

INTRODUCTION

IN THE LATE SUMMER OF 2005, Kepler's, a fifty-year-old independent bookstore in Menlo Park, California, abruptly shut down. Owner Clark Kepler explained that bookstore chains and Amazon.com had displaced so much of the store's sales that he could no longer pay the bills. But before Kepler could file for bankruptcy, the business was swept up in an outpouring of community grief. Hundreds of local residents rallied outside the shuttered store, which was soon covered in forlorn love letters from customers describing how the bookstore had been the center of community life and what a loss it was. "Can't the store be saved? You're one of the main reasons I'm in Menlo Park," read one. Another lamented, "My husband and I dated here." Many offered money: "How about a monthly donation? I can do \$50/mo. . . . Give us a Web site so we can all support you. Let us help. Please." Soon someone set up SaveKeplers.com and the pledges poured in. Five weeks after it had closed, Kepler's was back, saved by a group of local investors who vowed to return the business to sound financial footing, and numerous small donations from residents.

One of the more remarkable aspects of this community effort to save a bookstore is that many of the people who rallied—who so adored this business that they could not conceive of their town without it and were willing to give their time and even their money to save it—confessed in interviews with reporters covering the story that they, too, had been buying more and more books online and at Target and Borders. They loved the store for its many author events and for the joy of browsing and meeting neighbors, and for the sense of community it fostered, but that devotion did not always translate into regular patronage. The store's near closure brought into stark relief just what was at stake.

Across the country, people are coming to similar realizations about the value of locally owned, independent businesses¹—the beloved bookstores, century-old family hardware stores, local grocers, and funky neighborhood

record stores—as well as the high cost to communities and local economies of the corporate retailers that have grown to dominate so much of our landscape. The first part of this book makes a case for reversing the precipitous shift from locally owned businesses to chains, while the second part charts how a growing number of communities are doing so. Since 2000, some two hundred big-box development projects have been halted by groups of ordinary citizens, shattering the conventional wisdom that these stores are unstoppable. These groups have succeeded by educating and galvanizing their neighbors and by learning how to harness the local planning process.

Many communities are going further: Dozens of cities and towns have adopted laws that actively favor small-scale, local business development and limit the proliferation of mega-retailers. Some have enacted store size-caps, which effectively ban big-box retail. Others require that retail development proposals pass comprehensive economic- and community-impact reviews before gaining approval. Many are funneling new investment into neighborhood and downtown business districts by outlawing sprawling shopping centers on the outskirts. Much is happening at the state level too. Citizens and lawmakers in several state capitols are working to enact legislation to put an end to the sizable public subsidies and tax breaks that are frequently granted to big-box development. In 2004 Vermont became the first of what is hoped will be many states to close a common state tax loophole that allows chains, but not independent retailers, to skirt their tax obligations.

People are working not only to prevent mega-retailers from overtaking their communities, but also to strengthen and rebuild locally owned businesses. Local groups are busy restoring long-desolate downtowns and neighborhood business districts, setting up retail incubators to nurture start-up enterprises, and wrestling with ways to channel more capital into financing local business creation. Independent businesses, meanwhile, are banding together in coalitions and purchasing cooperatives that marry the advantages of scale with the benefits of local ownership. The Coalition of Independent Music Stores, for instance, has become a force in introducing new artists, and has given independent music stores newfound clout with record labels. Independent bookstore owners have pooled their resources to develop e-commerce engines that enable their customers to shop locally on the Web with the same broad database of titles found on Amazon.com. Trade associations, like the National Community Pharmacists Association,

and retailer-owned cooperatives, like Ace Hardware, have started programs to train and mentor a new generation of business owners.

Independent Business Alliances have sprung up in more than three dozen communities since the late 1990s and, through creative marketing and educational campaigns, are making “locally owned” something residents are increasingly seeking and supporting. The Austin (Texas) Independent Business Alliance, which has a membership of 350 local businesses that collectively rank as the city’s fifth largest employer, has undertaken a lively four-year educational effort that highlights the economic and community benefits of homegrown enterprises and urges residents to “Break the Chain Habit” and “Shop Locally Owned.” The effort is having an effect on people’s shopping choices, the actions of the Austin city government, and even retail developers, who are looking to include more independents in their projects. Similar campaigns are under way in cities as far flung as Bellingham, Washington, and Raleigh, North Carolina.

This explosion of activity may well herald the beginnings of a sea change in our priorities as a society. This book argues that, to a scandalous degree, big-box retailers are a product of public policy, not simply consumer choice. Driven by an erroneous conviction that chain retailers boost employment and expand the economy, elected officials have actively fostered and underwritten their proliferation. It began in the late 1950s with massive tax breaks that fueled the explosion of shopping malls, and accelerated dramatically in the 1990s as cities began funneling billions of dollars in development subsidies to big retailers. Although pressure is mounting to put an end to these giveaways, they continue, with chains like Target and Lowe’s picking up multimillion-dollar subsidies to build new stores. Since the early 1990s, Wal-Mart alone has grabbed over \$1 billion in local and state subsidies to fund construction of its new stores and warehouses.

