

# Mendocino First

How to Create a  
More Prosperous  
Regional Economy



# Day's Schedule

10:00-11:30	Introductions & Overview
11:30-12:15	Local Planning
12:15-1:15	Small Groups & Working Lunch
1:15-1:45	Small Group Reports
1:45-2:15	Local Purchasing
2:15-2:45	Local First & BALLE
3:00-3:45	Local Training
3:45-4:30	Local Investing
4:30-5:00	Next Steps?

# Introductions

◆ Who Are We?

◆ Who Are You?



# Overview

## The Small-Mart Revolution



# The Struggle Over Capitalisms

TINA  
VS.  
LOIS



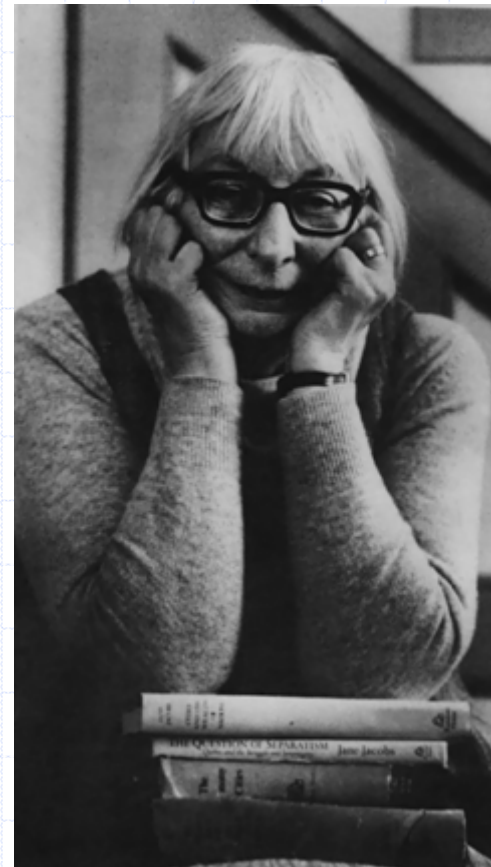
# TINA—There Is No Alternative



- ◆ Get Toyota
- ◆ Prioritize Export-led Development

# LOIS– *The Alternative*

- ◆ LO:  
Local Ownership
- ◆ IS:  
Import-Substituting  
Development



# Key Points of Section

## ◆ I. LOIS Is Better Than TINA

- Local Ownership (LO)
- Import Substitution (IS)

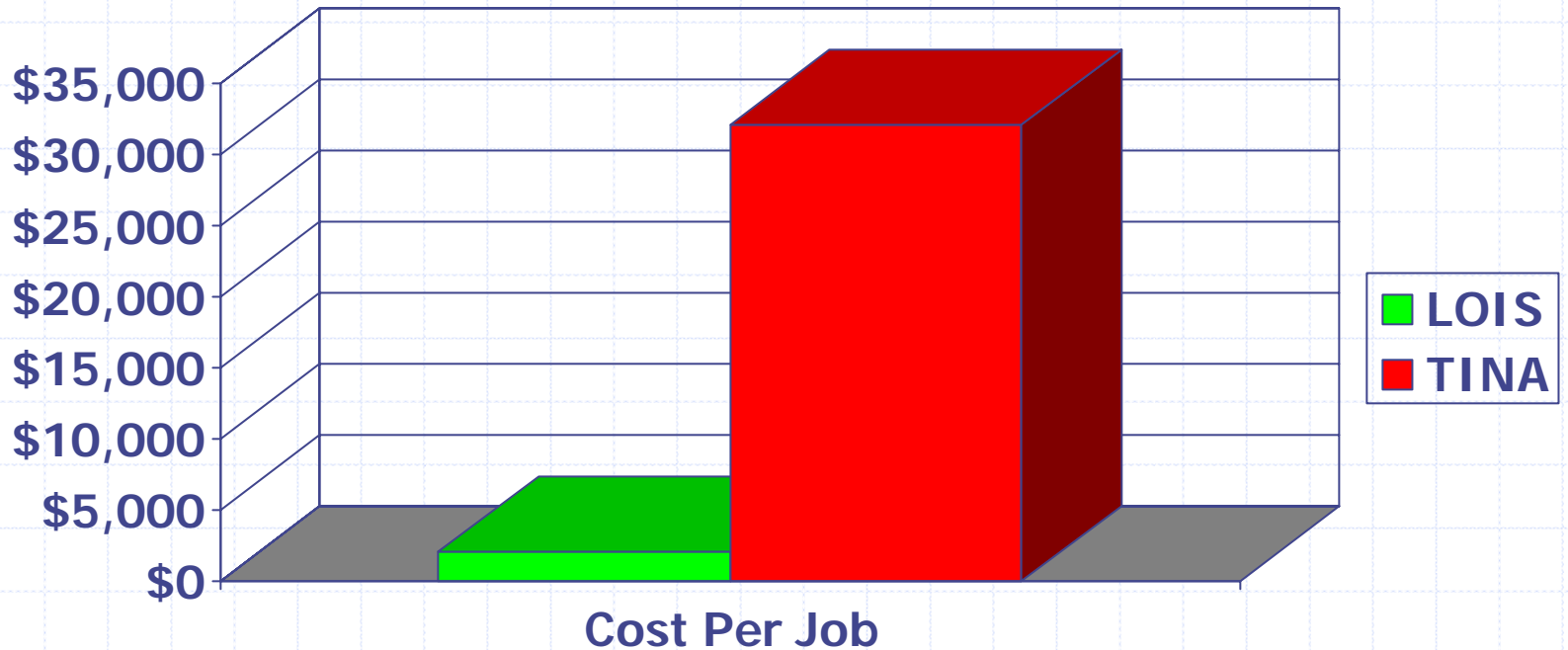
## ◆ II. LOIS Is Competitive

- Why TINA Is Becoming More Expensive
- How LOIS Is Becoming More Competitive



# I. LOIS Is Better Than TINA

Business Subsidies in Lane County (OR)

