

A New Deal for Local Economies

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Let me begin by sharing some good news. Scattered here and there, in my country and in yours, the seeds of a new, more local and durable economy are taking root.

Locally grown food has soared in popularity. There are now 5,274 active farmers markets in the United States. Remarkably, almost one of every two of these markets was started within the last decade.¹ Food co-ops and neighborhood greengrocers are likewise on the rise.

Some 400 new independent bookstores have opened in the last four years.² Neighborhood hardware stores are making a comeback in some cities. More students graduating from pharmacy school report that they would rather open their own drugstore than work for chain. In April, even as Virgin Megastores prepared to shutter its last U.S. record emporium, more than a thousand independent music stores were mobbed for the second annual Record Store Day. This celebration of independent record stores drew hundreds of thousands of people into local stores, was one of the top search terms on Google, and triggered a 16-point upswing in album sales.³

Driving is down in U.S. over the last two years, while data from a dozen metropolitan regions show that houses located within walking distance of local businesses have held value better than those isolated in the suburbs where the nearest gallon of milk is a five-mile drive to a superstore.⁴

In city after city, independent businesses are organizing and building an increasingly powerful counterweight to the big business lobby on issues as varied as tax policy and global warming. Local business alliances have now formed in over 130 cities and collectively count some 30,000 businesses as members.⁵ These alliances are calling on people to choose independent businesses and locally produced goods more often and making a compelling case that doing so is critical to rebuilding middle-class prosperity, averting environmental catastrophe, and ensuring that our daily lives are not smothered by corporate uniformity.

There is growing evidence that these initiatives are succeeding. Last winter, as the economy spiraled downward, many big retail chains reported double-digit sales declines. Some filed for bankruptcy. But a survey of 1,100 independent retailers found that revenue was down just 3 percent on average.⁶ What accounted for this relative good fortune? Many of those surveyed said that more people are deliberately seeking out locally owned businesses.

But here's what is perhaps the strongest — and, undoubtedly, the most bizarre — evidence to date that people's priorities are changing: Many massive, globe-spanning corporations are now trying to figure out how they can be "local" too.

Hellmann's, the mayonnaise brand owned by the processed-food giant Unilever, is test-driving a new "Eat Real, Eat Local" marketing campaign. Frito-Lay is using farmers to pitch its potato chips as local food. Barnes & Noble, the world's top seller of books, has launched a new campaign under the tagline, "All bookselling is local." Winn-Dixie, one of the largest supermarket chains in the U.S., has a new slogan: "Local flavor since 1956." The International Council of Shopping Centers, a global consortium of mall developers, is pouring millions of dollars into television ads urging people to "Shop Local" - at their nearest mall.

Most astounding of all, Starbucks, a company that has spent untold millions developing one of the most recognizable brands on the planet, is now beginning to un-brand some of its outlets. The first of these just reopened as "15th Avenue Coffee and Tea" in Seattle and, unless you read the fine-print on the menu, you would quite easily assume it was an independent coffee house.

Corporations desperately want to turn the local economy movement into nothing more than a cheap marketing trick they can appropriate for their own ends. These attempts at imitation are unnerving. But in the end I think this new variation on corporate green-washing — let's call it local-washing — will backfire. In the meantime, I'm heartened by what it says about the current consciousness. After all, these companies spend enormous sums on market research and they would not be doing this unless they had detected a sizeable shift in public attitudes.

II.

While signs abound that people are rediscovering the benefits of an economy rooted in community and small-scale enterprise, all of this activity, though widespread, is still quite modest. It exists largely on the margins and is unlikely to coalesce into a wholesale reorganization of our economy unless we change the rules.

We tend to imagine that our economic system is the product of a kind of natural evolution, the inevitable result of forces as innate and inexorable as the weather. But in fact our economy is largely the consequence of public policy. We have made rules that privilege the global over the local, concentrate ownership, and undermine democracy.

