all of us eat.

Strategies

Despite the changing economics of the farm sector of agriculture, farmers are developing strategies to capture more dollars from the commodities they produce. The number of cooperative ventures that allow individual producers to combine some of the crop or livestock they produce with those of other producers, process those commodities into food, and sell it to consumers is growing. Farmers are discovering that organically labeled food products, vegetables, and meat raised without chemicals and range-grown poultry, for example, are growing in consumer popularity.

These strategies, while laudable, creative, and practical, are not a solution in and of themselves. Cub Foods and Rainbow will never become food coops even if consumers make a conscious choice to use their food dollars to support "family farms" and demand that grocery store chains offer some of these items. People will still want convenience foods. A niche market remains a niche market.

If too many farmers become part of those niches, the farm sector will again suffer from overproduction. During the last 10 years, the growth of microbreweries and brewpubs reached an apex and now is declining. Farmers pursuing these new and innovative endeavors directed at consumers must be cautious so the same doesn't happen to them.

More industrial uses must be found for farm products. Ethanol made from corn is the best example we have in Minnesota. It puts more dollars in farmers' pockets because they sell their corn and get a share of the profits made from selling a fuel additive, which also improves air quality. Industrial hemp production is a sensible, alternative crop that could be grown in Minnesota. The stalks of hemp plants could provide raw materials for oil, food products, fabrics, paper, and construction material.

Our farm and rural populations are aging rapidly. In many ways, farms and rural communities are becoming low-rent, retirement communities that offer little economic or social opportunity. Finding new ways to encourage young people to enter farming is crucial to the survival of farms and rural communities.

The need for capital when starting a farming operation coupled with the unprofitable nature of mainstream agriculture prevents many young people from even considering the option. Endeavors such as the Passing Down the Farm Center in Granite Falls must be expanded so those who are leaving farming can pass their farm on to someone who wants to start. The state and federal government need more programs that help young farmers get started in new, innovative enterprises that make sense.

Farms are a place that matters. Not for the old nostalgic reasons but because of the opportunities they provide for farmers themselves as well as potential economic development projects for the communities in which they live. Whether farm products are processed for food or industrial uses, at least a portion of that processing can and should be done on the local and regional level. Incentives must be put in place that reward such enterprises.

Endeavors such as these provide a better market for commodities and provide jobs for the community. Communities with farms and jobs can support the businesses, schools, and churches of the town with their presence, their incomes, and their tax dollars.

Place does matter. Westward migration and the farms and towns that sprung up along the way brought us to where and what we are now. While the task of rebuilding and restructuring our farms and rural communities is a challenging and daunting task that requires innovative and creative solutions, it is a job that can’t be ignored. If we do ignore it, we have nowhere to go but back to what our ancestors who settled this land left behind.

Dave Frederickson is president of the Minnesota Farmers Union.

Field Notes: Community and Regional Colleges and Universities

By Tom O'Connell

Overview

There is an unofficial model of how a college or university should operate in the late 1990s that prevails across the country. One could call it the "University of Nowhere." It could be located literally anywhere: in an inner city neighborhood, in the suburbs, or in rural areas. What goes on inside the walls of these different institutions, regardless of their locale, is very similar. The subject matter and curriculum—essentially what is taught and how it is structured—is largely standardized. The faculty at different universities is also fairly homogenized. Professors of various departments belong to national and global organizations of professors in their same field, groups that set their standards of prestige in similar ways, based on the work coming out of the "elite" institutions.

This has positive and negative effects. On the positive side, knowledge is and should be universal. Therefore universities should play a role in connecting people from different cultures and different places. The words *university* and *universal*, after all, are derived from the same root.

But the result has been that academic theory in all disciplines has become fairly disembodied from place. As a result, colleges and universities are missing opportunities to develop relationships with the local communities where they reside, relationships that can be mutually beneficial both to the college and to the community at large. There are three challenges a university must address to become a "Community University," one that succeeds in developing relationships with the community in which it resides.

Challenges

1. The learning experience itself—how both students and faculty learn and grow—can be enhanced through interaction with the place you live. The strongest and most deeply articulated theory often comes from people who have real-life experience within the community. In other words, students and teachers must understand that knowledge comes not only from inside the walls of the college or university but from interaction with the people and organizations outside the walls.

2. Over the last several decades there has been a tremendous expansion in the number of students attending post-secondary institutions and in the diversity of those students—culturally, racially, and in terms of age. This is especially true in urban schools. Faculty have had to adjust to teach 30- and 40-year-old adults with “real world” experiences, as well as to classrooms filled with people who each bring their own unique communal experiences. In order to engage this full diversity of people, the curriculum needs to be opened up. The classroom more and more must be constructed as a commons, where people from diverse backgrounds and experiences can meet and learn from one another. Instead of homogenizing the differences in the classroom, the unique experiences of all students should be drawn out and in a sense become part of the text.