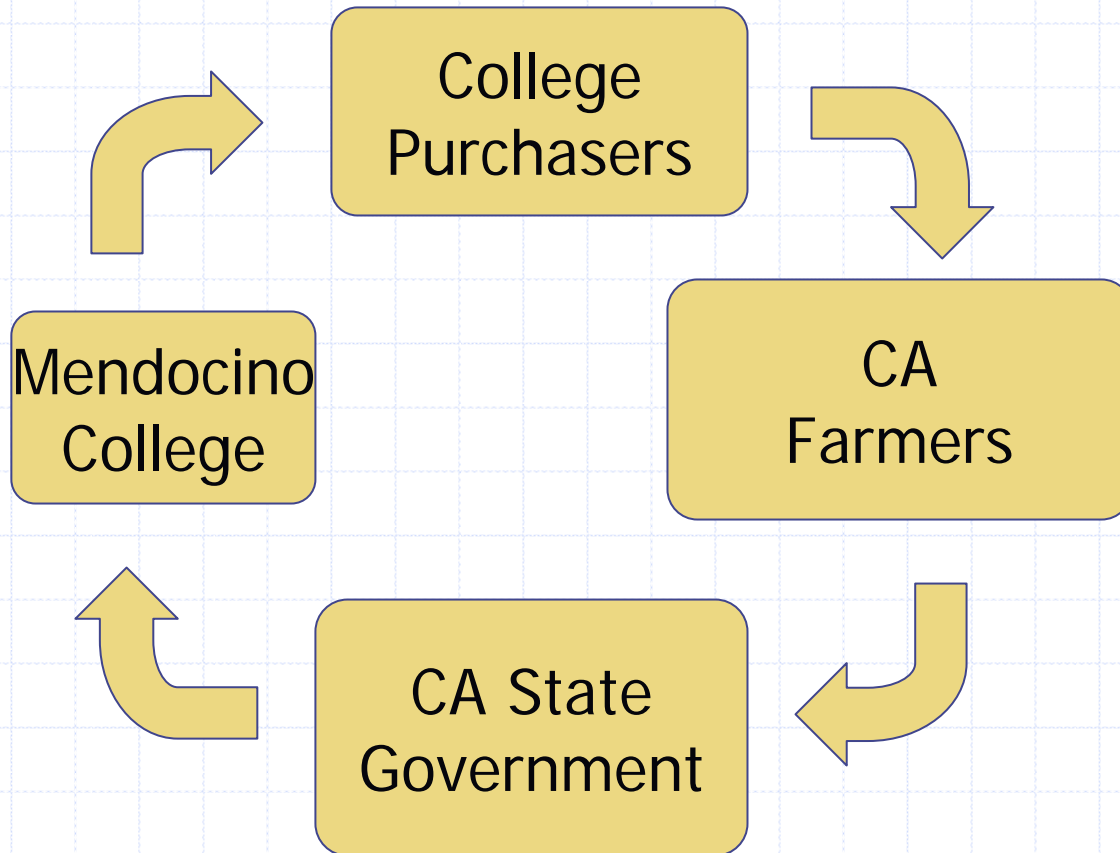


# Why Local Ownership

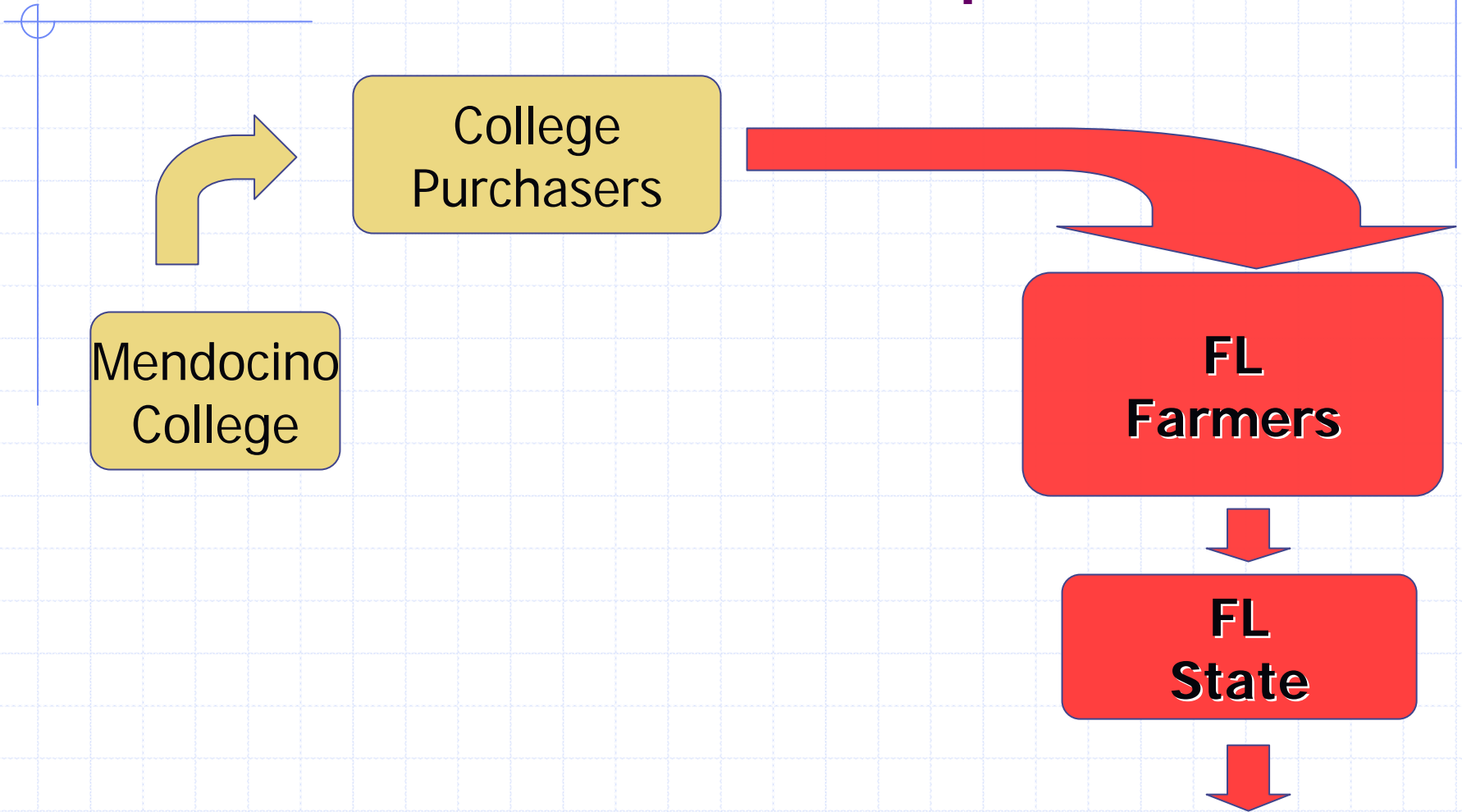
- No Destructive Exits
- Long-Term Wealth
- Higher Standards
- Greater Multipliers



# Healthy Economic Multiplier

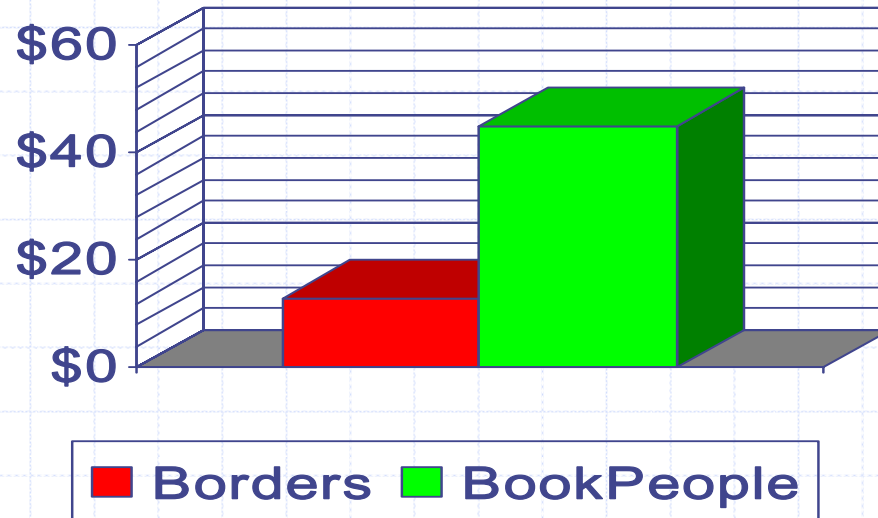


# Weak Economic Multiplier



# High Cost of Nonlocal Stores

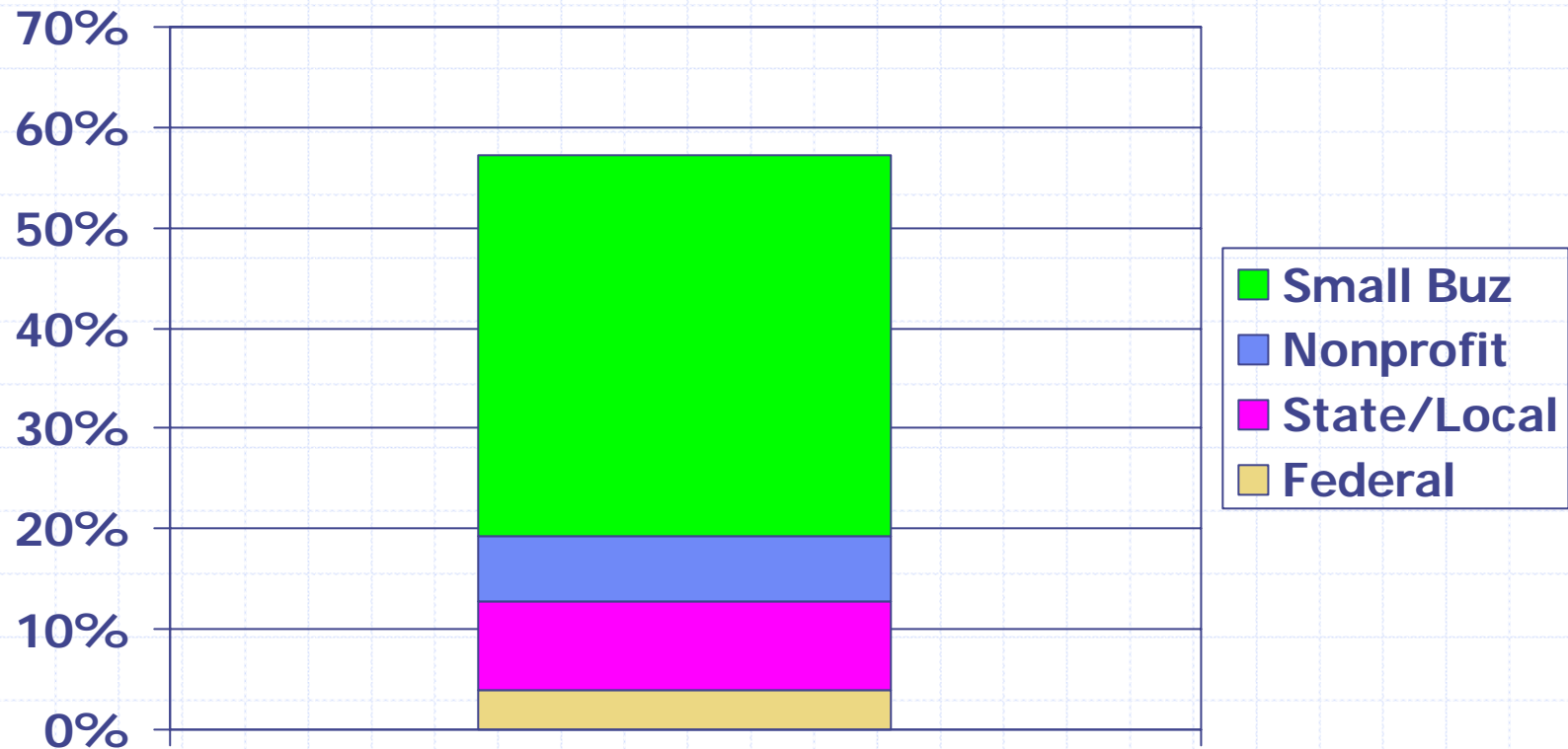
Impact of \$100  
Spending (Austin)