The corporation itself is an invention of government, and the more you study its origins and structure, the more peculiar and artificial you realize it is. The first corporations were established in the 15th century by monarchs eager to maintain their power against a rising merchant class. These chartered corporations were endowed by their royal creators with monopoly rights to control trade and exploit various regions of the world, backed by the full legal and military power of the state.⁷

This unholy alliance between central governments and powerful corporations has continued right on down to the present day, but with a few noteworthy setbacks along the way. One was the American Revolution, which, you may recall, got underway in earnest when a group of colonists forced their way onto three ships docked in Boston Harbor and dumped more than 90,000 pounds of tea into the sea. The colonists' actions that night were as much a challenge to corporate power as they were a rebellion against King George III. Those ships were owned by the East India Company, which had been losing money in the colonies in part because of growing competition from local tea merchants. Parliament stepped in and passed the Tea Act, which exempted the East India Company from the taxes that its small rivals had to pay. The assumption was that the lure of cheaper tea would outweigh any loyalties the colonists had to their local merchants. But Parliament and the East India Company misjudged. The Boston Tea Part and the Revolution itself were thus acts of both civil disobedience and corporate sabotage.⁸

In the decades following the war, Americans remained highly suspect of economic concentration. Thomas Jefferson even proposed making "freedom from monopolies in commerce" part of the Bill of Rights. Although his proposal failed, the early republic still placed strict limits on the power and longevity of corporations.

But the corporate form waited in the wings and made a comeback after the Civil War, when a series of court rulings and new laws endowed the modern corporation with extraordinary power, including most of the rights of citizens plus several superhuman powers, notably limited liability and unlimited life. In the words of David Morris, co-founder of the Institute for Local Self-Reliance, "We gave business the tools to grow beyond our capacities to control it. And one hundred years later these creatures of the state have come to dominate states."

From bailouts for big banks to tax breaks for superstores, we have rigged the system with policies that underwrite corporate expansion and undermine local economies. A handful of companies now dominate every sector of our economy.

This is not the world of Adam Smith. It is not about people creating and exchanging real value. Corporations exist not to create value, but to extract it. Their roots in colonialism are very telling. When mega-retailers, like Wal-Mart or Tesco, move into a community, their aim is not to enrich the local inhabitants. Their aim is to eradicate local businesses and to sever the web of economic relationships that link the people of a community together — from the local banker making a loan to the shopkeeper, who sources goods from a local manufacturer or farmer, who in turn hires the local accountant, and so on. In place of this robust system of local trade and mutual benefit, the big superstores erect a single-track economy in which wealth flows in only one direction: out.

How is it that we have so willingly accepted such colonization? We acquiesce in large part because we long ago stopped conceiving of ourselves as citizens, with all of the authority and responsibility that role entails. Instead we adopted the highly circumscribed role of consumer. This is how we are referred to by corporations, the media, our elected officials, and even ourselves. We have internalized the logic of corporations.

This consumer identity is actually a relatively modern invention. It was created in California in the late 1930s by one of the first big chains, a company called A&P. At its height, A&P operated about 4,000 supermarkets. It is often referred to as the Wal-Mart of its day, although its market share was in fact much smaller. When A&P, and other early chains like Woolworth's, were first expanding in the 1920s and 30s, they were met with fierce resistance. People organized against them in hundreds of cities, half the states passed anti-chain store taxes that grew progressively larger the more outlets a chain had, the federal government launched several antitrust cases against A&P, and by 1939 Congress itself was debating a national chain store tax that was so steep that, had it been enacted, it would have dissolved A&P.⁹

It's fascinating to read this early debate because it's so different from the discussion we have today about chain stores. People at that time reacted to A&P as citizens, as independent economic actors, as stewards of their communities. And from all of these perspectives, they saw A&P as a threat, to both their livelihoods and democracy itself. A&P responded by hiring a very clever ad agency and launching a sweeping public relations campaign that reframed the terms of the debate and repositioned people not as citizens, but as consumers. It worked. People began to see a new supermarket not as a threat, but just another shopping option. The national chain store tax was defeated, antitrust took a back seat, and our consumer identity was born.¹⁰