3. A third challenge for the community university is to realize that the health of the surrounding community is somewhat related to the health of the school. This goes well beyond the safety of the campus and surrounding areas, which is a concern of some urban schools. Universities in all areas must begin to develop links based on mutual, reciprocal interests within their communities. For example, it’s in the interest of both the school and the community to nurture prospective local students. Furthermore, all schools have a vested interest in their “place” or region, whether it be rural or urban, because if it is in decline then the attractiveness of the university, both to prospective students and faculty, is negatively affected.

Strategies

Schools must first ask themselves what their community is and what their mission to that community should be. Once that question is answered, schools must, in terms of the teaching and learning process, find ways across the curriculum to engage with the community in reciprocal relationships that benefit the community but also provide learning opportunities for students and faculty. That involves really understanding what a rich learning universe the community can be.

These relationships must be long-lasting and based on a spirit of genuine cooperation, and they must be truly democratic based on mutual self-interest. Metro State University, for example, created a coalition called the Dayton’s Bluff Urban Partnership, made up of 3M, Metro State, and various community organizations (including the local elementary school), that utilizes each member’s strengths to build the capacity of the organization as a whole. They talk to each other about plans and use their individual power to support each other. The group is now working around issues of tenant housing because they have recognized through this coalition that they all have a mutual interest in improving local housing.

Other strategies can be divided into two broad categories: academic and physical.

Academic Strategies

• Universities can implement fully developed internship programs that give academic credit for students working in community-based institutions—businesses, social services, newspapers, etc.

• Universities must recognize the potential of the people in the community as teachers. That can be as simple as having folks come into classrooms to speak or answer questions about their experience. Metro State University has gone one step further and developed a group of teachers called simply "community faculty." The challenge is to recognize the very real credentials that come from experience, and then to work with people to articulate that experience.

Shared Facility and Program Strategy

• Schools and the surrounding communities should also recognize the benefits of shared use of facilities. For example, Metro State has teamed with their Dayton's Bluff neighborhood to build a library that will serve both the community's and the university's needs. The nursing program is also building a clinic that will serve not only as a classroom but as a community clinic. Thirdly, the director of the university's Career Service Center has teamed up with community organizations to offer welfare-to-work services for people from the community. A vacant warehouse connected to the resource center has become a job resource center for the community at-large.

Tom O'Connell is a professor of political science at Metro State University.

Field Notes: Credit Unions

By Kevin Chandler

Overview

The credit union movement in Minnesota is now 74 years old, with the first credit union formed by a handful of Minneapolis postal workers who found the cost and access to for-profit banks presented a barrier to their families' financial health. From that time forward, credit unions have experienced steady growth with periods of rapid increases. A more recent trend has shown sharp declines in the number of credit unions but combined with increasing membership.

Minnesota currently has 197 not-for-profit cooperative credit unions serving some two million members. Geographically, credit unions are found in all areas of the state but are concentrated in urban centers and in the Arrowhead Region. This is largely a function of the credit union movement's historic roots, with most credit unions being formed as part of the manufacturing and labor union segments of the economy where large concentrations of workers could be found.

Credit unions are fundamentally different from for-profit financial institutions such as banks. As not-for-profit cooperatives, credit unions are democratically run institutions with volunteer boards of directors elected by the membership as a whole. Every member is entitled to an equal vote, regardless of the amount on deposit in the credit union. By and large, credit unions focus on traditional financial services such as share accounts (savings), share draft accounts (checking), and consumer lending. A handful of credit unions engage in commercial lending—primarily agricultural in nature—and others are beginning to offer mortgages, home banking, ATMs, and other services that the modern consumer demands.

As a result of their unique, member-owned and not-for-profit nature, credit unions present an attractive and important alternative to consumers deciding where to borrow and save their own money. Credit unions, both large and small, have worked together to preserve the consumers' right to choose to join the not-for-profit credit union of their choice. Most recently, credit unions across the country were successful in securing the passage of federal legislation that does just that.

Small credit unions, not unlike the family farm, are facing challenges as never before, sparking debates within and without the movement about the desirability of their preservation. As recent as 20 years ago, Minnesota had well over 400 credit unions, many of which were small back-room operations in factories. As consumers demanded more services, smaller credit unions have struggled to keep pace. Some analysts predict that in the not so distant future the entire state could be blanketed by only 60 credit unions.

Philosophic questions abound. Should less efficient, possibly less attractive—from a service standpoint—credit unions be assisted from the outside? Is there value to the social fabric to have smaller outlets such as these, even though they cannot match up to their larger brethren? Or should the market be the final arbitrator with a survival-of-the-fittest mind set?