The favoritism does not end there. Many states have provisions in their tax codes that enable chains, but not independent retailers, to skirt paying income taxes. This tax loophole has been so heavily utilized by the chains—they shelter billions in profits every year—that tax experts have even given it a nickname, the Geoffrey Loophole, after the Toys “R” Us mascot, Geoffrey the Giraffe. The playing field has been tilted too by the failure of state and federal officials to adequately police predatory pricing and other abuses of market power, which has allowed mega-retailers to force out smaller rivals, not by being better competitors, but simply by being bigger.

Fueled partly by these policies, a handful of global chains have grown to dominate the retail market. The top ten alone have doubled their market share since 1996 and now capture almost 30 percent of the more than \$2.3 trillion Americans spend at stores each year. The largest, Wal-Mart, grew tenfold in fifteen years, and in 2005 accounted for one out of every ten dollars Americans spent on everything from groceries and toys to hardware and clothing. Target is eight times larger than it was in 1990. Home Depot and Lowe's, barely a blip on the radar screen in 1990, now have half of the hardware and building-supply market. Electronics are dominated by Best Buy; books by Borders and Barnes & Noble; videos by Blockbuster. Walgreens, Rite Aid, and CVS have exploded to more than thirteen thousand outlets. Meanwhile, tens of thousands of locally owned businesses have disappeared since the early 1990s—a die-off unprecedented in history.

This is progress—or so we have imagined. Independent businesses, we have long assumed, are necessary casualties on the road to economic advancement and prosperity. And indeed, the big chains appear to bring communities economic growth, new jobs, and tax revenue. This book argues, however, that these apparent gains are illusory, that mega-retailers impose a variety of hidden costs on society and contribute far less to our economic well-being than they take away.

Although a new big-box store rising on the edge of town might appear to be economic growth, it is not. The vast majority of these stores are built not to satisfy increased consumer demand—the acreage of retail store space has been expanding ten times faster than household incomes—but because a chain sees a predatory opportunity to displace sales at other businesses. These companies purposely flood local markets with an excess of retail space in order to dilute the available consumer dollars and capsize their smaller competitors, which, no matter how skilled, may lack the deep financial resources necessary to outlast such an assault. As local stores contract and close, communities end up losing as many or more retail jobs as they gain from the new superstore. Indeed, retail employment actually fell in counties that added Wal-Mart stores, according to a national study. Still, the myth that new big-box stores and shopping centers expand job opportunities persists, in part because the gains—the two hundred people donning orange aprons at Home Depot—are visible, while the losses are scattered across many businesses and may take months to fully materialize.

The impact on the local economy does not end there. When chains displace local businesses, dollars that once circulated locally, generating eco-

conomic activity and jobs, cease to do so. Independent retailers bank at local banks, advertise in local newspapers, carry goods produced by local companies, and hire a range of professionals, from accountants to Web designers. Corporate chains require very little in the way of local goods and services. Instead, most of the money that consumers spend at a big-box store is siphoned out of the community's economy. The resulting job losses are another hidden cost of mega-retailers.

The chains are driving the contraction of manufacturing as well. Their market dominance has given them near-total control over how and where goods are produced. Most big retailers have their primary procurement offices in China, where they contract directly with low-wage factories to produce a growing share of the goods they stock. In 2005, upward of 20 percent of the goods that Wal-Mart and other big-box retailers sold were their own products. With their top customers also their biggest competitors, U.S. manufacturers are left with two options: they can either make their products in those same factories or give up shelf space and market share to other suppliers or the chains themselves. Black & Decker is one of many that have succumbed. Pressured to lower costs by Home Depot and Lowe's, Black & Decker began closing its U.S. factories in 2002, laying off thousands of workers. Producers of everything from toys to television sets have done the same thing.

The relentless drive to cut costs continues abroad, as the chains press even the lowest-wage factories to lower their prices even more, often demanding that they make the same products for less than they did the year before. Workers in these factories suffer not only miserable wages and working conditions, but they have little hope for a better life. Should their wages rise, the chains can cut ties and move production to another factory or even another country in a matter of weeks. Some ten thousand factory jobs have been eliminated in the once-booming maquiladoras along Mexico's northern border since 2000, as mega-retailers and their suppliers shifted to China, where wages were considerably lower. Then, in 2005, when costs in China showed some signs of increasing, the chains began looking in India and other countries for workers who could be had for less.