When we became consumers, the pursuit of happiness — to use Thomas Jefferson's lovely phrase — ceased to be a collective, public endeavor. It was no longer about seeing friends at the pub, or strolling the high street on a warm evening, or joining with one's neighbors to address a community need. Instead the pursuit of happiness became confined to the narrow realm of individual consumption. People no longer relied on their neighbors so much as competed against them. "A life devoted primarily to the pursuit of material ends," Fritz Schumacher observed, "necessarily sets man against man ... because man's needs are infinite and infinitude can be achieved only in the spiritual realm, never in the material." Consequently, today we find ourselves not only on the brink of environmental catastrophe, but increasingly alienated and unhappy.

Einstein was right that "no problem can be solved from the same level of consciousness that created it." And so we must begin by reclaiming our citizenship.

III.

About ten years ago, the Institute for Local Self-Reliance launched the New Rules Project to develop and advocate for policies that would democratize ownership, refashion the economy for long-term sustainability, and nurture strong self-conscious and self-governing communities. Today I would like to highlight three areas of policy reform that I think are especially critical.

The first is that we must resurrect and embrace a vigorous anti-monopoly policy.

If we were to boil the financial crisis down to its root cause, we could sum it up rather succinctly as the "curse of bigness," to use former Supreme Court Justice Louis Brandeis's phrase. The crisis

was caused by massive industry consolidation, which invariably leads to destructive corporate behavior, because the decision-makers at these vast institutions are so far removed from the impacts of their decisions.

Perhaps the best way to understand the problems inherent in an economy that separates actions from consequences is to look at its opposite. Last fall, not long after Lehman Brothers collapsed, I was speaking on a panel alongside a community banker. He said his bank did not offer mortgages that people could not afford or that would balloon in cost a few years out for two simple reasons. One was that the bank did not sell mortgages to Wall Street, but kept these loans on its own books. The bank's financial well-being, therefore, was directly tied to the well-being of its customers. The other reason was that he invariably knew or got to know the borrowers. "I don't relish the idea of foreclosing on a family I regularly see at the grocery store," he explained.

Arguably even more troubling than the financial crisis itself has been the government response. So far it has resulted in even greater concentration, as failing banks have been ushered into shotgun marriages with other banks, while massive injections of public money have enabled giants like Goldman Sachs to speculate their way into even bigger profits. In the U.S., just four banks now control half of all bank assets, issue half of all mortgages, and account for two of every three credit cards.

The only reasonable path forward is that banks that are Too Big to Fail must be deemed Too Big to Exist and broken up into smaller components more responsive to their communities and customers. We must place strict caps on the market share that any one bank can amass, and we must reinstate rules adopted during the Great Depression and foolishly discarded a decade ago that prevented banks from engaging in both ordinary retail banking and speculative investment.

The deference to bigness that has guided policymakers' response to the banking crisis has long infected our government. A generation ago, with Reagan and Thatcher telling us there was no alternative, we dismantled anti-monopoly laws on the grounds that bigger is more efficient. Competition policy became concerned solely with short-term impacts on prices and abandoned any consideration of the corrosive long-term consequences of concentrated power.

Regulators have been especially blind to the problems caused by firms that exercise their power not so much to raise prices, at least in the short-run, but to gut suppliers and destroy smaller competitors. Thus we have the unchecked growth of Tesco, which now has one-third of the British market, and Wal-Mart, which captures nearly one in four dollars Americans spend on groceries and is the largest seller of a staggering array of goods, from toys to clothing, books to home furnishings.

These power buyers now control so much of the market that suppliers have only two options. They can shun them and try to survive by selling to a shrinking number of other retailers. Or they can submit themselves to the chains, which will lead to more revenue but ever thinner margins to the point that there's not a dime left for product development and innovation, much less for taking care of their employees. Of Wal-Mart's top ten suppliers in the mid 1990s, four have sought bankruptcy protection, while others have merged in desperate bids to stay afloat."