As we approach the next millennium, technology will drive many of the decisions. And for better or worse, technology presents a significant barrier to smaller credit unions, both financially and in the expertise needed to participate in the marketplace. Large financial institutions have the resources to drive the technology, to educate and train consumers to use the technology—for example, the tremendous rollout of ATM machines—and to control essential facilities. All of this present dangers to smaller community-based financial institutions.

Strategies

The Minnesota Credit Union Network has made the determination that preservation of small credit unions is a worthy pursuit, and several strategies have been employed in an effort to accomplish that goal:

1. Provide financial assistance in the form of grants to increase the technology within the movement. Every credit union should be on the Internet and should be considering the technological wants and desires of their members.

2. Provide technology expertise as requested.

3. Recruit new volunteers and activists.

4. Reestablish the philosophic attachment to the credit union movement.

5. Work in conjunction with like-minded organizations to further the cooperative movement in general.

6. Attempt through advertising to educate the public as to the fundamental difference between for-profit banks and not-for-profit credit unions.

7. Unite credit unions and their members in a joint effort to preserve the consumers' right to choose the not-for-profit credit union of their choice, whether large or small.

Kevin Chandler is president of the Minnesota Credit Union Network.

Field Notes: Electric Cooperatives

By Mark Glaess

Overview

Minnesota is home to 45 of the nation's 943 customer-owned and -controlled electric distribution cooperatives. These cooperatives cover more than 80 percent of the state's geographic area, supply 15 percent of the state's total kwh, and serve 26 percent of the state's customer meters (566,000). Cooperatives range in size from 2,000 members to 90,000 members, averaging about 13,000. Nearly all coop members are farm or nonfarm residential customers. Electric distribution cooperatives receive power from seven generation and transmission coops (G&Ts), which have been rated among the most efficient, least-cost power plants in the country.

Key Issues

1. *Deregulation.* The major challenge confronting electric cooperatives is the dismantling of the traditional regulated monopoly structure of the electric industry. Retail competition has been enacted or is already underway in a dozen states. Most of the remaining states, including Minnesota, are studying deregulation and, according to many in the industry, the movement toward competition is inevitable.

2. *Consolidation and market power.* Utility mergers and acquisitions across the country are resulting in huge concentrations of power. In addition, most of the "competitors" that have emerged in the deregulated electricity market are unregulated affiliates of monopoly utilities. Consolidation and retail competition are threatening to replace a regulated monopoly with an unregulated monopoly.

Strategies

1. *Reducing internal costs.* Cooperative power rates have been decreasing. Between 1985 and 1995, average annual electric bills declined by about $240 in real dollar value.

2. *Consolidation.* Merging with another electric cooperative provides a way of gaining economies of scale and reducing costs. Over the last five years, four cooperative mergers were attempted in Minnesota, three of which were successful. Most electric coops are now engaging in shared services. In addition, the state's two largest G&Ts are involved in a "virtual" merger that should become final in January.

Unlike mergers among Investor Owned Utilities (IOUs), electric cooperatives require the approval of their customer-members before merging. Each member has one vote.

Therefore, the interests of the community, rather than absentee-owners, are primary in these decisions.

3. *Unified marketing.* Electric cooperatives have joined together under the Touchstone label to advertise and market themselves in a competitive environment. Coops are able to emphasize their roots in the communities they serve and the fact that customers have a voice in the operations of the enterprise, unlike investor-owned utilities.

4. *Power authority preference*. Cooperatives, as well as municipal power providers, are currently given preferential access to electricity generated by power authorities. Some policy makers have threatened this preference, advocating for an auction system or the complete privatization of power authorities. Electric cooperatives oppose such measures.

Mark Glaess is manager of the Minnesota Rural Electric Association.

Field Notes: Employee-owned Companies

By Robert H. Scarlett

Overview

In this country there are more than 15,000 corporations that are at least partially owned by their employees. Approximately 18 million U.S. employees now own more than $650 billion in corporate stock.

The employee-ownership movement began here in the 1950s. It was spearheaded by lawyer and investment banker Louis Kelso who believed that the capitalist system would be stronger if all workers could share in owning capital-producing assets. He also believed that such stock ownership would permit workers to receive earnings from capital and not be totally dependent on hourly wage earnings.

In the early 1970s Kelso secured the support of powerful Senator Russell Long for a package of tax benefits and rules that permitted and encouraged broad-based employee ownership. Now, 25 years later, there are more than 11,000 ESOPs, plus another 5,000 401(k) and other broad-based stock option programs underway in this country. Employees in the U.S. now control between 8 percent and 9 percent of the total American corporate equity.

Some of America's largest companies are at least 30 percent employee-owned; and a few are majority employee-owned. Examples of large companies in the upper Midwest include Andersen Corporation in Bayport, Minnesota, Fluoroware, Inc. in Chaska, Minnesota, and Jerome Foods, in Barron, Wisconsin. In addition to many more familiar names that would appear on such a list, there are also hundreds of smaller, private companies that are seeking the advantages of broad-based employee ownership.

