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THE CASE FOR LOCAL REWARDS

(In The Post-COVID Era)

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The Case for Local Rewards in the COVID-19 Era

By Michael H. Shuman

Local businesses are the key to community prosperity. In normal times, community initiatives that support and stimulate these businesses are the essence of successful economic development. In the COVID-19 era, when literally millions of local businesses are in danger of bankruptcy, such initiatives are essential for rapid community recovery. This paper summarizes the case for these initiatives and suggests some of the forms they are now taking. Perhaps their biggest virtue is that they facilitate a culture of local purchasing and local investing that can significantly boost a COVID-challenged economy.

Why Locally Owned Businesses Matter for Economic Well-Being

Over the past twenty years, there have been about two dozen studies comparing the impacts of local versus similar non-local businesses, and finding that the local business generates two-to-four times the jobs and other economic-development impacts. Many of these have been prepared by Matt Cunningham and Dan Houston, two economists running Civic Economics in Austin, Texas. Its most recent study, from 2019, compares the economic impacts of the Central Co-op in Seattle with similarly sized chain-owned grocery stores.[1] For every dollar of sales, Central Co-op recirculates 48 cents, almost double what is re-spent by a competitor chain. The higher spending by the Co-op is driven by having a more labor-intensive business, paying its workers more, procuring more local foodstuffs, and giving more to local charities. If the Co-op were replaced by another chain grocer, the Seattle economy would lose 82 jobs, because of the lower multiplier effects.

Practically speaking, every time a consumer shifts spending a dollar from a nonlocal business to a locally owned business, the community enjoy 2-4 times the employment effects, 2-4 times the income and wealth effects, 2-4 times the tax effects, and 2-4 times the charitable contributions. While the exact impact of shifting an investment dollar from a nonlocal to local business is unstudied, logic suggests that, because of the local multiplier effect, it will contribute significantly to the local economy.

There's a growing body of evidence that regions with higher densities of local business have superior economic performance, and that economic development strategies that emphasize the nurturing of local business perform better than those that focus on the attraction of big, global companies.[2] For example:

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[1] Matt Cunningham and Dan Houston, "Central Co-op: Feeding the Washington Economy II," 26 February 2019, https://www.centralcoop.coop/communityimpact/ (accessed 27 September 2019).

[2] The Institute for Local Self-Reliance nicely summarizes nearly a hundred relevant studies at https://ilsr.org/key-studies-why-local-matters/ (accessed 29 September 2019).

- A 2010 study appeared in the *Harvard Business Review* under the headline "More Small Firms Means More Jobs."[3] The authors wrote, "Our research shows that regional economic growth is highly correlated with the presence of many small, entrepreneurial employers—not a few big ones." They further argued that the major preoccupation of economic developers, namely how to attract global companies with subsidies, is fundamentally wrong-headed. "Politicians enjoy announcing a big company's arrival because people tend to think that will mean lots of job openings. But in a rapidly evolving economy, politicians are all too likely to guess wrong about which industries are worth attracting. What's more, large corporations often generate little employment growth even if they are doing well."

- Another study published shortly thereafter in the *Economic Development Quarterly*, a journal long supportive of business-attraction practices, similarly finds: "Economic growth models that control for other relevant factors reveal a positive relationship between density of locally owned firms and per capita income growth, but only for small (10-99 employees) firms, whereas the density of large (more than 500 workers) firms not owned locally has a negative effect."[4] Put in plain English, if you want higher wages, focus on local businesses.

- That's the message of a paper published in 2013 by the Federal Reserve in Atlanta, which analyzed counties across the United States, and found statistically significant "evidence that local entrepreneurship matters for local economic performance . . . [T]he percent of employment provided by resident, or locally-owned, business establishments has a significant positive effect on county income and employment growth and a significant and negative effect on poverty…."[5]

- Another study published in 2018 by the Upjohn Institute for Employment Research, another institution that has historically published studies offering qualified support for the use of subsidies to attract big outside businesses, compared the economic-development achievements of jurisdictions that deploy attraction "incentives" with those that do not and focus instead on nurturing local businesses. "When we examine the overall effectiveness of state incentive grants on firm-level

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[3] Edward L. Glaeser and William R. Kerr, "The Secret to Job Growth: Think Small," *Harvard Business Review*, July-August 2010.

[4] David A. Fleming and Stephan J. Goetz, "Does Local Firm Ownership Matter?," *Economic Development Quarterly 25*, No. 3 (2011).

[5] Anil Rupesingha, "Locally Owned: Do Local Business Ownership and Size Matter for Local Economic Well-Being?," Federal Reserve of Atlanta Discussion Paper 2013-1, August 2013.