All of this has led to a profound loss of economic flexibility as the entire global system of production is refashioned to serve Wal-Mart and Tesco. The food, drugs, clothing, and other goods we rely on are now made in a relatively small number of places and transported over long and highly centralized supply lines. As Barry Lynn has written, we are "slowly freezing our economy into an ever more rigid crystal ... that every day is more liable to collapse from some sudden shock."

Given the ecological challenges we face, we can ill afford an economy that is the biological equivalent of a monoculture. We need the inherent creativity and adaptability of a multitude of small-scale enterprises that can evolve quickly and better respond to the unique circumstances of their own regions. Competition policy must embrace diversity as its primary aim. It must return to the idea the measure of a competitive economy is not some abstract notion of efficiency, but rather a competitive economy is, by definition, one made up of many competitors.

IV.

My second proposal is that we need to adopt planning policies that support local economies.

I live in a 19th century neighborhood in a small New England city. My mother-in-law, who grew up in this same neighborhood, often talks about what it was like during her childhood in the 1940s. What I find most striking about her description is how many businesses our little section of town once had. There was a grocery store, hardware store, two drugstores, a tailor, and more.

All of those businesses disappeared in the following decades. Families acquired cars and shopping migrated out to supermarkets and, later, malls and big-box stores. When I moved to the neighborhood in 2003, there were no businesses left save one lone corner store. Meanwhile, scores of big-box stores and massive shopping centers had grown up on the edge of town.

This transformation was not natural or inevitable. It was engineered by government policy. After World War II, federal and state officials poured money into highway construction, dismantled public transit, guaranteed mortgages in the suburbs but not in the city, and enacted planning rules that insisted on a rigid separation of residential and commercial uses. All of this created a landscape ideal for chains and big-box stores, but inhospitable to local businesses. In recent decades, municipal governments have gone even further, doling out hundreds of millions of dollars a year in subsidies and tax breaks that directly underwrite the construction of shopping centers and superstores.

Most Americans, as well as a growing number of Europeans, now find themselves living in a built environment that is ill-suited to a post-carbon world, in part because it fails to support a local economy and in part because it demands an extraordinary amount of driving. Between 1987 and 2007, total miles driven in the U.S. rose 60 percent.¹²

And this problem is self-reinforcing, because the landscape that the car has created only entrenches us ever more firmly in our role as consumers and erodes the social capital that enables communities to innovate and solve complex problems like global warming.

To understand how planning policy affects civic life, all you need to do is spend time watching people in a neighborhood business district or on a high street. What you see is lots of interaction. Business owners know their customers. People run into neighbors on the sidewalk or while waiting in line at the bakery. This is an environment that slows the pace of life and encourages people to loiter and converse.

Then undertake the same observation in the car-park of a big out-of-town shopping center and watch how differently people behave in this setting. You see very little interaction. This is a landscape built for cars, not people. The stores are sized to serve regions, not neighborhoods, so there's much less chance that you'll bump into someone you know. And even if you do, the store itself is designed to facilitate speedy consumption and deter loitering. This is an environment that fosters separation and disengagement.

Indeed, studies show that, in places with many small, locally owned businesses, people are much more engaged in community life than those living in towns dominated by big businesses. Residents of communities with a vibrant local business district are more likely to know their neighbors and to join civic and social groups. They attend public meetings more often and even vote in greater numbers than their counterparts in towns overrun by superstores.¹³

This brings me to a theory I have about the growth of farmers markets. The conventional explanation is that people are rediscovering local food. That's certainly true. But I think people are as hungry for the community experience as they are for the fresh broccoli. Several years ago, a group of sociologists from the University of California-Davis followed people around as they shopped in a supermarket. They found that your chances of having a conversation with another shopper are about 1 in 10. They then tracked people at farmers markets and found that your odds of having a conversation in this setting are nearly 70 percent.¹⁴

It's this social pleasure that I think is driving the very modest, but noteworthy, regeneration of local businesses in some communities. In my neighborhood, things began to change last year. First a restaurant opened and then a teashop. And then, like a gift from heaven, a small food market opened. Stop by in the early evening and you'll find a row of bicycles parked out front and the store's narrow aisles packed with people pondering their dinner options and chatting with their neighbors.