The phenomenal growth in employee-ownership in the U.S. is attributed to three "drivers": (1) tax benefits offered by ESOPs and 401(k) plans; (2) belief that employee ownership is an important prerequisite to employee participation, and (3) the ownership expectation of new generations of employees.

Overseas, especially in places like Russia or China, employee ownership is often seen as an important tactic in the privatization of state-owned corporations. Many American multinational corporations are also extending employee ownership to the employees of their foreign subsidiaries.

Both here and abroad there is reason to expect continued rapid growth in employee ownership of corporate stock, and it is foreseeable that employee-owners of corporations around the world will have the opportunity to collectively exercise an increasing amount of influence over corporate policy. They may do this by participating in annual shareholders' meetings and electing directors. In the case of ESOPs in the U.S., employee-owners also have the right to vote on major mergers, acquisitions, and other significant dispositions of assets. Since employee ownership is local ownership, the needs of the community play an important role in employee-owner decisions, and employee-owned companies are unlikely to move operations elsewhere.

ESOP trustees are legally required to act exclusively in the interests of employee-owners. Boards of directors and management groups that have committed a company to an “ownership” style of management and employee participation are also more likely to be influenced by employees' perceptions of their own interests.

Major Issues and Challenges: Implicit Strategies for the Future

Tax Incentives. In order for employee-ownership growth to continue in the U.S., the “strange bedfellows” that represent the often conflicting interests of capital and labor must continue to support the package of tax breaks and tax expenditures, as well as the employee-shareholder protections built into the present ESOP law.

Employee-Owner Education. Employees will have to know what it means to be a shareholder or a beneficial owner; they will have to become increasingly able to exercise their shareholder rights whether directly or indirectly through trustees.

Managing Conflicts of Interest. Employee-owners will have to be aware of their sometimes conflicting roles as employees, owners, and community residents, and they will have to learn how to minimize, manage, and reconcile these inherent conflicts.

Educating Boards of Directors. Directors of corporations need to be more aware of their duties as fiduciaries and be informed about the rights and interests of employees as shareholders—beneficial or otherwise.

Independence of Trustees. Much more has to be done to ensure that trustees for beneficial owners act independently and exclusively in the interests of the employee-owners.

Relating to Place. The employee-ownership community itself has to become more aware of place and how corporations and their mandatory quest for profits can positively or negatively affect the health of local communities.

Defining the Corporation. The public, elected representatives, employees, and concerned members of communities must acquire an appreciation for the role of corporations, large and small, in a community. And they must have an opportunity to work together to balance the rights granted under state charters with a corporation’s responsibility to the community it serves.

Conclusion

The increase in employee ownership, both here and abroad, creates the potential for broadening the base of support for a place-based movement that can help offset the negative effects of the globalization of capital. Employee-owned firms can play vital roles in stabilizing communities and serve as important wealth-building assets within a community.

Ironically, this potential will not likely be realized unless the advocates for community “globalize” their own movement and acquire the ability to operate themselves across local, national, and cultural boundaries.

Robert H. Scarlett is chairman of the board of Durex Products, Inc., an employee-owned company.

Field Notes: Independent Bookstores

By David Unowsky

Overview

Approximately 15,000 independent bookstores operate nationwide. These small businesses typically are housed in stores with 1,500 to 8,000 square feet and offer 25,000 to 100,000 titles. Many have been in business for decades and have become major landmarks in our communities.

In the last two decades, the market share of independent booksellers has shrunk dramatically, from 58 percent in 1972 to 32 percent in 1991 and then to just 17 percent in 1997. Six hundred and fifty bookstores have failed in the last five years alone. The industry has become dominated by two national chains, which together account for more than one-quarter of all book purchases and more than 40 percent of all bookstore sales. Borders Books and Barnes & Noble together own more than 2,100 stores, including 700 “superstores,” which offer as many as 200,000 titles in 20,000- to 45,000-square-foot outlets, as well as hundreds of smaller bookstores operated as B. Dalton and Waldenbooks.

With more than $5 billion in revenue last year, Borders and Barnes & Noble are larger than the top ten book publishers combined. Successful publishers depend on maintaining accounts with both chains, whose growing market power has enabled them to exact lower prices, favorable terms, and special promotional fees from publishers that are unavailable to small, locally owned bookstores. These advantages have made competing against the chains an uphill battle for independent booksellers.

With favorable purchasing arrangements and access to capital, Borders and Barnes & Noble have undertaken a massive expansion and market saturation effort in the last few years, often locating new outlets near successful independent bookstores. While local booksellers have little financial cushion to weather the entrance of new book “superstores,” corporate chains are able to withstand sustained periods of marginal or even negative profit margins until they have driven their smaller competitors out of business.