> performance, we find little evidence that they generate new jobs and other direct economic benefits to the states that employ them."[6]

These arguments are especially applicable to rural areas. While on average locally owned businesses comprise 60-80% of jobs and economic output (depending on you define "local"), these percentages are typically higher in small towns and rural communities. In fact, outside of the school system, the hospital, a few big box stores, and a handful of anchor factories, nearly every other job in rural setting is for a small, locally owned business—and often a sole proprietorship.

The Myriad Benefits of Locally Owned Businesses

Local businesses contribute to a strong community in other ways beyond the economy. My earlier books—*Going Local* (1998), *The Small-Mart Revolution* (2006), *Local Dollars, Local Sense* (2012), and *The Local Economy Solution* (2015)—elaborated these arguments, but I'll just summarize them here:

Local ownership of business stabilizes an economy. A community with one big factory, run by outsiders, is extremely vulnerable to decisions made in board rooms hundreds or thousands of miles away. As many single industry locales in the United States have learned—especially those producing resource-dependent products like fish, paper, wood, oil, or coal—if a global corporation takes over the industry and decides it can get a slightly higher return by moving the plant elsewhere, perhaps to Mexico or Vietnam, the community can collapse overnight. A community with a diversity of local businesses, in contrast, will be able to adapt gradually to inevitable changes in the national and global economy. While a global factory owner will move from place to place, looking for the highest rate of return, a local factory owner may be happy to stay if it's generating even just a small but positive rate of return.

Greater economic stability of communities filled with local businesses means greater employee loyalty and less mobility.[7] In 1946, two noted social scientists, C. Wright Mills and Melville Ulmer, explored this question by comparing communities dominated by a couple of large manufacturers versus those communities characterized by large numbers of small businesses. They found that small-business communities "provided for their residents a considerably more balanced economic life than did big business cities" and that "the general level of civic welfare was appreciably higher."[8] Thomas Lyson, a professor of rural sociology at Cornell, updated this

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[6] Mary Donegan et al., "Striking a Balance: A National Assessment of Economic Development Incentives," Upjohn Institute Working Paper 18-291, 2018, 14.

[7] Charles M. Tolbert II, "Small, Local, and Loyal: How Firm Attributes Affect Workers' Organizational Commitment," *Local Economy* 29, No. 8 (October 2014).

[8] Quoted in Thomas A. Lyson, "Big Business and Community Welfare: Revisiting A Classic Study," Cornell University, monograph, 2001, 3.

study in 2001 by looking at 226 manufacturing-dependent counties in the United States. His conclusion was that these communities are "vulnerable to greater inequality, lower levels of welfare, and increased rates of social disruption than localities here the economy is more diversified."[9]

We know that the deeper the roots residents have in a community, the more likely they are to vote, and that economically diverse communities have higher participation rates in local politics. Harvard political scientist Robert Putnam has identified the long-term relationships in stable communities as facilitating the kinds of civic institutions—schools, churches, charities, fraternal leagues, business clubs—that are essential for economic success. Reviewing the broader social science literature on the relationship of local businesses to civil society, another group of scholars concluded: "[T]he degree to which the economic underpinnings of local communities can be stabilized—or not—will be inextricably linked with the quality of American democracy in the coming century."[10]

Rootedness contributes to quality of life. There's evidence that counties characterized by a greater density of local businesses have less crime and better public health.[11] The authors who made this finding surmise that the social connections and greater wealth of these communities contribute to more effective collective decision-making. Recent research on food systems has shown that local business communities, by embracing local food that's fresher and less processed, have lower rates of obesity and Type II diabetes.[12]

Another sign of a community's health is how well it preserves its unique culture, foods, ecology, architecture, history, music, and art. By definition, local businesses, especially local retailers, are likely to carry that DNA. *"A retail environment not indicative of 'anywhere America,'" one study concludes, "help[s] those able to move to be less prone to feel that they could replace their current place of residence with anywhere else in America."*[13] *Put another way, community pride convinces the best and brightest to stick around.* Richard Florida's argues that the "creative class" is drawn to local business communities that celebrate civic culture.[14] So are

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[9] Ibid., 14.

[10] Thad Williamson, David Imbroscio, and Gar Alpervitz, *Making A Place for Community: Local Democracy in a Global Era* (New York: Routledge, 2003), 8.

[11] Troy C. Blanchard, Charles Tolbert, and Carson Mencken, "The Health and Wealth of U.S. Counties: How the Small Business Environment Impacts Alternative Measures of Development," C*ambridge Journal of Regions, Economy and Society* 5, No. 1 (March 2012), 149–162.