This little store is not only a hub of social activity. It's also an economic engine of surprising proportions. Studies show that spending a dollar at an independent business generates about three times as much benefit for your local economy as spending a dollar at a chain. The reason is that, unlike chains, which siphon money out of a community, local businesses spend much of their revenue buying goods and services from other local businesses. They bank at a local bank, hire a local accountant, get their printing done at the local print shop.¹⁵

My local food market stocks an extraordinary amount of food produced nearby — not only vegetables, but also locally made cheeses, yogurt, sauces, jams, biscuits and breads. Because it's run by a local owner, this store can source from dozens of small producers much more efficiently than Tesco or Wal-Mart, saddled as they are with global distribution systems and a top-down command structure. Local ownership enables a face-to-face economy. It closes the distance between customer and owner, farmer and eater, manufacturer and user.

Lastly, this little store is quite significant from a climate standpoint. One study in Seattle found that families living in neighborhoods that integrate small businesses with homes drive 26 percent fewer miles on average than those living in areas that lack nearby stores.¹⁶

But this local store and the others like it that have managed to survive are like little green shoots growing up in the cracks of a sidewalk. They are defying the odds in a planning system rigged against them. If we want to grow a whole new crop of these kinds of businesses, we must rethink our planning policies. We need to stop favoring the automobile at the expense of other forms of transportation and stop green-lighting superstore development.

A growing number of cities in the U.S. are indeed prohibiting the construction of superstores, and some, like San Francisco, are restricting the proliferation of all types of chains. At the very least, we need to adopt a kind of precautionary principle that places the onus on big retailers to demonstrate that their stores will be a net benefit, both economically and environmentally. We have enacted a policy like this in my home state of Maine, where large stores no longer have the right to open, but may do so only after their economic impacts have been independently evaluated and the community has determined that the benefits outweigh the costs.¹⁷

V.

Third and last, we need new mechanisms for channeling our investment capital in directions that nurture community and rebuild local economies.

The financial crisis has provided us all with a crash course on how much of our economy is based not on the creation of real value, but on speculation. Over the last year, we have learned that the speculative economy — the one that trades in exotic derivatives like credit default swaps and makes short-term, bubble-inducing bets on assets like real estate and tech stocks — is vast and highly rewarded. We have learned that the speculative economy undermines and consumes the productive economy. And we have learned that money made by speculation is often treated much more favorably by tax systems than money earned through real work.

We have also learned how entangled we all are in the speculative economy. If you think about it, there are very few opportunities for you and I to invest our savings in ways that would strengthen our local economies. Most of us, whether we like it or not, have our retirement and other savings invested in funds composed of stocks, derivatives, and other speculative vehicles.

This de-linking of money from place and productive investment is not the inevitable result of economic evolution. Money is a human invention and the rules that control its dynamic are also a human invention. The rules in place today favor mobility over community, speculation over productive investment, volatility over permanence.

How can we reconnect capital with community needs? Global warming has created an urgent need to retool much of our infrastructure, develop regional food systems, retrofit buildings, reestablish neighborhood enterprises, and so on. And yet our system for pooling and deploying capital is completely ill-suited to this task, oriented as it is to maximizing short-term gains rather than building long-term community capacity.

One way we might begin to reorient the financial system is to establish a modest tax on all financial transactions, including international currency trades. This would lessen the appeal of high-frequency speculative trading. It would also generate a stream of revenue that could be used to establish a publicly owned wholesale bank or fund that would channel capital to Community Development Financial Institutions. These in turn would finance small businesses, cooperatives, and social enterprises.