# Examples of Local Ownership

Small Business	50% U.S. Economy
Nonprofits	6.5% GDP
Cooperatives	47,000 Successes
Municipally Owned	6,300 Examples
Worker Owned	2,500 50+% ESOPs
Public-Private Partners	Burlington Telecomm
Community Held	Ben & Jerry's (Early)

# 58% of U.S. Economy Is Place-Based

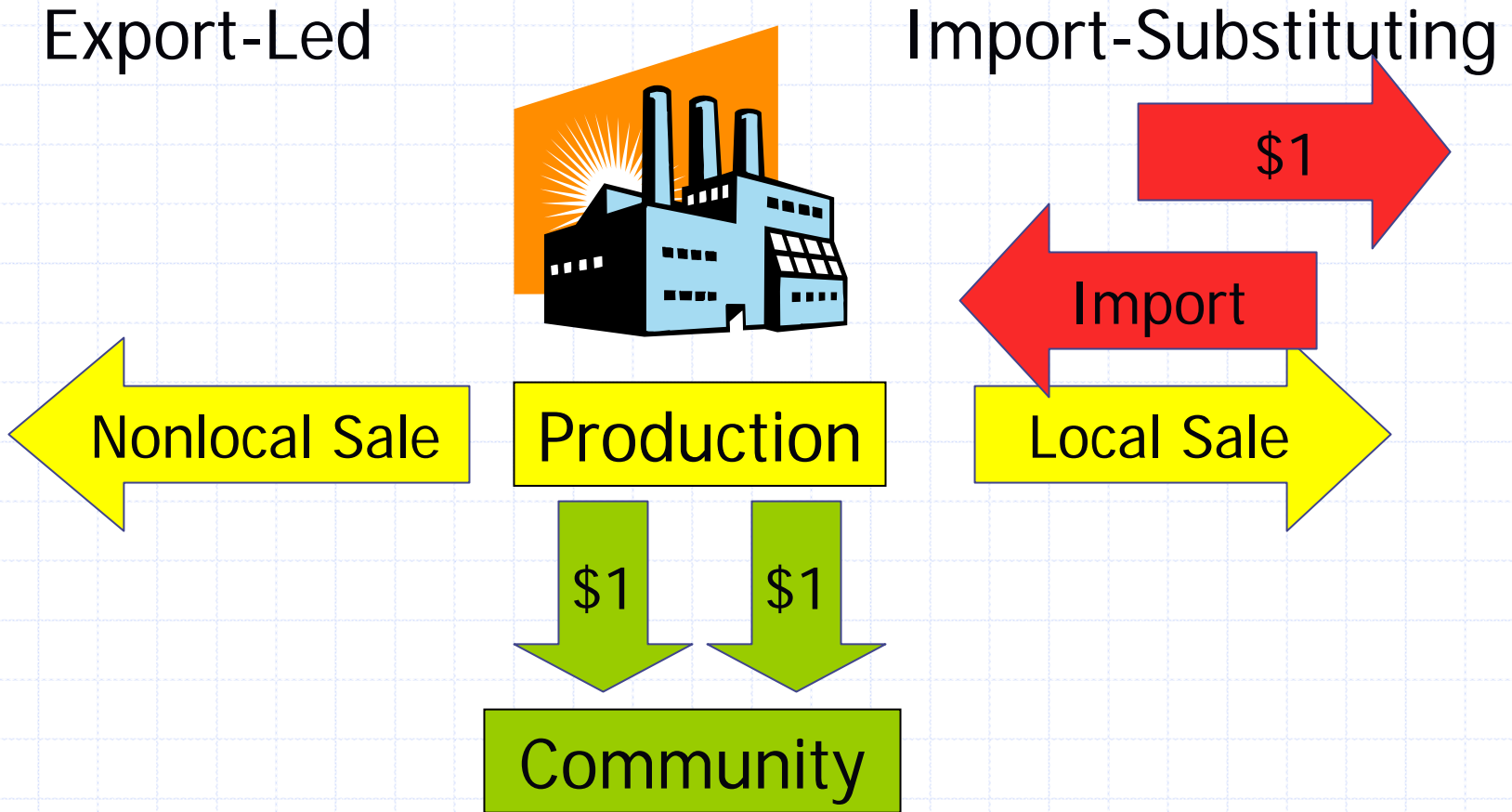


# IS - Import-Substitution (Community Self-Reliance)





# Two Development Strategies



# Why IS Development Is Better

- Less Vulnerable



# Why IS Development Is Better

- Less Vulnerable
- More Skills



# Why IS Development Is Better

- Less Vulnerable
- More Skills
- Diversify Exports



# Why IS Development Is Better

- Less Vulnerable
- More Skills
- Diversify Exports
- Easier & Cheaper



# The Bottom Line for TINA

“Export-oriented economies remain primitive, suffer through booms and busts, and go nowhere. It is only when an area begins making for itself what it once imported that a viable economic base begins to grow. Production for local use is what begins to weave the connections between local individuals and businesses that make them parts of a productive and stable economic community.”



- Thomas Michael Power  
Chair, Economics Department  
University of Montana

# II. LOIS Is Competitive

Shrinking Economies of Scale

Smarter Small Business Designs



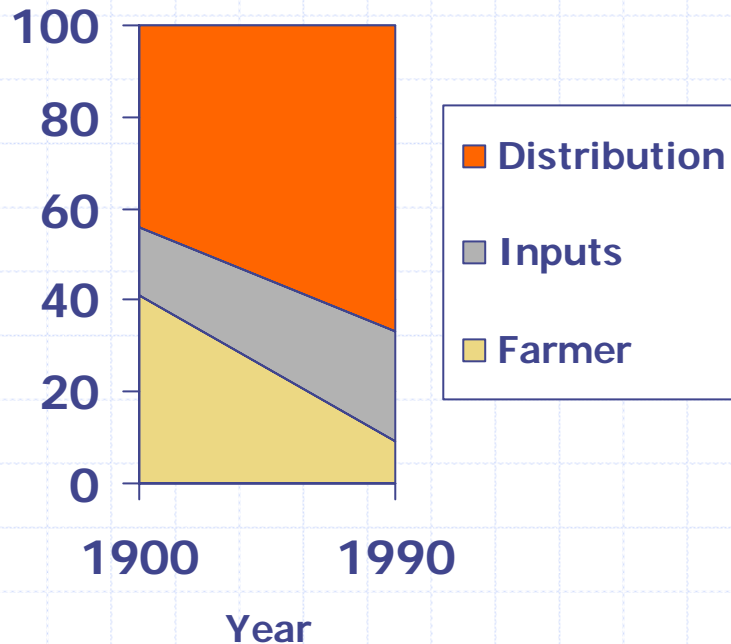
# Shrinking Economies of Scale

	<i>Old Economy</i>	<i>New Economy</i>
<i>Banking</i>	CitiCorp	\$100 M Assets
<i>Energy</i>	GW Nuclear	KW Wind/Solar
<i>Manufacturing</i>	Multinationals	Flexible Networks
<i>Materials</i>	Anaconda	Recycling