Owning a small business and working in manufacturing are two longstanding occupational pillars of the American middle class. As these sectors have contracted, so has the middle class. The share of national income flowing to the middle 60 percent of families has declined since 1985. And the situation is getting worse: in all but two states, new jobs being created

pay less than those being lost. Mega-retailers are both driving this disturbing trend and, insidiously, growing because of it: as incomes shrink, the prospect of a bargain becomes ever more irresistible. But we are shopping ourselves out of decent jobs with good wages.

The poor have fared even worse in the big-box economy. Their share of the nation's income is dropping even faster. Poverty is no longer confined to the under- and unemployed; a stunning number of full-time workers do not earn enough to meet basic needs. Many work in retail. The chains have used their immense market power to hold down retail wages, which have not kept pace with wage growth in the rest of the economy. Work at most of the big boxes is grueling and demoralizing, with pay well below the poverty line. Store managers are under such intense pressure to cut labor costs, surreptitiously deleting hours from employees' time cards has become an appallingly widespread practice. Turnover rates hover around 50 percent at many of these chains, meaning that half of all workers quit or are fired within a year, which keeps wage levels down. Sporadic union-organizing drives at Home Depot, Target, and Wal-Mart stores have met with fierce resistance, often collapsing amid allegations that managers illegally intimidated workers. When Wal-Mart employees in a small town in Quebec became the first to form a union at one of the company's super-stores, the chain retaliated by closing the store and laying off all two hundred employees.

This is not a recipe for broad prosperity. Rather, this book contends, the economic structure that mega-retailers are propagating represents a modern variation on the old European colonial system, which was designed not to build economically viable and self-reliant communities, but to extract their wealth and resources. Yet many cities eagerly usher in these corporate colonizers. Some envision a tax windfall, only to discover that these sprawling stores impose a significant burden on public infrastructure and services. Or worse, after their local economies have been bulldozed, they find that they are utterly dependent on a few big boxes that might raise prices, lay off employees, or threaten to move to a neighboring town if they don't receive a tax break.

As they reorganize the economy for their own ends, mega-retailers are remaking the American landscape. While a one-hundred-thousand-square-foot store once required an acre of land, because it was two stories and located downtown, today a big-box store of that size, with its moat of

parking, consumes at least a dozen acres. The aggregate effect of this is staggering. In the Cleveland metro alone, some nine thousand acres of forest, wetlands, and rich farm fields have fallen to big-box stores and shopping centers, even as the metro's population has declined. A similar land binge is under way nationwide. Between 1990 and 2005 the amount of retail space per person in the United States doubled, from nineteen to thirty-eight square feet. Because most of this development was auto-oriented in nature, for every square foot of new store space, another three to four square feet was paved for cars. What's propelling this expansion is not growth in spending; adjusted for inflation, median household incomes rose less than 10 percent over that fifteen-year period.

Rather, the culprit is a kind of development arms race in which the big chains continually invent and unroll new formats and bigger stores in an effort to undercut not only Main Streets but other shopping centers. We do not need or utilize all of this excess retail and much of the country is now strewn with the wreckage: about one in five enclosed malls has either already gone dark or is teetering on the verge of financial collapse. Hundreds of strip shopping centers are vacant. Thousands of big-box stores have been abandoned as well, usually because the company opted to build an even bigger box nearby. Wal-Mart alone has some three hundred empty stores, vacated as it built larger supercenters with full grocery departments. These blighted shells often remain vacant for years, because the chains, determined to prevent their competitors from taking the locations, continue to pay the rent. Many cities, especially those that depend heavily on sales tax revenue, are caught up in this development contest, going to great lengths to lure massive new retail power centers that will pull shoppers from neighboring towns. But the only sure bet in this retail merry-go-round is that today's winners invariably become tomorrow's losers, as their bright new shopping centers are surpassed by even bigger and newer retail venues elsewhere in the region.

As retail sprawls outward, running errands entails more driving. The 1990s saw a jump of more than 40 percent in the number of miles driven by the average household for shopping—which translates into an increase of almost 95 billion miles a year for the country as a whole. Mega-retailers are thus fueling smog, acid rain, and global warming. Retail sprawl has also emerged as a top threat to our rivers, lakes, and estuaries. The specific culprit is pavement, which does not allow rain to soak into the ground, but

sends it, loaded with oils and other pollutants, rushing into nearby bodies of water. No other category of land use creates more pavement and polluted runoff than big-box stores and shopping centers.

Not only are the true costs of mega-retailers becoming ever more apparent, but there is also a growing sense of what our communities lose when locally owned businesses disappear. Local owners are both financially and personally vested in their communities and, as a result, their business decisions often reflect a broader range of concerns than simply maximizing the bottom line. Their face-to-face relationships with employees and customers and their own personal connections to the places where they do business influence how they operate and the choices they make about such things as whether, for example, to support a tax increase that would reduce profit but improve the local schools their children attend. This complex set of motivations differs from the narrow range of factors that drive stockholders and distant boards of directors, and, as shown in this book, produces valuable community benefits.

