

# **The Hometown Advantage**

## **Reviving Local Retail and Stopping Chain Store Sprawl**

**By Stacy Mitchell\***

I'd like to thank all of you for coming out. It's heartening to see so many people concerned about the future of their community.

In her book, *The Death and Life of Great American Cities*, Jane Jacobs writes that what creates a sense of community is not any one particular thing, but rather the many small interactions that occur in our everyday lives.

"It grows," she writes, "out of people stopping by the bar for a beer, getting advice from the grocer and giving advice to the newsstand man, comparing opinions with other customers at the bakery and nodding hello to the two boys drinking pop on the stoop . . . hearing about a job from the hardware man and borrowing a dollar from the druggist . . ."

"Most of it is ostensibly utterly trivial," she goes on, "but the sum is not trivial at all. The sum of such casual, public contact at the local level. . . most of it fortuitous, most of it associated with errands . . . is a feeling for the public identity of people, a web of public respect and trust, and a resource in time of personal or neighborhood need. The absence of this trust is a disaster. . ."

What Jacobs describes is a close-knit community built around a cohesive and vibrant local retail economy. It is a place of small stores and sidewalks. A place where commerce and community life intermix. A place where we buy goods and services from businesses owned by our neighbors.

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Such places are increasingly rare. Countless cities and towns across America are now ringed by identical big box stores and acres of asphalt. Their downtowns are shuttered and vacant. Their locally owned businesses have long since disappeared, displaced by global chains that have limited ties and no long-term commitment to the community.

The trends of the last decade are staggering. Since 1990, 11,000 independent pharmacies have closed; chain drugstores now account for more than half of all pharmacy sales. More than 40 percent of independent bookstores have failed. Barnes & Nobles and Borders capture half of all bookstore sales. Local hardware stores are likewise disappearing. Home Depot and Lowe's control nearly 45 percent of that market. Five firms account for nearly half of all grocery sales. Blockbuster Video rents one out of every three videos. More than 40 percent of restaurant spending is captured the top 100 chains. Most striking of all, a single firm, Wal-Mart, now captures 9 percent of all U.S. retail sales. Wal-Mart now ranks as the largest grocer in the country, the largest toy seller, the largest furniture dealer, the largest music retailer, and the list goes on.

According to the conventional wisdom, these trends are both desirable and inevitable. We tend to assume that large retail corporations strengthen the local economy by generating new jobs and tax revenue. We assume that they benefit competition and consumers. And, even though at times we may mourn the loss of the neighborhood pharmacy or the local bookstore, ultimately we believe that there's not much we can do about it. This is simply the free market at work.

But the actual experience of many towns and cities over the last few years is at odds with the conventional wisdom. Chain retailers rarely deliver all of the benefits they claim. And these stores often entail significant hidden costs— economic as well as environmental and social.

One of the things we tend to assume about big box retailers, for example, is that they create new jobs and tax revenue. And in fact they do. A 100,000 square foot store□ that's about the size of a typical Home Depot□ might employ 200 people and generate significant property and sales tax revenue.

But what is often overlooked is the other side of the balance sheet. Study after study has found that big box stores destroy about as many jobs as much tax revenue as they create. This is because retail spending in a given market is a relatively fixed pie. Just because Wal-Mart builds a new outlet, it doesn't mean people are going to need more gallons of milk or pairs of socks. Unless your town is experiencing astronomical population or income growth, it's impossible to absorb one of these giant stores without causing sales to decline sharply at existing businesses, some of which will be forced to downsize or close altogether.

Dr. Kenneth Stone, an economics professor at Iowa State University, has tracked the impact of Wal-Mart and Home Depot on Iowa towns for more than a decade. His studies have consistently found that retail growth is a "zero-sum-game." That is, gains in sales at new Wal-Mart and Home Depot stores are mirrored by sales losses at existing businesses. Since Wal-Mart first entered Iowa, more than 7,000 small businesses have closed. As these businesses have disappeared, Iowa communities have lost at least as many retail jobs as the big superstores have created.