# Why TINA Is Becoming Less Competitive

Where Food Dollar Goes



◆ Distribution Costs

◆ Rising Oil Costs

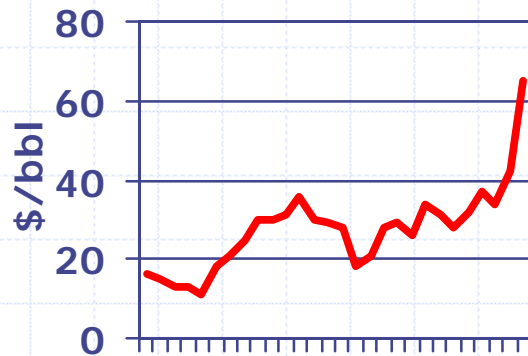
◆ Subsidies

◆ Service Economy

◆ Homeland Security

# Why TINA Is Becoming Less Competitive

WTI Crude



1998 - Present

- ◆ Distribution Costs
- ◆ Rising Oil Costs
- ◆ Subsidies
- ◆ Service Economy
- ◆ Homeland Security

# Why TINA Is Becoming Less Competitive



- ◆ Distribution Costs
- ◆ Rising Oil Costs
- ◆ Subsidies
- ◆ Service Economy
- ◆ Homeland Security

# Why TINA Is Becoming Less Competitive

"A steadily rising share of the work force produces services that are sold only within that same metropolitan area...And that's why most people in Los Angeles produce services for local consumption, and therefore do pretty much the same things as most people in metropolitan New York – or for that matter in London, Paris and modern Chicago."

- Paul Krugman,  
*Pop Internationalism*

- ◆ Distribution Costs
- ◆ Rising Oil Costs
- ◆ Subsidies
- ◆ Service Economy
- ◆ Homeland Security

# Why TINA Is Becoming Less Competitive



- ◆ Distribution Costs
- ◆ Rising Oil Costs
- ◆ Subsidies
- ◆ Service Economy
- ◆ **Homeland Security**

# Wall Street Journal, Oct. 2001

**“Even before terrorists leveled the World Trade Center, economic and technological forces were combining to decentralize the economy. Sept. 11 will only reinforce these centrifugal forces...”**

# How Local Businesses Are Becoming More Competitive

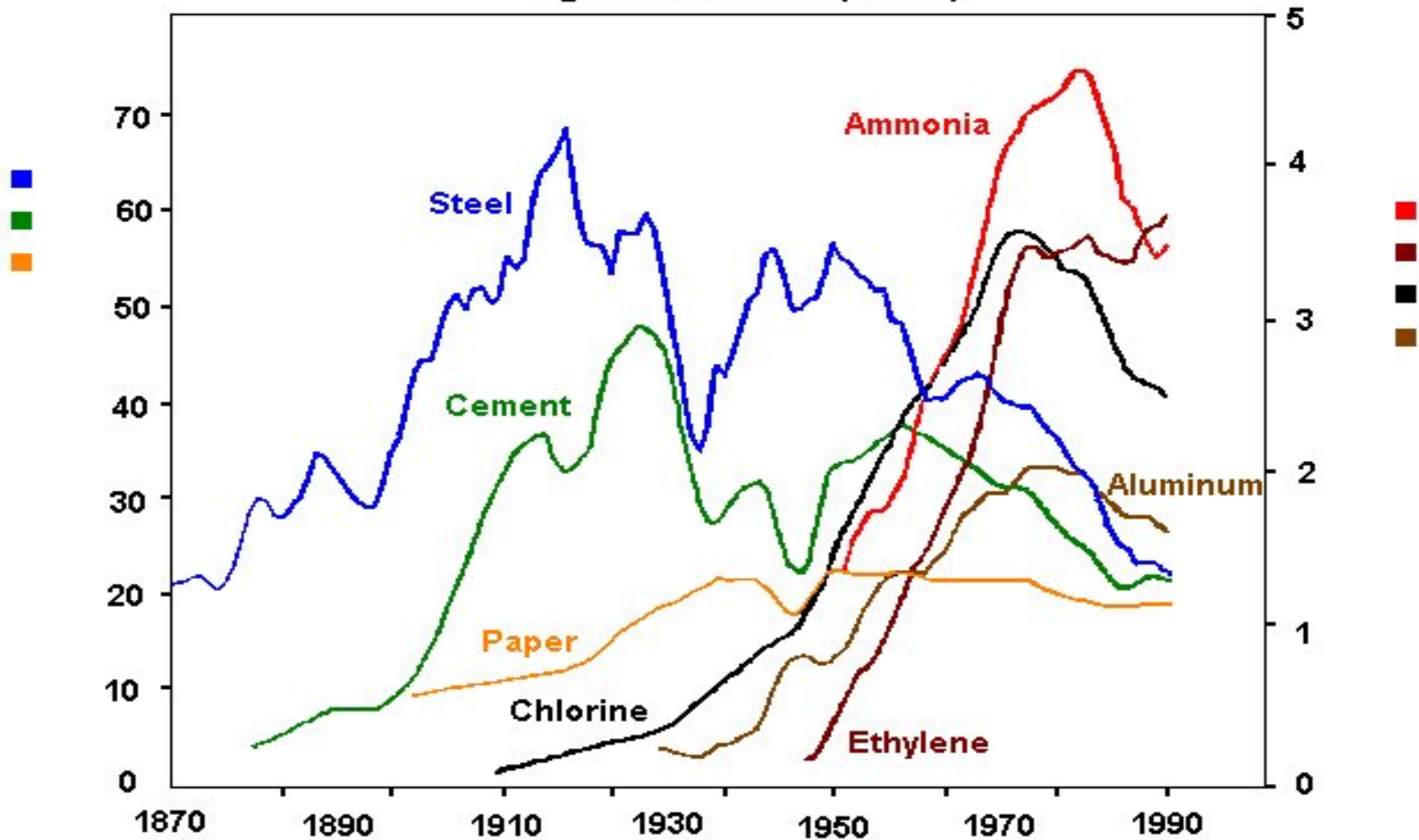
- ◆ Personal Agglomerations
- ◆ Producers Coops
- ◆ Flexible Networks
- ◆ Niche Marketing
- ◆ Localist Preferences

## The Going Local Staff



# IU Patterns for Various Metals - United States

kg/1000\$ of GNP (1983\$)





# How Local Businesses Are Becoming More Competitive

- ◆ Personal Agglomerations
- ◆ Producers Coops
- ◆ Flexible Networks
- ◆ Niche Marketing
- ◆ Localist Preferences



# How Local Businesses Are Becoming More Competitive

- ◆ Personal Agglomerations
- ◆ Producers Coops
- ◆ **Flexible Networks**
- ◆ Niche Marketing
- ◆ Localist Preferences

## Features of the Emilia-Romagna Miracle



90,000 Manufacturing Companies

97% Have Under 50 Employees

# How Local Businesses Are Becoming More Competitive

- ◆ Personal Agglomerations
- ◆ Producers Coops
- ◆ Flexible Networks
- ◆ **Niche Marketing**
- ◆ Localist Preferences



# How Local Businesses Are Becoming More Competitive

- ◆ Personal Agglomerations
- ◆ Producers Coops
- ◆ Flexible Networks
- ◆ Niche Marketing
- ◆ Localist Preferences



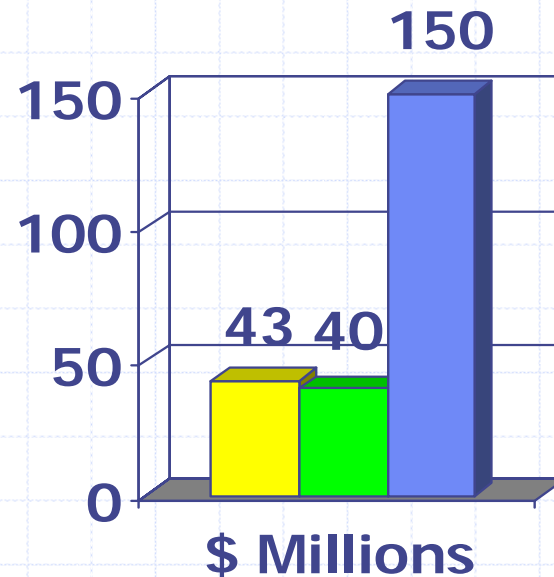
# LOIS Requires Initiative



# LOIS Econ. Dev. = Plug The Leaks

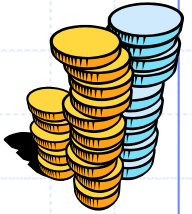
- ◆ Few Cities Have Performed
- ◆ Weigh Real Opportunity Costs

