

Full version of our response to Dr. Hart Hodges article - "Buying local: Does the myth need de-bunking?"
The shorter version appears as a guest column in the February Bellingham Business Journal.

Studies, Community, and Business Leaders Support Sustainable Connections' "Buy Local" Campaign

The staff and board of directors of Sustainable Connections believe it is important we respond to last month's guest column by Hart Hodges, assistant professor/part time director of WWU's Center for Economic and Business Research, and board member, Whatcom/Bellingham Chamber of Commerce.

Sustainable Connections, (www.Sconnect.org), is a membership network of local, independently owned businesses and our programs center around growing successful, socially responsible businesses and a sustainable local economy. Our 400 members are committed to healthy environments, meaningful employment, a strong community, and buying local first. One of our initiatives is the *Think Local – Buy Local – Be Local* campaign.

In his January guest column, Dr. Hodges shared his opinion that there are some reasons you should buy from locally owned businesses, such as benefits to our community and environment, but that he doesn't think it makes sense to buy from locally owned businesses to benefit our local economy. He says we should "embrace the challenges of true, (i.e. global) competition" for longer lasting jobs.

This campaign has never suggested restricting trade; rather it focuses on educating consumers about the full impact of purchasing choices. Because we recognize that everything we buy isn't made locally, nor are we likely to find everything we need exclusively at local, independent businesses, we selected the campaign slogan, 'Think Local *First*'.

Local businesses **should** and **must** compete – in fact ensuring healthy competition is an important reason for the campaign! A marketplace of tens of thousands of businesses is the best way to ensure innovation, selection, service and low prices over the long-term. It is important to think about the long-term impact on prices when the numbers of competitors dwindle. In October 2003, Consumer Reports found that the prices at chain store pharmacies are higher than independent drugstores. Today, "Two to three firms control a dominant share of every retail sector. Wal-Mart alone controls 10 percent of all retail spending...There's plenty of documentation that Wal-Mart routinely sells entire lines of goods below cost in order to squeeze the competition and gain market share. Then prices go up." (Stacy Mitchell, 02/04, 'Main Street News, the monthly journal of the National Main Street Center')

We must also remember that the playing field for our locally owned businesses is not entirely level. In Germany, the courts have ordered Wal-Mart to discontinue below-cost pricing strategies to prevent smaller retailers from being driven out of business. Michael Shuman, the author of [Going Local](#), says, "Free-market economists forget that the United States is a crazy-quilt of thousands of market imperfections – subsidies, regulations,

insurance liability limits, tax wrinkles – nearly all of which favor non local business. Buy local campaigns are very modest efforts to adjust this tilt in the playing field. The tilt is so extreme -- probably 99% of subsidies go to non-local firms -- that we would have a very long way to go before it was undone.”

Doug Smith, founder and recently retired owner of Com-Steel, and Port of Bellingham Commissioner, explains why he buys local ‘first’ this way, “Most of our fabrication steel is purchased from either Morse or Carlson, most of our concrete business is done with Cowden – locally owned and controlled. When we buy promotional products like t-shirts, coats, cups, with our name on them, we purchase from Bergen, a locally owned company. It’s important to do business with people who have a long-term investment in the community. There is a significant economic multiplier when you buy local. We buy from other locally owned businesses, which builds a cooperative environment and helps us to promote the sustainability of all local businesses. This is particularly important in a small business community like Whatcom, and long term can reduce business development costs.”

Recently, the research firm ‘Civic Economics’ highlighted the importance of the economic multiplier in a Chicago study that analyzed ten locally owned restaurants, retail stores, and service providers and compared them with ten national chains competing in the same categories. The study found that spending \$100 at a chain produces \$43 worth of local impact, while spending \$100 at one of the neighborhood's independent businesses creates \$68 in additional local economic activity, a 58% increase. “This Local Premium represents the quantifiable advantage to the city provided by locally-owned businesses.” Across the board, locally owned businesses exceeded their chain competitors in the economic impacts of their labor, profit, procurement, and charity. For example, “local firms spent an average of 28 percent of revenue on labor compared to 23 percent for chains. Local firms procure local goods and services at more than twice the rate of chains. Finally, locally-owned firms in the study contribute more to local charities.” (www.andersonvillestudy.com)

Although Dr. Hodges says he believed some of the facts and figures used in the campaign are misleading, he offers no contrary research, only anecdotal references to conversations with a few business owners and chain store managers. In fact, all of the figures used in our campaign are backed by studies.