These lost jobs typically paid more with better benefits than the new jobs at the supercenter. Workers at Wal-Mart and Target supercenters earn about one-third less than employees of most supermarkets, which are unionized. Taxpayers often have to make up the difference, because many Target and Wal-Mart employees rely on food stamps and other forms of public assistance to get by.

Just as the promise of new jobs often proves to be an illusion, so too does the promise of new tax revenue. When a new supercenter opens on the outskirts of town,

commercial activity in the downtown declines. Over time, so too do downtown property values and tax revenue. Meanwhile, the sprawling new superstore requires substantial outlays for road maintenance, police, and other public services. It's not uncommon for these new costs, combined with the drop in downtown revenue, to actually exceed the tax revenue generated by the superstore.

Take the case Pineville, North Carolina. This town of 3400 people has added some 6 million square feet of retail development over the last decade. Many small towns aspire to have such a large commercial tax base in order to keep residential tax rates low. But Pineville has discovered that these stores are very costly from a public services standpoint. So much so that last year the town had to raise its residential property tax rates and suspend new retail construction in order to balance its budget.

More evidence comes from the city of Barnstable, Massachusetts, which recently commissioned a study to examine the tax impacts of different land uses. The study found that the city's big box stores and fast food outlets were costing more in services, particularly road maintenance, than they were generating in revenue. The study calculated that a 100,000 square foot big box store produced a net annual tax deficit of nearly \$47,000. The study also found that the city's small Main Street businesses contribute much more tax revenue than they require in services, generating additional funds for schools, parks, and other city functions.

Direct job and tax impacts are only part of what's a stake. Consider what happens to a dollar spent at a local store. Not only do profits stay in the community, but local merchants support a variety of other local businesses. They hire local accountants, printers, attorneys, web designers. They do business with the local bank. They advertise through local media outlets. They purchase goods from local producers and distributors. In this way, a dollar spent at a locally owned business creates a ripple of economic benefits, and indirectly helps to support a broad range of local jobs and opportunities.

In contrast, much of a dollar spent at a chain store leaves the community immediately. Chain stores centralize all of these functions at their head offices. They keep local spending to a minimum. They bank with big national banks. They bypass local media in favor of national advertising. They deal almost exclusively with large out-of-state companies and offer few opportunities for local firms.

We recently conducted a small study of this in Maine and estimated that only 14 percent of the dollars taken in at a big box store were re-spent in the local economy. The rest left the state, flowing to corporate headquarters and out-of-state suppliers. In contrast we found that locally owned businesses returned 45 percent of their revenue to the local economy. This means local stores contribute about three times as much to the local economy as chain stores, and thus support many more local jobs and businesses.

When we think about economic development, we tend to assume that a bookstore is a bookstore, and a grocery store is a grocery store. But in fact, ownership matters. Helping a local entrepreneur get started will mean much more for the local economy than recruiting a chain.

Yet another important economic benefit of local businesses is that, in an increasingly homogenized world□ where most cities and towns are overrun with same chain stores, the same parking lots, the same kind of sprawl□ those communities that have said no to cookie-cutter development and instead preserved their distinctive character and one-of-a-kind stores have an economic edge. These communities have a strong sense of local identity. They are more interesting places to live and to visit. And they are, according to a growing body of research, better able to attract entrepreneurs, relocating firms, and skilled workers, and thus are more likely to prosper over the long-term.

The proliferation of chain stores is not only undermining our local economies, but is also harming the environment. As the big boxes expand, more and more open space is

being consumed for shopping. The amount of retail store space per capita in the U.S. has grown by more than one-third over the last 15 years. Most of this new construction has been in the form of big box stores and other large shopping centers that are accessible only by car. As a result, more and more of our daily errands now require driving, which means increased air emissions and polluted runoff into our rivers and lakes.