[12] Dara Bloom, Joanna Lelekacs, and Rebecca Dunning, "Local Food Systems: Clarifying Current Research," North Carolina State Extension, monograph, 14 November 2018.

[13] Samuel Stroope, Aaron B. Franzen, Charles M. Tolbert, and F. Carson Mencken, "College Graduates, Local Retailers, and Community Belonging in the United States, *Sociological Spectrum 34*, No. 2 (February 2014).

[14] Richard Florida, *The Rise of the Creative Class* (New York: Basic Books, 2002).

tourists, who are especially attracted to restaurants, shops, and museums that are unique signatures of a community. A growing number of communities are engaged in a strategy of "placemaking," promoted by groups like Main Street America and the Project for Public Spaces, which activate plazas, parks, blocks, districts, and neighborhoods by spreading locally owned businesses.

Sustainability also is served by local businesses. By definition, a world of communities that each maximize their reliance on the sustainable use of locally renewable resources, will place fewer demands on other community's resources. Every innovation in a community that increases local resilience—a geothermal heating project, greenhouses that supply fresh local food all year long, apartment buildings that use local timber – provides a working model, if shared, for other communities worldwide to deploy. A community that's self-reliant also has less need to import things, which brings down the carbon footprint. A community with a diversity of local businesses and more self-reliance can have more control over its destiny in the face of unexpected global disasters like COVID-19. Moreover, because the owners of local businesses are part of the community, they tend to act more responsibly. A study from the EPA has shown that when you compare two similar factories, one locally owned and one not, the locally owned factory generates about a tenth as much pollution.[15]

How Rewards Support Local Businesses

As I argued in *The Local Economy Solution* (2015), the best economic development strategies focus laser-like on expanding the number, local markets, and success of locally owned businesses. This means being attentive to six P's of activities for strengthening an entrepreneurial ecosystem. Specifically:

- *Planning*—Based on leakage analysis and other studies of "place", what are the best opportunities for starting and expanding locally owned business?
- *People*—How can entrepreneurs be trained and mobilized to lead new or expanding local businesses?
- *Partners*—How can local businesses collaborate so that they operate more effectively as a reciprocally beneficial, value-adding team than they would by themselves?
- *Purse*—How can local capital be reinvested in new or expanding local businesses with beneficial impact on the community?

[15] Don Grant and Andrew Jones, "Are Subsidiaries More Prone to Pollute?," *Social Science Quarterly 84,* No. 1 (March 2003), 162-73.

- *Purchasing*—How can local purchasing power be mobilized to fortify local businesses?

- *Policy*—How can public policies be framed to eliminate the barriers many local businesses face competing fairly against global companies and incentivize entrepreneurship and local investment?

While "rewards" can be used to boost all six P's, their most common use has been to support local purchasing and local investing. Local purchasing schemes provide rewards for each purchase made at a participating locally owned business, and local investment schemes provide rewards for each dollar invested.

For example, local purchasing schemes operate within networks of geographically proximate businesses and reward every purchase within the network with discounts or gifts. Some examples:

- The Chinook Book, active in a half dozen cities, enables consumers to buy a book of coupons worth thousands of dollars of savings at local businesses.

- Bernal Bucks in San Francisco has partnered with its local credit union to issue a debit card that rewards local business purchases.

- Tucson Originals provides foodies an easy "stocking stuffer" to buy for friends and relatives that ultimately can be redeemed at local restaurants.

- Supportland has 70,000 users in Portland, Oregon, who receive gifts and discounts for loyally making purchases at local stores and service providers.

A growing number of locally owned businesses have used rewards to thank those who give money. Donation crowdfunding sights like Kickstarter and Indiegogo encourage businesses to list specific projects or campaigns, and then give rewards based on the level of contribution. Donation crowdfunding is now generating, according to Fundera, nearly twenty billion dollars per year.[16] Because the SEC does not regard these rewards as significant returns on capital, these transactions are not regarded—or regulated—as securities. Similar, interest-free loans made by participants in Kiva, which sometimes are also rewarded with gifts, are also not considered securities.

Local businesses have taken notice, and sometimes reward serious investors with rewards as well. Thus, for example, Slow Money chapters have provided loans to local farmers, and some investors have been happy to receive partial repayment in the form of eggs, chicken, or cider. Many investors in brewpubs find themselves rewarded, in part with interest payments, and in part with a free drink every week.

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[16] Maddie Shepherd, "Crowdfunding Statistics (2019): Market Size and Growth," Fundera, at www.fundera.com/resources/crowdfunding-statistics.