We might also consider funding, as the New Economic Foundation has suggested, a Green Industrial Bank to provide long-term financing for green infrastructure and renewable energy development. At the local level, cities are already pioneering ways to finance the transition to renewable energy. The city of Berkeley, California, for example, is using its bonding authority to provide long-term, low-interest loans that enable homeowners to become electricity producers by installing solar cells on their rooftops. The debt, which stays with the house if the owner moves, is repaid over a 20-year period through a fee added to their biannual property tax bill.

Another useful model, which relies on a mix of public and private investment, is Pennsylvania's Fresh Food Financing Initiative. This \$120 million fund has provided low-interest, long-term loans to finance over 60 locally owned food markets in neighborhoods and small towns that lacked places to buy fresh food. All but one of these stores has succeeded, demonstrating that the reason "food deserts" exist in so many low-income communities is not that grocery stores are not viable in these areas, but rather banks have been reluctant to finance these ventures. We ought to build on this model by establishing similar funds to capitalize a new generation of neighborhood stores, small-scale farms, and other enterprises that can expand the capacity of communities to meet more of their needs locally.

In the private sector, we should look to reform the banking industry by both breaking up big banks and adopting policies that favor independent banks and credit unions. These smaller institutions have generally been much more responsive to their local communities. And, while big banks have focused on the needs of big business, small banks operate at a scale better matched to the needs of local economies.

Financial institutions are not the only way to link local capital with community enterprise. A growing number of local businesses are being financed directly by their customers. In the U.S., Community-Supported Agriculture schemes, or CSAs, which enable people to fund the

operations of a farm in exchange for a share of its harvest, have multiplied to well over 3,000. Hundreds of independent bookstores, restaurants, and other local businesses in both the U.S. and the U.K. have raised capital from their customers to sustain or expand their operations. Earlier this year, more than 100 customers of the Busy Bee Toyshop in Greater Manchester put up £32,000 to take over the store, which had recently closed, and operate it as a cooperative. In Brooklyn, a similar initiative made hundreds of customers investors in their local bookstore. People have come together not only to save or grow local businesses, but also to start them. Six years ago, in Powell, Wyoming, over 800 families invested \$500 each to capitalize a new community-owned downtown department store.¹⁸

Many political and corporate leaders are eager to put the financial crisis in the rearview mirror and return to business-as-usual. But we should not let them. More than ever, we need a new economics fashioned from the wisdom of Schumacher. We need a bold new deal that reorients antitrust, planning, and financial policy to shrink the power of corporations, resurrect citizenship, nurture local enterprise, and build a sustainable future.

Thank you.

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¹⁵ See Civic Economics, "Thinking Outside the Box: A Report on Independent Merchants and the Local Economy," September 2009; Civic Economics, "The San Francisco Retail Diversity Study," May 2007; and Institute for Local Self-Reliance, "The Economic Impact of Locally Owned Businesses vs. Chains: A Case Study in Midcoast Maine," Sept. 2003. Additional studies can be found under "Key Studies" at www.newrules.org/retail.

¹⁶ Lawrence Frank in collaboration with the Center for Clean Air Policy, "A Study of Land Use, Transportation, Air Quality, and Health in King County, WA," commissioned by King County, Sept. 27, 2005. See also: Stacy Mitchell, "Neighborhood Stores: An Overlooked Strategy for Fighting Global Warming," *Grist Magazine*, Aug. 19, 2009.

¹⁷ For more information about these policies, including San Francisco's formula business ordinance and Maine's Informed Growth Act, go to <http://www.newrules.org/retail> and follow the policy links on the right.

¹⁸ James Alexander, "Communities saving cherished stores," BBC News, July 10, 2009; Stacy Mitchell, "Community-Owned Stores," *National Trust Forum*, May 2008.