The growth of corporate booksellers has been aided in part by tax abatements and other subsidies provided by local governments. The city of Rochester, Minnesota, for instance, spent $3 million renovating an old theater for a new Barnes & Noble outlet. The new Borders store at Midway in St. Paul was made possible in part by city and state tax abatements. This assistance is rarely offered to local businesses, and although intended to spur economic development, most of the sales revenue generated at the new stores will come at the expense of existing merchants.

Consumers have benefited from the selection and discount pricing that large bookstore chains have brought to the industry. But while the short-term outlook for consumers has been beneficial, consolidated ownership may well have negative impacts for customers over the long-term. The deep discounts once offered by Barnes & Noble and Borders Books have declined over the years as competition decreases. Which books to offer at retail and, indirectly, which books to publish, are decisions increasingly dominated by a handful of purchasers at the two major chains. Publishers report that the bookselling giants are consulted on everything from cover design to content.

Another challenge for independent bookstores is the recent growth of Internet bookselling. Currently about 3 percent of book sales occur over the Internet. Buying online has its advantages and is likely to absorb a substantial segment of the market in the future. As a result of court decisions and congressional inaction, Internet book sales are exempt from state and local sales taxes, giving Amazon.com and other Internet book purveyors a 6 percent to 8 percent price advantage over local booksellers.

Strategies

Independent booksellers have attempted to meet these challenges like other locally owned businesses by streamlining their operations and extending their hours. They have emphasized their strengths, including extensive knowledge of their own customers' tastes. Some have chosen to cater to a particular market by offering an indepth selection of certain categories unmatched by chain stores. Many have relied on their roots in the community, hosting neighborhood events and participating in local causes.

Others have forged mutually beneficial partnerships with coffee shops or cafes, or formed alliances with other independent businesses in the community to jointly promote the importance of patronizing local stores.

Two organizations of independent booksellers are also in the works that will buy books in volume and collectively advertise and promote particular titles.

Bringing an end to the preferential deals large chains receive from publishers will be essential to maintaining the viability of independent booksellers. Intent on restoring a level playing field to the industry, the American Booksellers Association (ABA), a trade group of 3,500 independent booksellers, filed a lawsuit in northern California against Borders Books and Barnes & Noble in March 1998. The suit alleges violations of both federal antitrust law and two state statutes, which prohibit manufacturers from engaging in discriminatory pricing practices and also make it illegal for buyers such as retail merchants to solicit or induce price discounts unavailable to other purchasers. The ABA's legal action follows on the heels of a series of settlements reached with six publishers in 1997 involving similar antitrust violations. One publisher, Penguin, was found to have supplied the chains with $170 million in illegal price advantages over a five-year period.

In addition to ending the subsidies and tax incentives provided to chain stores, local and state governments could enact a number of policies that would nurture home-grown retailers. Purchasing rules could require government agencies to purchase a certain percentage of their supplies locally. School districts, for instance, could turn to local booksellers for those textbooks not available directly from publishers. At the federal level, Congress should address the unfairness of the Internet Tax Freedom Act that penalizes book buyers who shop locally rather than online.

David Unowsky is the owner of Hungry Mind Bookstore.

Field Notes: Independent Community Banks

By Don Raleigh

Overview

There are nearly 600 locally owned community banks and branch locations in Minnesota. Nationally, there are more than 9,000, with a total of 36,000 locations.

Community banks ensure a broad-based decentralized banking system. Their boards of directors are made up of local citizens, and their success depends on building long-term, mutually beneficial relationships with the communities they serve. Locally owned banks support communities by investing their capital in the local area and expanding local economic opportunities by lending to start-up enterprises and small businesses that might not otherwise have access to investment capital. Small banks account for 82 percent of commercial loans made to very small businesses. Community bankers' intimate knowledge of their customers and local conditions enables them to make investments that might seem risky to large, distantly controlled financial institutions.

Community banks offer competitive prices on banking services. In fact, fees at small banks are 15 percent lower than at large, multistate banks. Community banks also tend to outshine their larger competitors in customer service. Small businesses report that community banks are more attentive to their needs, provide more support and advice, and are less likely to terminate their credit relationship during economic downturns.

Key Issues

The two major challenges affecting community banks are deregulation and technology. Over the last 15 years, the dismantling of banking regulations has led to a rash of mergers and unprecedented consolidation in the financial sector. Some members of Congress continue to call for further deregulation, including the repeal of the Glass-Steagall Act, which prevents mergers between speculative and depository financial institutions.

The growth of large, interstate banks has been aided by advances in technology, particularly the ability to make instantaneous global money transfers.

The consolidation of the banking sector has entailed increasingly centralized control of electronic payment systems, which are owned and operated by an ever smaller number of financial institutions. These proprietary networks have the power to charge local, independent banks higher fees than they charge large banks or even deny them access altogether. These practices are not prohibited by the government.