Annual Oakland Leaks - 1979



■ Landlords ■ Banks ■ Retail

# A LOIS Agenda



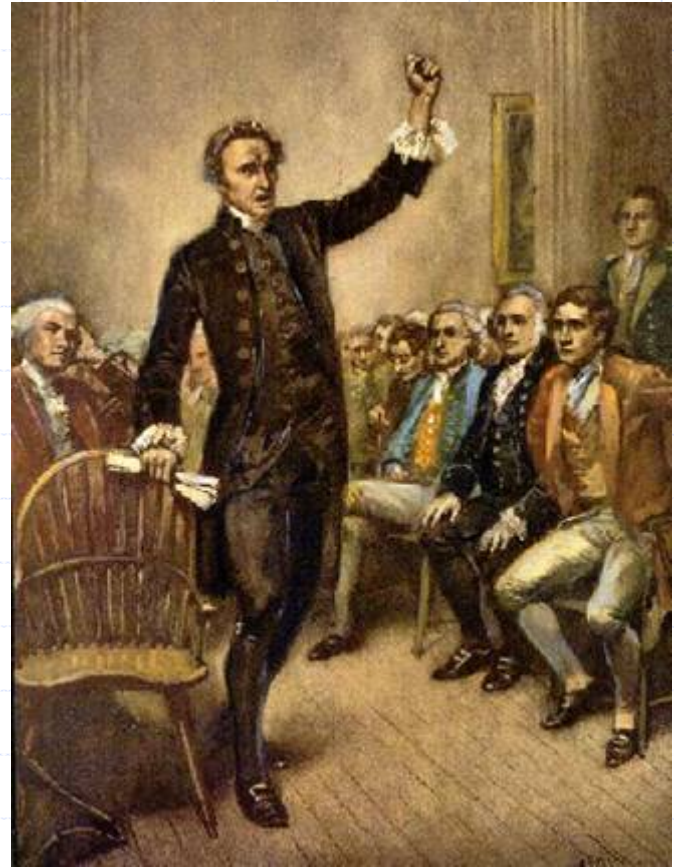
<b>Planning</b>	Find and plug the leaks through new LOIS businesses.
<b>Investing</b>	Mobilize local finance for new and expanding LOIS business.
<b>Purchasing</b>	Spearhead "Local First" campaigns that help LOIS business to thrive.
<b>Training</b>	Educate and support a new generation of LOIS entrepreneurs.
<b>Policymaking</b>	Remove all anti-LOIS biases from government initiatives.





# Patrick Henry: (with minor edits)

"Why stand we here idle? Is life so dear or peace so sweet as to be purchased at the price of chains...? Forbid it, Almighty God~~ess~~. I know not what course others may take, but as for me, give me **community** or give me death!"



# Questions/Comments



# 1. Local Planning

How to Find &  
Plug Leaks



# Why Studies Matter



- ◆ Other Side Depends on Studies
- ◆ Puncture Myths
- ◆ Shape Agenda

# Overview

## Goal:

Identify all viable LOIS business opportunities.

## ◆ Key Studies

- Indicators
- Assets
- Leakages

## ◆ Case Studies

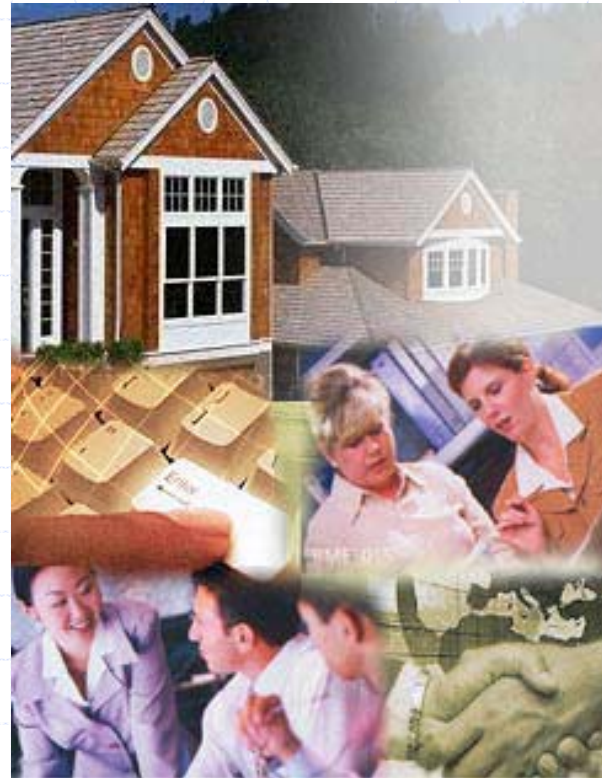
- St. Lawrence County
- Katahdin Region

# Why Indicators?

◆ Community Vision

◆ Noneconomic Factors

◆ Measure Success



# Key Criteria for Indicators



◆ Quantifiable

◆ Robust

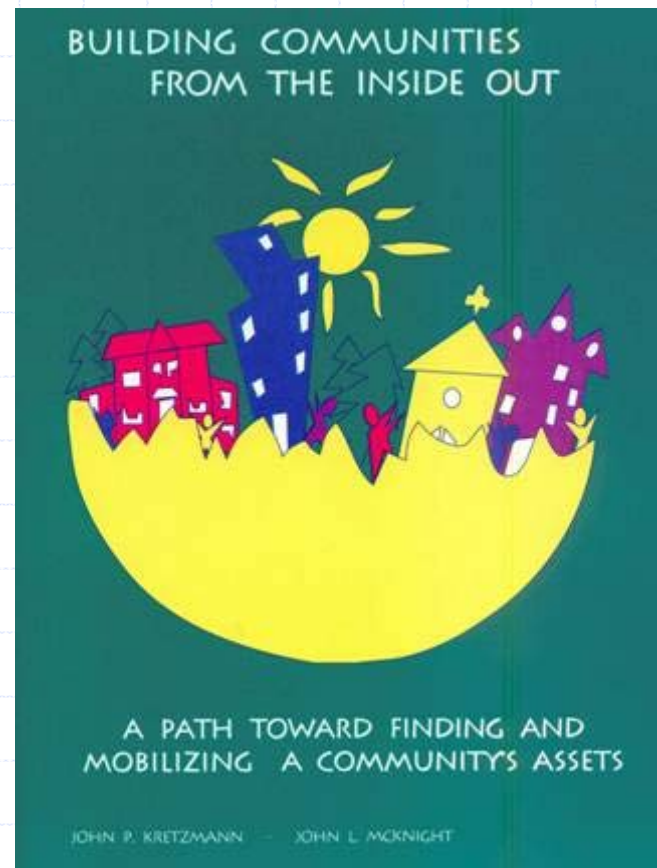
◆ Affordable

# Assets for New Business

## ◆ Types

- Labor
- Capital
- Land

## ◆ Positives *and* Negatives





# Importance of Leak Plugging II

Vermont Leakages  
(\$ Millions/Year)



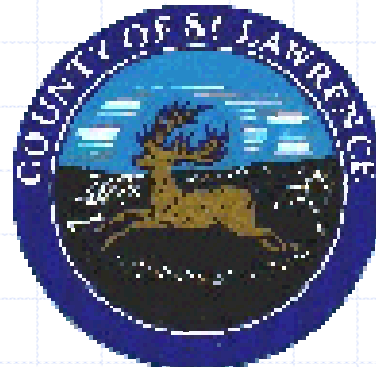
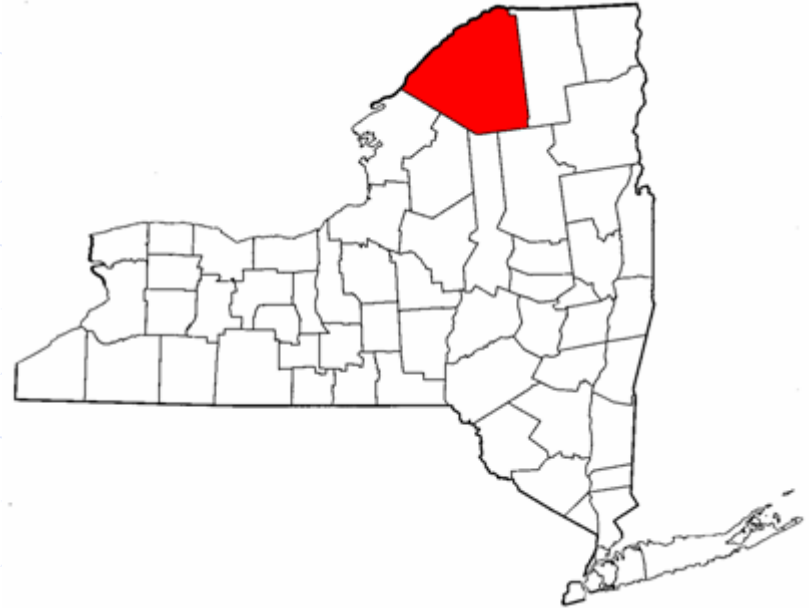
# Leak-Plugging Case Studies