Another form of rewards, which is halfway between a donation and a security is pre-purchasing. For example, when Awaken Café in Oakland needed $100,000 to move to a new location, it presold coffee. The basic deal was: Buy $1,000 worth of coffee today and get $1,200 of coffee after the move—a 20% rate of return. To help large numbers of businesses in a community raise capital this way for COVID relief, a company called Protegra, based in Winnipeg, offers a platform called Local Futures. Sixteen U.S. states sometimes regard these transactions as securities (requiring extensive state filings) while 24 states do not.

Still another variation of pre-purchasing rewards is being pioneered by the Local Crowd (TLC), which assists rural communities across the United States. Its Interesting Rewards™ program, designed for post-COVID recovery, invites businesses in a community to solicit pre-purchases, and then rewards participating consumers with discounts over the year. For example, a local organic meat producer needs $20,000 for a new refrigeration unit. One of the rewards offered could be a year's supply of sausage for $275. The regular price is $336. The purchaser of the reward is "paid back" for the contribution over time—by receiving one pound of sausage each week for a year. The value of the payback is higher than the contribution ($336 worth of meat for $275), thus the increase in value serves as "interest" on the original contribution. Both contributor and recipient of the funds benefit from this transaction, which encourages relationship building and trust while strengthening a local business.

What ties all these schemes together is that they raise awareness about the local business community. A consumer who enjoys rewards from local purchasing is certainly more likely to consider becoming a local investor. Similarly, an investor who enjoys tangible rewards from a local business is going to prioritize buying goods and services from that business—and encourage neighbors to do the same. In this sense, every reward of a local transaction begets other transactions, which boosts the community economy.

Conclusion

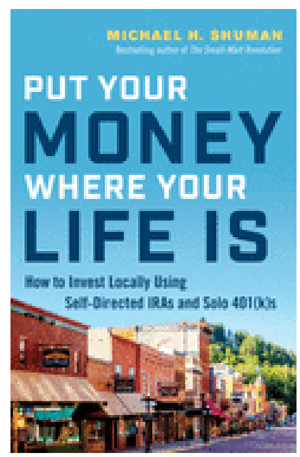
Participants in the "local economy movement" report is that they ultimately seek to build relationships. In the global economy, relationships between consumers and businesses, or between investors and businesses, or between workers and businesses, are opaque and impersonal. In the local economy, these relationships are personal. With personal ties come trust, loyalty, and mutual support. This underscores why so many studies have found that local-business economies have stronger civil societies.

In fact, as we have seen, the evidence is overwhelming that shifting the purchasing and investing patterns to local business can have profound economic, social, and environmental benefits. These effects are more pronounced in rural communities, in part because the smaller size of the economy means that each act of local purchasing and local investing has a stronger influence, and in part because local businesses comprise a larger portion of the economy. Rewards that incentivize local purchasing and local investing are increasingly becoming the gateways for changing the economic behavior of residents. In the post-COVID era, a growing local awareness that these rewards have saved important local businesses may inspire more residents to participate, saving still more local businesses. We ultimately may judge such rewards as being more important in reviving rural communities than the trillions of dollars the federal government invested in its stimulus programs. The latter are already exhausted. The former have just begun.

About the Author

Michael H. Shuman is an economist, attorney, author, and entrepreneur, and a leading visionary on community economics. He's Director of Local Economy Programs for Neighborhood Associates Corporation, and an Adjunct Professor at Bard Business School in New York City. He is also a Senior Researcher for Council Fire and Local Analytics, where he performed economic-development analyses for states, local governments, and businesses around North America. He is credited with being one of the architects of the 2012 JOBS Act and dozens of state laws overhauling securities regulation of crowdfunding. He has authored, coauthored, or edited ten books. His two most recent books are *Put Your Money Where Your Life Is: How to Invest Locally Using Solo 401ks and Self-Directed IRAs* and *The Local Economy Solution: How Innovative, Self-Financing Pollinator Enterprises Can Grow Jobs and Prosperity* and *Local Dollars, Local Sense: How to Shift Your Money from Wall Street to Main Street*. One of his previous books, *The Small Mart Revolution: How Local Businesses Are Beating the Global Competition* (Berrett-Koehler, 2006), received as bronze prize from the Independent Publishers Association for best business book of 2006. A prolific speaker, Shuman has given an average of more than one invited talk per week, mostly to local governments and universities, for the past 30 years in nearly every U.S. state and more than a dozen countries.

Put Your Money Where Your Life Is: How to Invest Locally Using Solo 401ks and Self-Directed IRA is available for pre-order from Bookshop.



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