Strategies

1. The federal government needs to recognize the dangers of allowing big banks to monopolize electronic payment systems. A similar discriminatory practice common a century ago—the charging of higher check clearing fees to independent banks—was eliminated when the Federal Reserve began providing competitive check clearing services to all banks. Today the Federal Reserve could operate an electronic payment system and offer fair access and fair pricing to all banks.

2. User-owned networks offer community banks a way to avoid the electronic networks controlled by large financial institutions. Lake Elmo Bank recently decided to join the Shazam ATM and Chek Card Network, a non-profit organization jointly owned by community banks and governed by a board of community bankers. Shazam has been quite successful and is now one of the largest networks in the country.

3. Community banks have worked with third-party vendors to give customers access to ATM networks, mutual funds, insurance, and other services that small banks are unable to offer on their own.

4. Independent Community Bankers of Minnesota, a trade association of independent banks, will be embarking on an advertising and marketing program under the slogan, “A Real Community Bank,” that will remind consumers of the social and economic benefits of local banking.

5. In general, state and federal policy makers need to focus not on the issue of how much regulation but what kind of regulation. Banking rules should focus on the needs of communities and should be designed to encourage financial institutions that serve local interests, broadly disperse capital, and retain wealth in the communities that generate it.

Don Raleigh is president of Lake Elmo Bank.

Field Notes: Independent Pharmacies

By Keith Pearson

Overview

Independent community pharmacies number nearly 500 in Minnesota and 20,000 nationally. These small businesses are an integral part of the healthcare system, providing services and products that improve the health and well-being of communities. Over the last several years, Minnesota's community pharmacies have been declining at a rate of about 5 percent per year as a result of consolidation in the healthcare industry and the growing market power of HMOs, drug manufacturers, and pharmacy benefit management companies (PBMs), which have succeeded in squeezing pharmacy profit margins to bare-bones levels. Even for those pharmacies able to survive on marginal profits, the future outlook is not good. When these pharmacists decide to retire, small returns and an uncertain future make finding a buyer for their businesses unlikely.

Key Issues

Pharmacy reimbursement rates for drugs are approximately 30 percent lower today than they were 20 years ago, primarily due to abuse of market power. PBMs, which have seen an explosion of growth in the last decade, now manage most prescription drug services for insurance companies, HMOs, hospitals, and nursing homes. An estimated 80 percent of this business is controlled by just five PBMs that are owned by or allied with drug manufacturers. Other PBMs are owned by HMOs. These companies tightly control both the wholesale price and the reimbursement rate for pharmaceuticals. The difference between the two—the gross profit for the pharmacist—has shrunk dramatically.

Meanwhile, mail order drug firms (some of which are operated by PBMs) and HMOs are paying less for pharmaceuticals than retail pharmacies. This price discrimination is not based on purchasing volumes. Indeed, even large chain stores pay higher prices for pharmaceuticals. Drug manufacturers justify this practice on the basis of so-called market share programs with the idea that different classes of purchasers are more or less able to influence physician-prescribing behavior and thereby shift market share to the manufacturer's brand. These programs are not only unethical in the minds of most community pharmacists, but the rebate rates are unpublished and not equally available to all pharmaceutical purchasers.

Both chain stores and independent pharmacies have been victims of discriminatory pricing practices, but independents are harder hit because they derive the bulk of their sales from prescriptions. Chain stores, by contrast, do most of their business in non-pharmacy goods, and some, like Wal-Mart, may even use their pharmacies as loss leaders to attract customers.

Another problem for community pharmacists is that some HMOs mandate that their customers purchase drugs from a particular mail order firm or a chain drugstore. Some states have made this illegal, but HMOs continue to discriminate against community pharmacies by making patients pay more for drugs bought locally.

The quality of patient care is threatened by these developments. At the root of the problem is a healthcare industry driven almost exclusively by profit motive that treats pharmacy as a commodity-based industry, not a service-based industry. PBMs pay pharmacists to dispense drugs, not to provide the comprehensive care that has traditionally been a vital part of their role in the community. Patients have experienced numerous problems with mail order firms including unexpected or undisclosed drug substitutions, delayed shipments, and failure to be alerted to potentially harmful drug interactions. The costs and consequences of any mistakes are born by the patient. Unlike health insurers, there are no consumer protections laws governing PBMs.

Strategies

1. Ending discriminatory pricing practices. Retail pharmacists are now engaged in litigation aimed at giving all pharmaceutical providers equal access to discounts and rebates. Several drug manufacturers involved have settled out of court. Two have decided to go to trial.

The National Community Pharmacists Association has made fair pricing one of its top priorities. The NCPA supports both judicial remedies and state and federal legislation that would require drug manufacturers to guarantee that all purchasers of wholesale pharmaceuticals have equal access to discounts.