10/18/2005

# St. Lawrence County Process

- A New Planning Paradigm
- Research Teams & Conference
- Local Business Promotion



# 11 Working Group Sectors

- ◆ Agriculture & Food
- ◆ Construction & Housing
- ◆ Education
- ◆ Energy
- ◆ FIRE
- ◆ Health
- ◆ Manufacturing
- ◆ Retail & Wholesale
- ◆ Services
- ◆ Tourism
- ◆ Transportation



# Action Teams' Mission: Local Assessment of...



◆ Indicators

◆ Assets

◆ Leakages

# Assets

- ◆ Land: 322,000 under Cultivation  
224,000 Vacant
- ◆ Labor: 3,700 Unemployed
- ◆ Capital: \$1 Billion in Dep. Institutions  
\$5 Billion in Other Savings

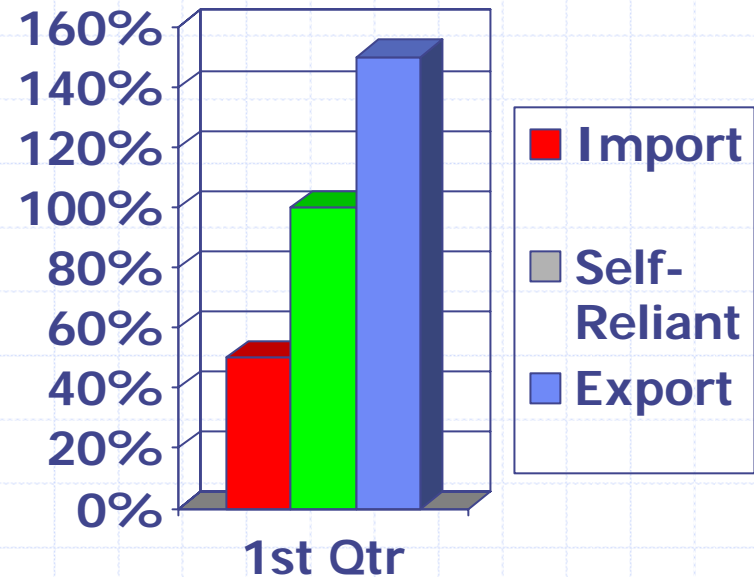
# Import Dependencies



	Livestock Raised	Livestock Consumed
Beef Cows	4,176	15,461
Hogs & Pigs	1,587	37,939
Sheep & Lambs	2,277	2,141
Chickens	3,741	2 Million

# Leakage Methodology: Assumptions

- ◆ U.S. 84% Self-Reliant
- ◆ Self-Reliant Region Has Business Composition of United States Overall
- ◆ Average = Self-Reliance
- ◆  $>$  Average Suggests Exports
- ◆  $<$  Average Suggests Imports





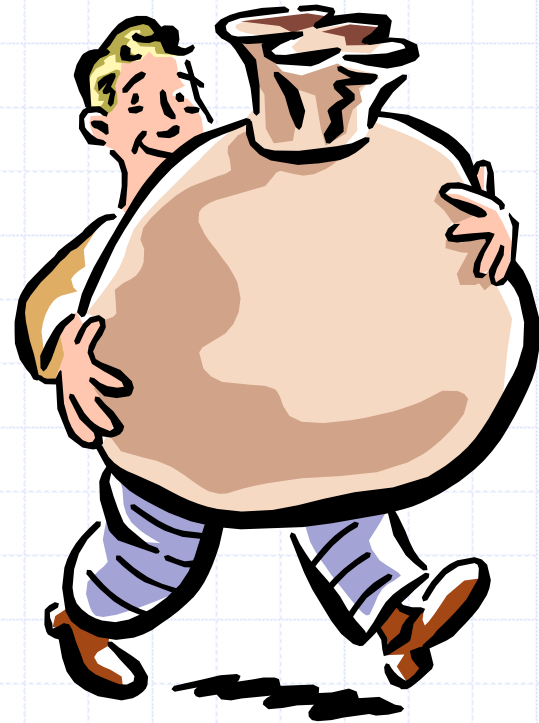
# Leakage Methodology: How to Hunt for Fugitive Jobs

- ◆ Measure Gaps (Jobs or Earnings)
- ◆ Scrutinize for Plausibility (Indicators, Assets)
- ◆ Total “Fugitive” Earnings or Jobs
- ◆ Adjust for Regional Pay Rates
- ◆ Run Multipliers (RIMS)