Unlike centuries-old downtown buildings, these new shopping centers and big box stores typically last only a few years before being deemed obsolete. About one-third of all enclosed malls are now in serious financial distress. Even big box stores are going dark as companies like Target and Wal-Mart abandon existing outlets to build ever bigger stores further out. Wal-Mart alone has more than 350 vacant stores nationwide. I understand St. Croix Falls may soon become host to yet another empty Wal-Mart. It is very difficult to find new uses for these stores and they often remain vacant for years. Altogether, in the U.S., some 500 million square feet of retail space sits idle□ a tremendously inefficient use of land and resources.

One final point, and perhaps most important of all, locally owned businesses build strong communities. There's much to be said for the civic value of doing business with our neighbors□ people who greet us by name, send their kids to school with ours, and have a vested interest in the long-term health of the community. Local merchants are often deeply involved in community organizations and local causes. Although we hear a lot about the charitable giving of big corporations, one study found that small businesses actually give more than twice as much per employee to charitable causes as do large companies.

Altogether, it's a pretty high price to pay to save a few bucks and even that claim may not hold up to scrutiny and time. As Barnes & Noble and Borders Books have gained market share, both chains have sharply reduced the number of books they sell at a discount. Blockbuster's rental fees are higher in markets where it has a near monopoly.

Last October, the Maine Department of Human Services surveyed prescription drug prices at more than 100 pharmacies around the state. The ten lowest priced pharmacies were all independent, locally owned drugstores. National chains, including Rite Aid and CVS, had among the highest overall prices. Even more telling, prices at Wal-Mart pharmacies, which ranked somewhere in the middle overall, varied widely from one outlet to the next. Prices were lower in those markets where Wal-Mart still faces a fair amount of competition and significantly higher in those areas where it has largely eliminated local competitors.

As I've tried to demonstrate tonight, much of the conventional wisdom about the benefits of chain stores is false. So too is the notion that the growth of these stores is inevitable. Although local businesses have declined in recent years, they still control a substantial share of retail spending and command a degree of love and loyalty unmatched by their corporate counterparts. More importantly, across the country, a growing number of communities are recognizing the value of maintaining local businesses and a vibrant downtown. In the last few years, hundreds of cities and towns have said no to big box retail. Many have adopted innovative land use and economic development policies to prevent chain store sprawl, strengthen locally owned retail, and revitalize their downtowns.

The Institute for Local Self-Reliance, through our New Rules program, maintains an on-line clearinghouse of these policies at [www.newrules.org](http://www.newrules.org). We provide assistance to community groups and elected officials working to implement these policies in their own communities. And we also publish a free email newsletter, *The Home Town Advantage Bulletin*, that tracks new research and innovative approaches.

So let me outline a few of the strategies and policies that communities are adopting to support locally owned businesses.

First, we need to level the playing field. We tend to assume that chains are beating out small businesses simply because they're more efficient and better run. But, in fact, government policy has played a major role in fostering the growth of chain stores and undermining the survival of locally owned businesses.

Chain retailers have received billions of dollars in state and local subsidies. Recent examples include \$1.1 million in tax abatements given to Walgreen's in Palm Beach County, Florida; a \$5.5 million subsidy provided by the city of Chicago for a retail development anchored by a Borders Books store; and over \$17 million in state and local incentives to underwrite Wal-mart's expansion in Maine. Rarely are public funds made available to locally owned businesses. Instead, they often see their tax dollars used to subsidize their biggest competitors.

Many state and federal tax policies favor big corporations over small businesses. Federal policy, for example, exempts internet retailers like Amazon.com and BarnesandNoble.com from collecting state and local sales taxes, which gives these companies a 5 to 8 percent price advantage over our local stores. State corporate tax rules in some 20 states including Wisconsin, enable national chains, like Toys R Us and Home Depot, to shelter part of their profits from tax liability, while local businesses must pay taxes on all of their earnings.

Failure to enforce antitrust laws has allowed chain retailers to use their market power to undermine smaller rivals. Here in Wisconsin, state authorities tracked predatory pricing at five Wal-Mart stores for nearly a decade, but in the end gave the company little more than a slap on the wrist.