2. Pharmacists should have the opportunity to participate in all third-party prescription programs. Consumers should have the right to obtain pharmaceutical services at the provider of their choice without being penalized by their health plans.

3. Cooperative buying groups, which have emerged in the last 15 years, offer independent retail pharmacies access to purchasing power, but buying groups have yet to deliver appreciable cost savings to their members because discounts on pharmaceuticals are based on market share programs, not on volume purchasing and other economies of scale.

3. The NCPA supports the enactment of state regulations comparable to laws governing insurance companies to protect consumers in PBMs and other third-party prescription programs.

4. Both the federal government and the State of Minnesota should reexamine their employee benefit plans that exacerbate the problems facing community pharmacists. Government employee healthcare plans contract with mail order companies for pharmaceutical services, denying community pharmacists this business. As large employers, governments are able to exact huge drug rebates, a process that shifts costs to independent pharmacists and their customers.

5. Pharmacies in Minnesota are responding to the changing healthcare market by joining together to provide a new concept in pharmacy service through a network known as Pharmacy Network of Minnesota. Pharmacists will identify and implement programs and services that will enhance the therapeutic outcomes of drug therapy. By providing these enhanced services, healthcare costs to society and individuals will be reduced either as a direct cost avoidance or in improved quality of life.

Keith Pearson is a pharmacist in Hibbing, Minnesota, and member of the National Community Pharmacists Association.

Field Notes: Municipal Electric Utilities

By Jack Kegel

Overview

Since the inception of the electric utility industry more than a hundred years ago, there has been a fundamental debate regarding the best method of providing service to customers. Most communities are served by large, investor-owned utilities that operate to provide profits for their stockholders. Since the 1930s, rural customers have been served primarily by rural electric cooperatives. The third primary form of electricity service is through a municipally-owned—or pubic power—utility. The city operates the electric utility system for its customers as a public service.

Nationwide, there are approximately 2,000 public power systems. They include some of our major cities, such as Los Angeles, Seattle, San Antonio, Memphis, Orlando, Sacramento, and Kansas City, Kansas. Most public power communities, however, are much smaller. There is a high concentration of public power systems in the Midwest.

There are 126 municipal electric utilities in Minnesota. Many have been in operation for 100 years or more. The largest community served by a municipal electric utility is Rochester. Other municipal utility communities include Alexandria, Anoka, Austin, Anoka, Brainerd, Detroit Lakes, Ely, Grand Rapids, Hibbing, Marshall, Moorhead, New Ulm Owatonna, St. Peter, Thief River Falls, Virginia, Willmar, and Worthington. Fifty of our 89 county seats are served by municipal utilities. Municipal electric utilities also serve may small communities in Greater Minnesota. About 45 percent of Minnesota's municipal electric utilities have fewer than 1,000 customers.

Municipal electric utilities have succeeded for more than 100 years by providing reliable, quality service at low cost. On average, municipal utility rates are lower than those of investor-owned utilities and coops. They know their customers' needs and focus on meeting them. They are operated for the good of the community rather than for the profit of stockholders. The rates and service provided by municipal utilities have served as a yardstick for judging the performance of large, for-profit utilities.

Key Issues

The overriding issue confronting municipal electric utilities and the industry as a whole is the trend toward introducing competition at the retail level. Currently, the utility that provides the distribution wire service to a customer also serves as the energy supplier. The customer purchases all electricity-related services from a single supplier.

In a retail competition environment, distribution wire service would continue to be a monopoly, but customers could purchase electricity from a variety of suppliers. Retail competition is being phased in primarily on the East and West Coasts as a means of bringing relief from very high electricity prices.

• In Minnesota, which has relatively low electricity prices, there may be little real savings from retail competition. Large customers will likely see lower prices, but these savings may come at the expense of residential and small business customers.

• Municipal utilities and rural electric coops, as small, locally based organizations, are concerned that large utilities will be able to use their control of the transmission and generation resources to drive small community-based organizations out of business.

• Small municipal utilities often have one or two large customers that may represent a very large portion of the utility's energy sales. Loss of these customers could place an undue burden on the small customers remaining on the system.

• National or regional chain operations may negotiate a contract with a single electricity supplier for a large region. A local utility may not be able to compete for its own customer even though it might be able to offer the best price to that customer.

• The IRS places severe restrictions on the use of municipal electric facilities financed with tax exempt bonds. If these restrictions are not addressed, municipal utilities may be precluded from entering into long-term power sale contracts.

• Many observers are concerned that reliability may suffer in a deregulated environment.

> • In order to reduce costs, large utilities may cut back on maintenance and close service centers.
>
> • Utilities have traditionally cooperated with one another on reliability issues to ensure a smooth and reliable flow of energy on a regional basis. With utilities in direct competition with one another for customers, the level of cooperation may diminish.
>
> • The transmission system was not designed to accommodate large power flows across system boundaries. The transmission system in the upper Midwest will require numerous upgrades to accommodate the increased cross-system flows likely to result from retail competition. An Independent System Operator has not been established to operate the system as a unit and ensure that transmission owners cannot game the system to their advantage.