# Annual Multiplier Effects in St. Lawrence County

- ◆ \$613 Million New Earnings
- ◆ \$1.8 Billion New Output
- ◆ 14,000 New Jobs



# Results Thus Far...

- ◆ ESCO
- ◆ Farm-to-School
- ◆ Carp Tournament
- ◆ E-Bay Marketing



# Worksphere Initiative for the Katahdin Region (WIKR)





## The “MAGIC City”



## Wilder than the West





# Built by Paper





# Innovation

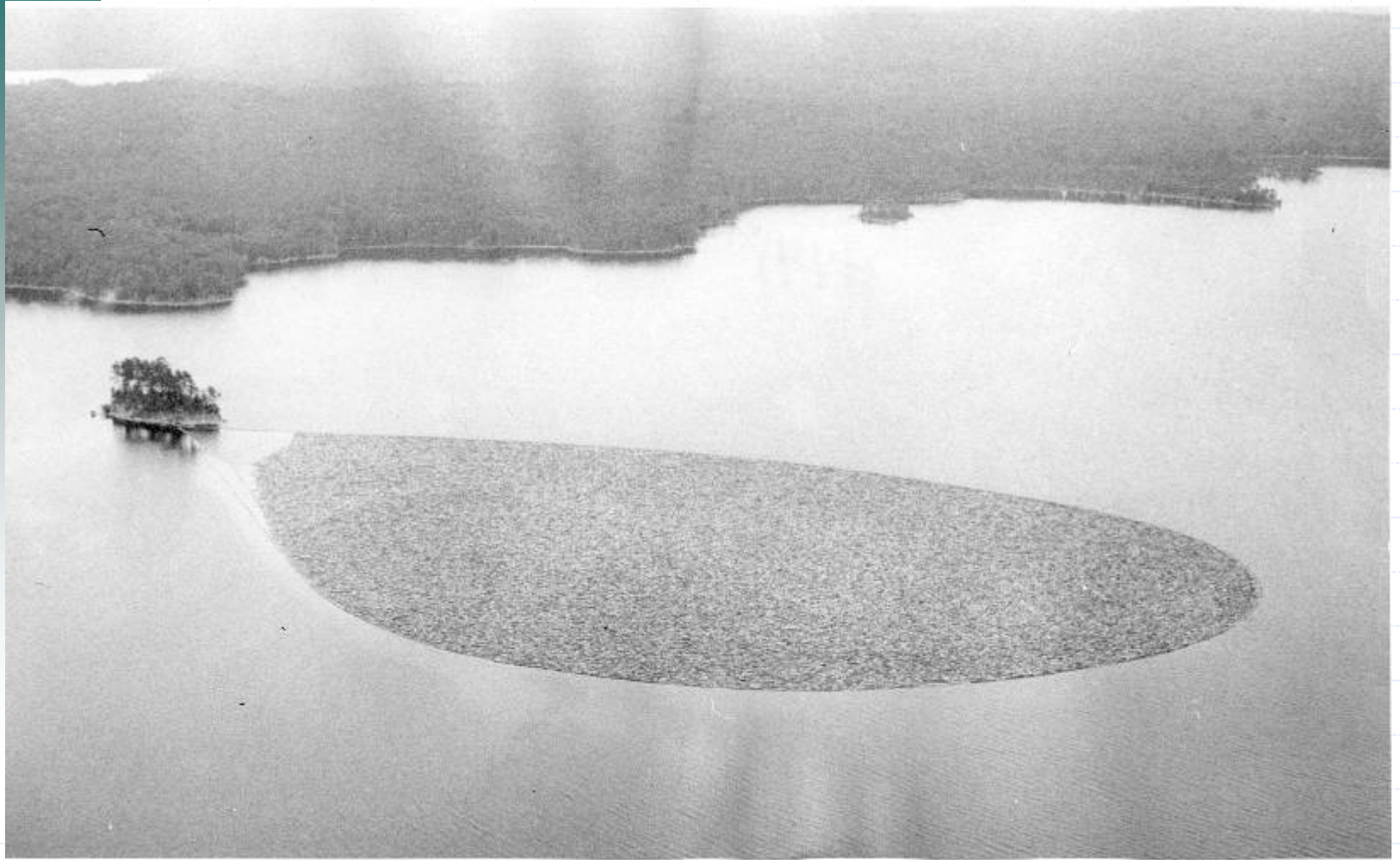




## Incredible workforce



# Wood box of the North





MEDWAY  
EAST MILLINOCKET  
MILLINOCKET



# A Company Town



MEDWAY  
EAST MILLINOCKET  
MILLINOCKET





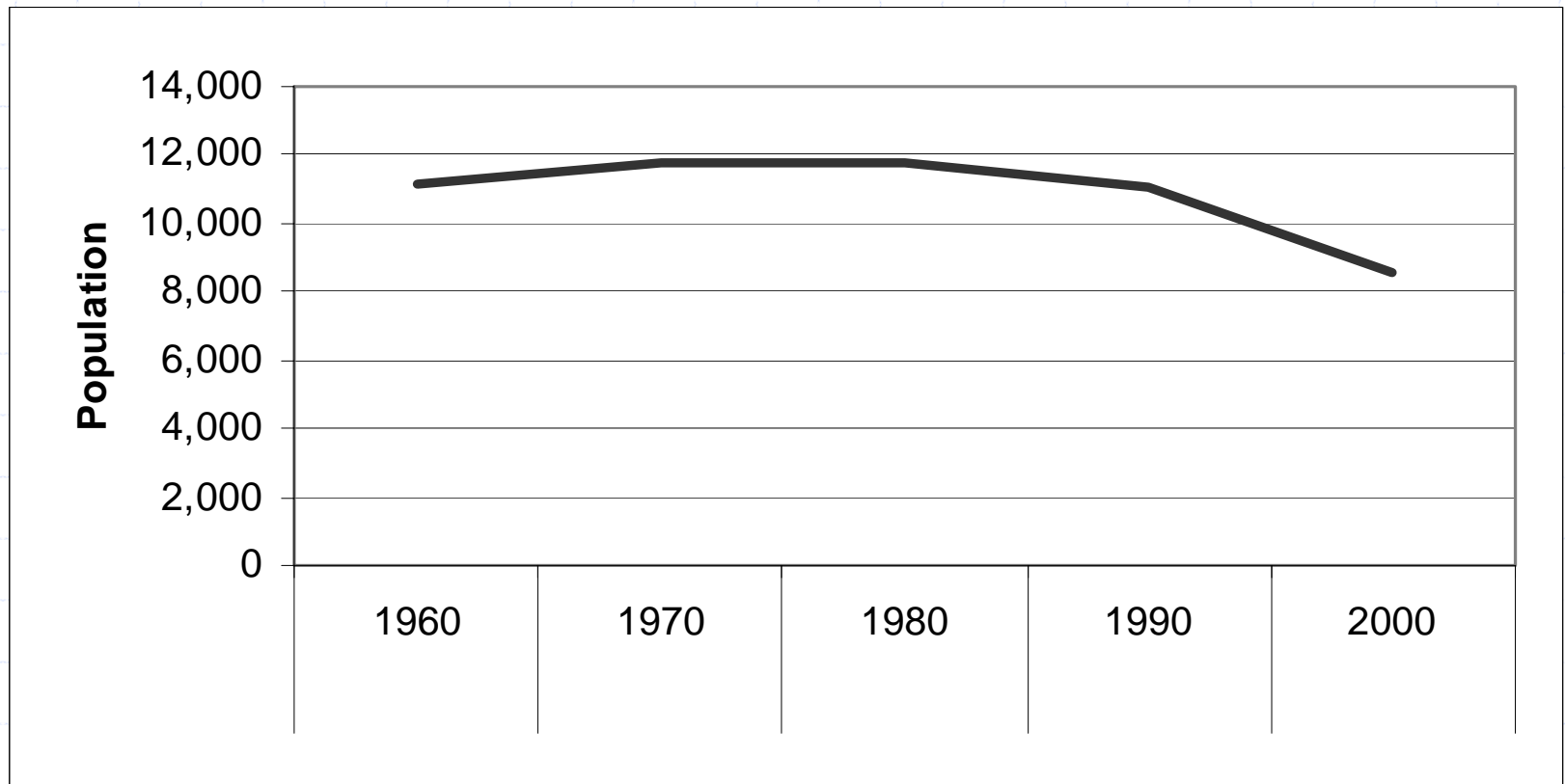
# Christmas 2002 Bankruptcy



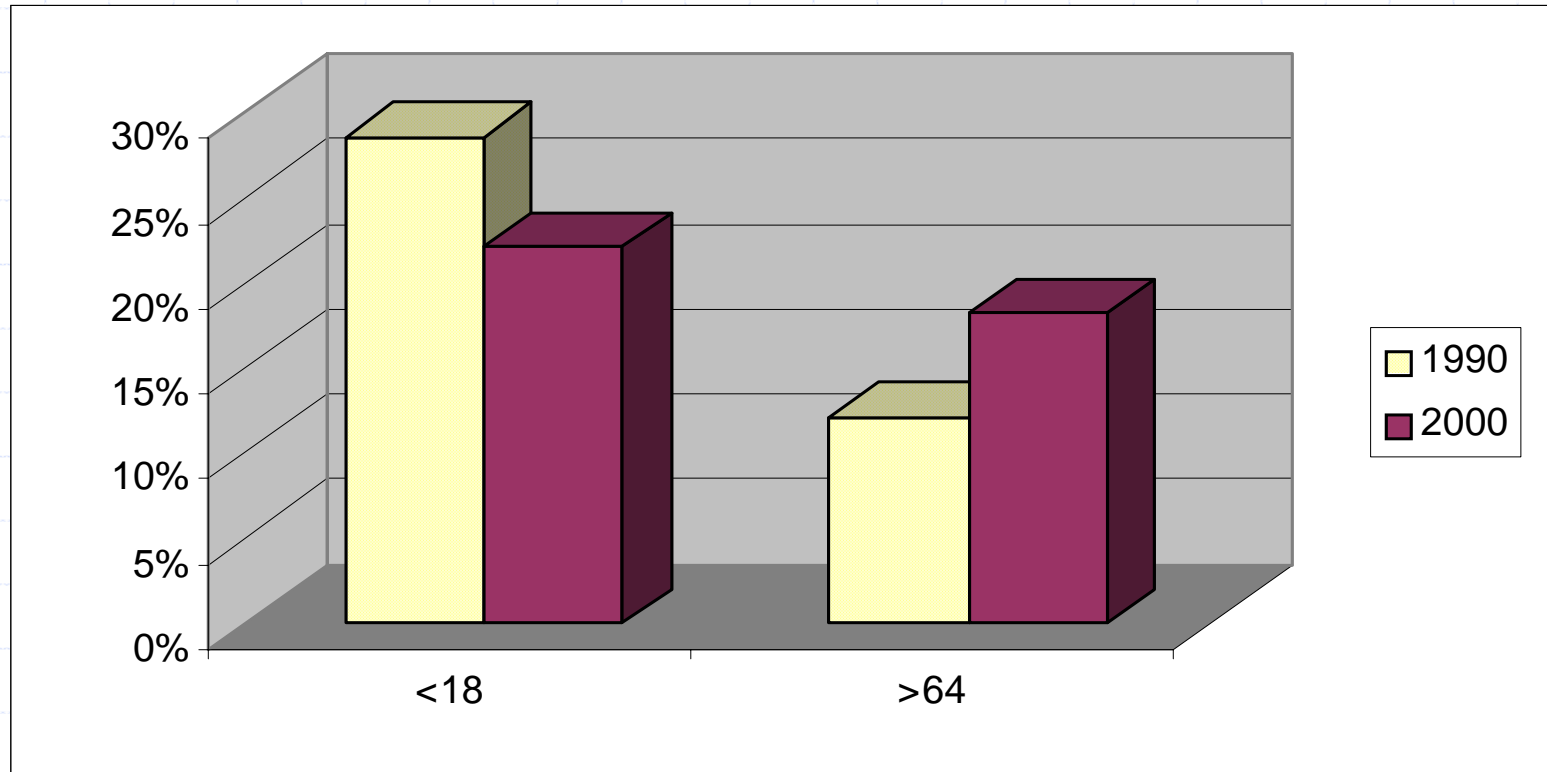
# Enter WIKR...