Local retailers breathe life into our downtowns and neighborhood business districts. They provide a setting for casual socializing with our neighbors—standing in line at the bakery or walking along the sidewalk—which builds a sense of camaraderie and responsibility for one another. This kind of informal interaction has a tangible impact on community health. Studies show that people who live in places where a larger share of the economy is in the hands of locally owned businesses take a more active role in civic affairs. These communities come out ahead on various measures of social well-being. They have lower rates of poverty, crime, and infant mortality, and are more resilient in times of adversity. Their citizens are far more likely to attend public meetings, volunteer, and even vote than those living in areas dominated by big corporate chains.

Independent businesses play an important and unique role in the marketplace. Their decline is a significant material loss to consumers. Local business owners often possess a level of expertise and knowledge that is unmatched by their big-box counterparts. Video store owners are frequently film aficionados. Many local toy-store owners have played with every game and toy their stores carry and, as a result, tend to hold their suppliers to high standards. Independent pharmacists provide a level of health care and personal attention that is far superior to that offered by chain drugstores and superstore pharmacies, according to a 2003 study by *Consumer Reports*.

Although the chains present themselves as consumer advocates, their

true loyalty is to stockholders. Meeting consumer needs is incidental to the main enterprise, hitting growth and profit targets. One consequence of the mega-retailers' drive to cut costs is that manufacturers have had to sharply curtail investment in product research and development. Innovation in many product categories is suffering. A small but growing number of manufacturers have opted out of the big-box game, deciding that they would rather develop and make innovative products in the United States. But their success will depend on whether local retailers survive and continue to provide an alternative avenue to consumers.

Local retailers are thus crucial to ensuring that a diversity of goods is available on store shelves. Although individually they are considerably smaller than their big-box rivals, collectively, independent stores stock a much wider array of products. This is because they each make their own decisions about what to carry, while at the chains these choices are determined by a handful of buyers at corporate headquarters. This is especially important with regard to books, music, and movies. Independent retailers in these categories play a much larger role in introducing and promoting new writers and artists than their relatively modest market share would suggest. Many acclaimed authors and bands insist that no one would have heard of them had it not been for enthusiastic independent merchants putting their books and albums into customers' hands.

That chains are bigger and must therefore offer lower prices is such an ingrained notion that even critics often give them a free ride on this point. But this is not in fact always the case. Surveys in several states have found that independent pharmacies, most of which belong to buying groups, have the lowest prices on average, beating drugstore chains, supermarkets, and even Wal-Mart and Target. Independent appliance dealers had better prices than Wal-Mart and most large chains, according to a 2005 *Consumer Reports* analysis. Another survey found that the cost of an identical cartload of groceries varied widely at different Wal-Mart stores across Nebraska, apparently in relation to the level of nearby competition. As shown in this book, many chains rely on sophisticated pricing strategies to foster a perception among consumers that their prices overall are lower than they actually are, and they often enter new markets sporting steep discounts only to raise prices once rival businesses have closed. The only way to ensure vigorous competition and protect consumer welfare over the long term is to maintain a market with numerous competitors.

There is nothing preordained or inevitable about the rise of mega-

retailers or about their continued dominance. We could change course. When American colonists forced their way onto three ships docked in Boston harbor in 1773 and dumped more than ninety thousand pounds of tea into the sea, their actions were as much a challenge to global corporate power as they were a rebellion against King George III. The ships were owned by the East India Company, a powerful transnational corporation. The company had recently suffered losses, in part because of an American boycott of its merchandise. In response, the British parliament passed the Tea Act, which exempted the East India Company from paying taxes on tea it sold in the colonies. The aim was to enable the company to undercut small competitors, all of which were subject to the tax, and drive them out of business.²

The British government and the East India Company were betting that the lure of cheap tea would overpower any sense of principle. But they misjudged. The colonists continued to support independent merchants and boycott East India tea. The Boston Tea Party, and the British retaliation that followed, ultimately led to an organized American boycott of all British goods—homegrown and locally made became the fashion of the day—and, two years later, to the Declaration of Independence. Local self-reliance and dispersed ownership, the colonists judged, were essential to political freedom and democratic self-government.

Our communities are fast becoming colonies once again, subject to a new crop of transnational corporations that exercise an extraordinary degree of power over our economy, and are remaking the American landscape for their own ends. They are in part a product of government policy, which has ignored their full cost, as well as created the context for our own, often shortsighted, shopping choices. Fortunately, there is a spreading public realization of the true cost of mega-retailers. Across the country, citizens, local business owners, and elected officials are taking steps to curb their proliferation and rebuild local enterprises. Taken together, these strategies offer a road map for a more prosperous and sustainable future.