• Consumer advocates are concerned that, in a market-based utility environment, many of the protections currently in place for low and fixed income consumers may be lost. .

• Environmental advocates are concerned that Minnesota's emphasis on conservation and renewable resources may suffer in a market-based environment. Another concern is that older, dirtier coal plants in Minnesota may be operated many more hours per year if a market for the energy from the plants exists in other regions of the country.

Strategies

Municipal utilities are working with other consumer-based organizations to ensure that the concerns of consumers and small, publicly owned utilities are recognized as the electric utility industry is restructured. Our representatives in Congress and the Minnesota Legislature are well aware of our concerns.

All of the above concerns must be addressed for publicly owned utilities to continue to succeed and for retail competition to provide real benefits for consumers. We believe that our best chance for success lies in working in concert with consumer, environmental, and labor organizations who have similar concerns. We will be taking a cautious approach and working to find solutions that provide real benefits to Minnesota and its communities.

Jack Kegel is executive director of the Minnesota Municipal Utilities Association.

Field Notes: Public Libraries

By Peter Pearson

Overview

Public libraries—numbering more than 16,000 in the United States—are more numerous than McDonald's fast food outlets. Nearly seven out of ten Americans visit one of these libraries at least once a year. Four out of ten use a library at least once a month. Indeed, Americans borrow nearly as many books as they buy. Minnesota’s libraries are truly community institutions, deriving 85 percent of their budgets from local governments. The average per capita cost of library services across Minnesota is $20 per person annually.

Public libraries in the United States stand as a symbol of a representative democracy, freedom of speech, and equal access to information. Libraries—and society in general—have moved from a time of providing all information in print to a time when much information is now available electronically. The availability of so much information has created a much greater division between the information haves and have-nots. While we assume that virtually everyone has access to computers and modems through their homes and offices, the reality is that poor urban and rural residents rarely have computers in their homes and very few of those who do have access to the Internet.

Libraries are not just book repositories or information centers. Today's modern library is a job-seeking resource center; a small business reference center; a school homework help center; an adult literacy provider; and a source of materials in non-English languages for our newest American citizens. In addition, with the elimination of most neighborhood schools, the public library is one of the only public spaces in which every member of the community, regardless of age, socio-economic status, or race, can gather.

Clearly, the role of the public library has never been more important. And yet at a time when the public library is so desperately needed, this institution is in its greatest danger of becoming obsolete due to a public disinvestment in the basic service and infrastructure of the local public library system. Libraries are struggling to do more and are providing more information in more formats, and yet the public funding to support libraries is declining or not keeping up with the real need in many communities.

Key Issues

There are several key issues with which librarians must concern themselves.

1. Due to a lack of public funding, library buildings in may communities are in disrepair and a number of library collections are woefully inadequate to meet the demands that today's library users place on their public libraries.

2. More information is available today than at any other time in history. Yet, if public libraries are not able to provide access to that wealth of information for those users who do not have access to computers and modems at home or at work, we will quickly have a society of information haves and have-nots.

3. Because libraries lack adequate staffing and funding, and because librarians have not been trained professionally as outreach workers, those people in the community who are most in need of a public library's resources frequently are not its customers. Many new Americans are not familiar with the extensive services available through a public library.

4. Many community and cultural institutions have a long history of private funding and support. Their supporters tend to be very vocal advocates. The public library, on the other hand, has not had this history of philanthropic support, and library lovers are typically not vocal political advocates.

Strategies

Libraries need to become more politically savvy. Every public library needs a political action group to represent its needs to local, state, and federal policy makers. In some cases, this may be a Friends of Library group, but libraries should not limit themselves to this model. The group needs to develop a platform annually and present it to policy makers for action. A grassroots lobbying approach will be essential, complete with media coverage for the platform, opportunities for write-in campaigns, and public testimony.

Probably the greatest opportunity for public libraries would be support through a dedicated tax levy rather than through a city’s or county's operational budget. Libraries will never be seen as a priority in a city or county budget process because they typically represent less than 1 percent of all city or county funding. Gallup polls conducted through the University of Minnesota show that the vast majority of the general public would consider increasing their taxes if they were earmarked for better library services. Moving library funding to the dedicated tax levy model would require a referendum in most communities. Publicizing and working for passage of such a referendum could also be funded through a library political action group.

In addition, libraries need to explore more thoroughly the availability of private funding. The creation of library foundations is a relatively new phenomenon. A very small percentage of corporate and foundation contributions currently goes to libraries. Because libraries have not been very active in this arena, many foundations have a difficult time figuring out how to fund libraries with libraries typically falling between the cracks of education and culture in such funding.

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