Dr. Hodges said we should consider where employees of chain stores spend their money. This campaign encourages *all* citizens to purchase from locally owned businesses. In fact we hope to increase the quality of employment opportunities for our local citizens. “Consumer spending is a relatively fixed pie. Sales gains at a new shopping development are invariably offset by losses at existing businesses...according to Dr. Kenneth Stone of Iowa State University, who, for more than a decade, has tracked the impact (of chain stores) in Iowa. As local stores lose sales, they either downsize or close. The resulting job losses typically equal or even exceed the gains at the new superstore. The new jobs at chain stores, moreover, often pay less and offer fewer benefits than the jobs they replace. Taxpayers end up picking up the difference... Washington State reports that Wal-Mart employees are the largest group of users in its taxpayer-funded low-income health care

program.” (02/04, Main Street News) Craig Cole, CEO of Bellingham-based Brown & Cole says, “The existence of a diverse pool of competitors serves not only the interests of consumers; it also provides choices to workers.”

According to another recent study, during the 1990’s, Counties that gained one Wal-Mart store showed an 8 percent smaller reduction in the poverty rate compared to the national average, while those that gained two Wal-Mart stores experienced a 16 percent smaller reduction in poverty. The researchers offer several explanations including, “The owners of the mom-and-pop type retail operations that are driven out of business often represent the leadership class of the local community. As these retail operations are lost, so is the civic capacity needed to deal with local problems of a communal nature, and for economic growth to occur. Second, philanthropic capacity to deal specifically with local needs is destroyed as local business leaders lose the source of their livelihood.” (<http://cecd.aers.psu.edu/>)

Finally, we do agree with Dr. Hodges that we should move forward thoughtfully. Some additional food for thought: a growing body of research shows that a stable and diverse economy of independent business owners is good for property values, investment and tourism.

Over the last twelve years the city of Concord, New Hampshire added 2.8 million square feet of new commercial and industrial development, yet tax revenue actually declined by 19 percent. An independent economic consulting firm found several reasons for the declining tax base:

- ❖ the new retail development - primarily big box stores - had harmed local businesses, and
- ❖ property values and subsequent tax revenue in the older shopping areas had declined sharply.

To make up for lost revenue, the town now has one of the highest property tax rates in the state. (www.rkg1.com)

Additionally, thought-leaders including Richard Florida, author of The Rise of the Creative Class, have found that in an increasingly homogenized world, entrepreneurs and skilled workers are more likely to invest and settle in communities that preserve their one-of-a-kind businesses and distinctive character. “After the town of Excelsior, Minnesota, expressed a desire to keep out chain retailers, the area Chamber of Commerce received numerous calls from entrepreneurs and small business owners eager to locate (or relocate) in a community that was committed to its downtown and local merchants.” (02/04, Main Street News) This is true locally as well. Travis Rohrer, owner of Topline Construction, new member of the board of directors for the Building Industry Association, and strong presence in their new Built Green initiative, moved his business here in 2004. Rohrer said, “An important part of our decision was this community’s support of its locally owned businesses, as evidenced by the buy local campaign.”

Richard Moe, president of the national historic preservation trust claims that one-of-a-kind communities attract tourists as well. “What tourists want is the sense of being *Someplace*, not just *Anyplace*. They aren’t interested in visiting communities that have

transformed themselves into a sad hodge-podge of cookie-cutter housing tracts, cluttered commercial strips and bleak downtowns.” Our local Convention and Visitor’s Bureau has found the same to be true here. Private consultants brought in to analyze our visitors and build an attractive brand for tourists recommended our County focus on the ‘Geotourist’. The Geotourist, among other things, is attracted to authentic communities committed to preserving their local character.

Chuck Robinson, owner of Village Books, had the following thoughts after reading last month’s guest column. “Dr. Hodges focuses on price as the be all, end all of economics. Perhaps, it's time to reexamine the economic myths that we live by. Economy, as it is usually used, refers to the prosperity or earnings of a place. And the definition of prosperity is "a successful, flourishing, or thriving condition." Dr. Hodges suggests that many of the reasons we should buy locally are non-economic. Yet, by definition, they are certainly part of the economy. Joseph Campbell in his book *Myths to Live By* says, "I like to think of the year 1492 as marking the end - or at least the beginning of the end - of the authority of the old mythological systems by which the lives of men had been supported and inspired from time out of mind." Perhaps the turn of this century marks the end - or at least the beginning of the end of the economic myths we've been living by. We share Dr. Hodges hope that we can rethink the hype around economics and move forward thoughtfully.”