These are just a few examples. At the very least, our hometown businesses deserve an equal opportunity. We need to put an end to subsidies for chain stores. We need to make our tax policies fair. And We need enforce fair competition.



The second strategy is to revise local planning and zoning rules to support local stores and prevent sprawling development. Many communities, for example, now require that any new investment and retail growth flow into areas in and around the downtown. The town of Hailey, Idaho, for example, has adopted a planning policy that requires that any vacancies or empty lots in the downtown be redeveloped before commercial growth is allowed in other areas. This ensures that new development supports the downtown and established businesses, rather than drawing consumers and commercial activity to another part of town.

Other communities have banned or limited big box stores. Dozens of cities and towns have decided that the impacts of large retailers— from traffic congestion and polluted runoff to dying downtowns and the loss of community character— are too much to bear. Examples include, Easton, Maryland, which prohibits stores over 65,000 square feet. That's about half the size of a typical Home Depot; Belfast, Maine, which bans stores over 75,000 square feet; and Hood River, Oregon, which set its limit at 50,000 square feet. Some communities have chosen even lower limits, like 20,000 square feet, which is smaller than a Barnes & Noble superstore.

Many cities and towns now require a comprehensive economic and community impact review before approving any new retail construction. We're working right now with the town of Homer, Alaska, on such a measure. Homer has a thriving downtown with lots of locally owned businesses. But the town is facing growing pressure from large chain stores. Officials are now working on an ordinance that will require proposals for stores over 15,000 square feet to undergo an impact review. The review will consider store's impact on the downtown business district, tax revenue, public services, the environment, and the character of the community. If it is determined that the store will cause substantial harm or that the costs outweigh the benefits, then the developer will be denied a permit to build.

The third strategy is to work with surrounding communities to develop a regional planning strategy. You are probably all familiar with the competition for tax base that often occurs among neighboring municipalities. The only thing that this system guarantees is that the towns that are winners today—those have the latest and greatest shopping malls—will be losers tomorrow, because some other town will soon build an even bigger and better shopping center. The only way out of this destructive cycle is to work together on a regional basis.

A good example of this comes from Cape Cod, Massachusetts. In 1990, the region's residents voted to create a regional planning body called the Cape Cod Commission. The commission must review and approve all proposals for commercial projects over 10,000 square feet. The commission's guidelines state that it should "take into account any negative impacts that the project would have on the Cape Cod economy and should encourage businesses that are locally owned." Several chains, including Wal-Mart, Costco, and Home Depot, have been turned down as a result of this process. The commission also has an economic development program that helps local businesses grow and expand.

The fourth strategy is to focus the city's economic development resources not on trying to entice big corporations, but on nurturing local businesses. Many communities are now establishing grants and revolving loan funds to help local businesses expand and new entrepreneurs get started. They are conducting market analyses to identify new opportunities for local retailers. They are providing technical assistance to help local merchants with everything from inventory control to new technologies.

Faced with a gap in the local economy, a need unfulfilled by existing stores, most towns try to attract a national chain. But that's not the only option. Last year, when Ames, a regional chain of discount department stores, closed its outlet in Middlebury, Vermont, the town had no place to buy basic affordable clothing and shoes. Instead of

courting another chain, the community provided a no-interest loan to help an existing merchant triple the size of her store, buy new inventory, and open as a downtown department store that sells basic, low-priced goods.

Finally, local businesses have joined forces in many communities and pooled their resources to launch marketing campaigns to educate residents about the importance of supporting local businesses. These campaigns have been extremely successful in places like Austin, Texas, and Boulder, Colorado. They involve things like window decals, bumper stickers, newspaper ads, and local business directories.

These are just a few examples of the innovative strategies communities are developing to rebuild their local economies. More information about all of these approaches, including actual policy language that you can download and present to your city council, is available on our web site. To stay abreast of the latest news, I encourage you to sign-up for our free electronic newsletter, *The Hometown Advantage Bulletin*. You'll find the details for both on the handout.

Thank you.\*

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