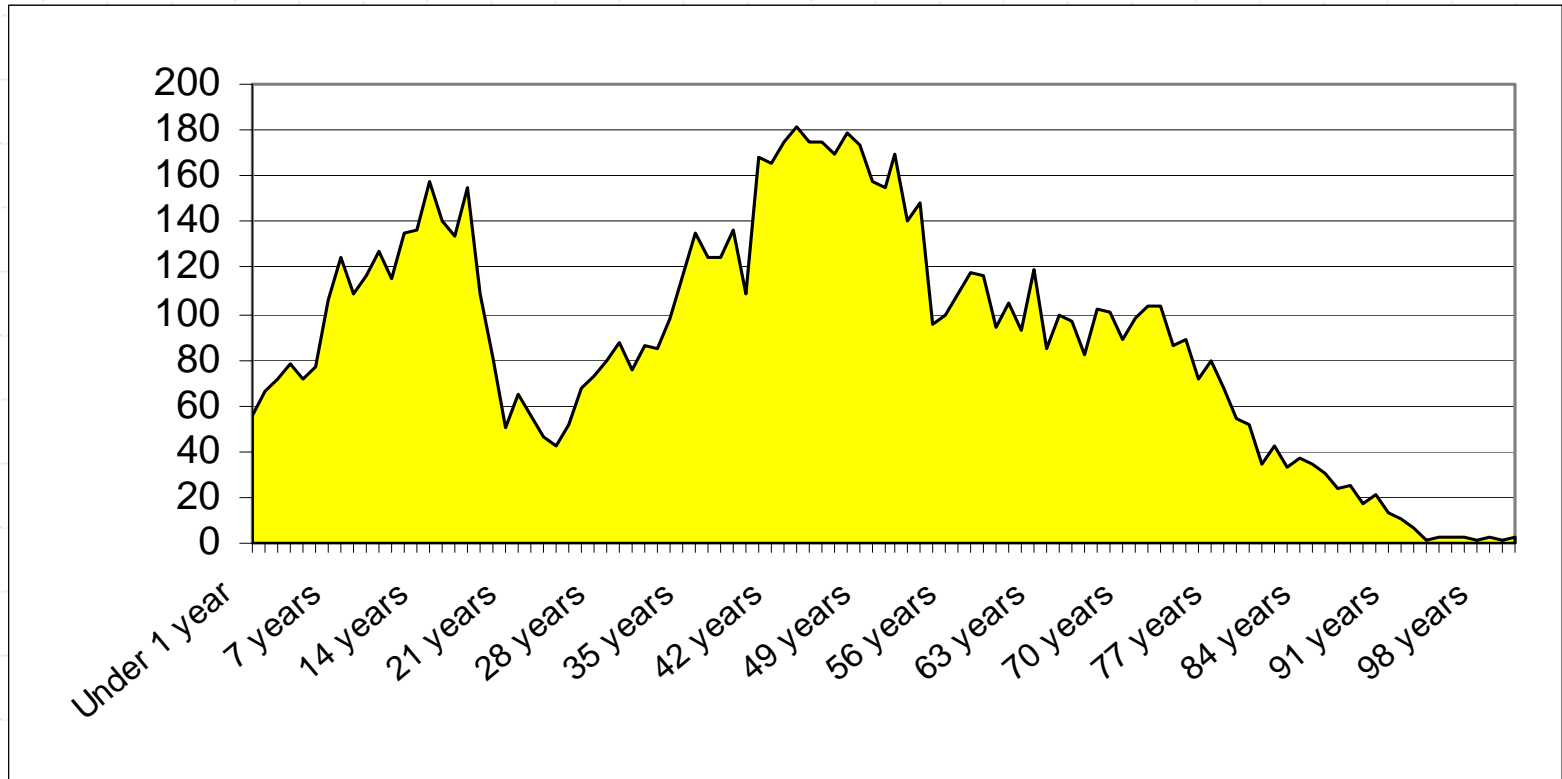
# Indicator #1: Shrinking Population



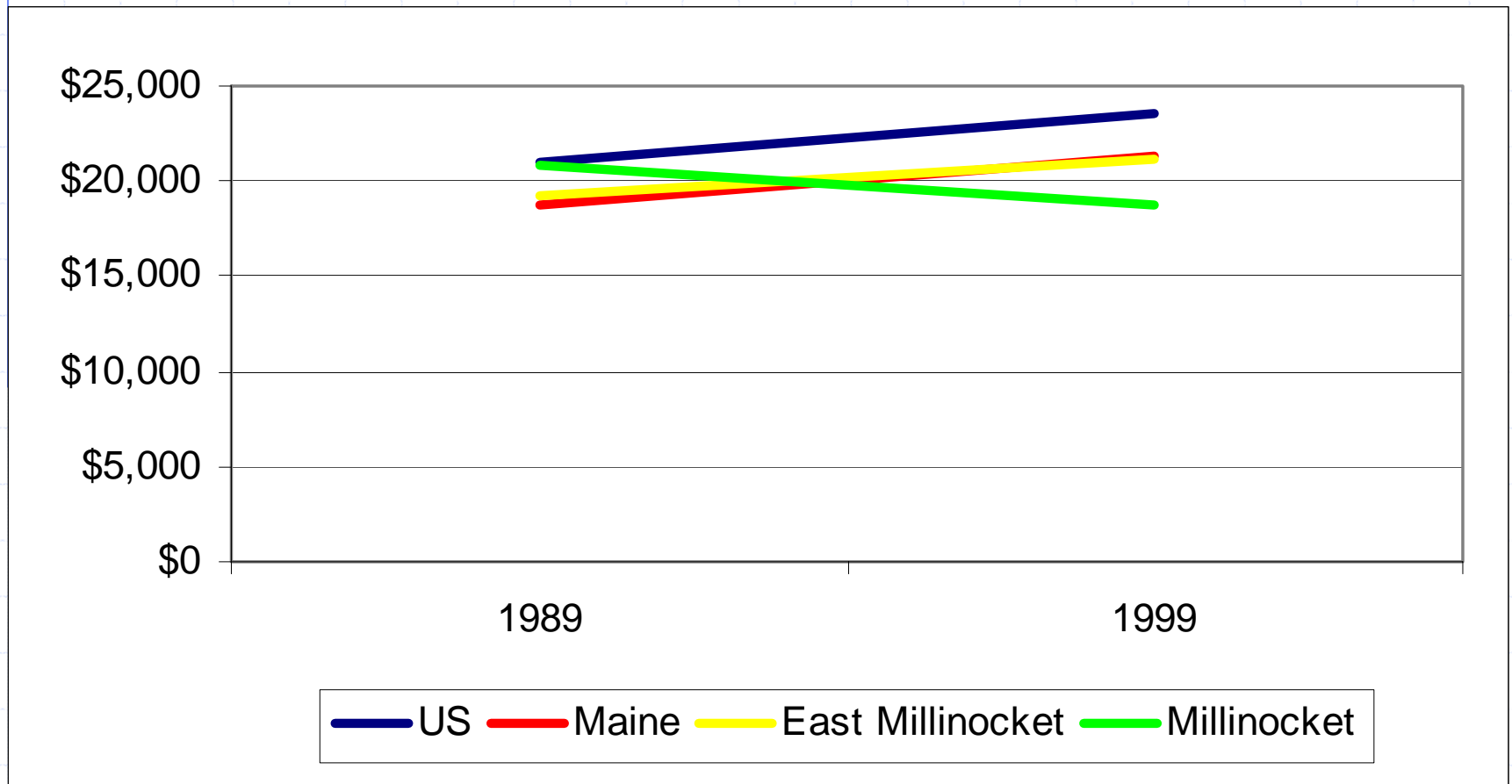
# Indicator #2: Aging of Population



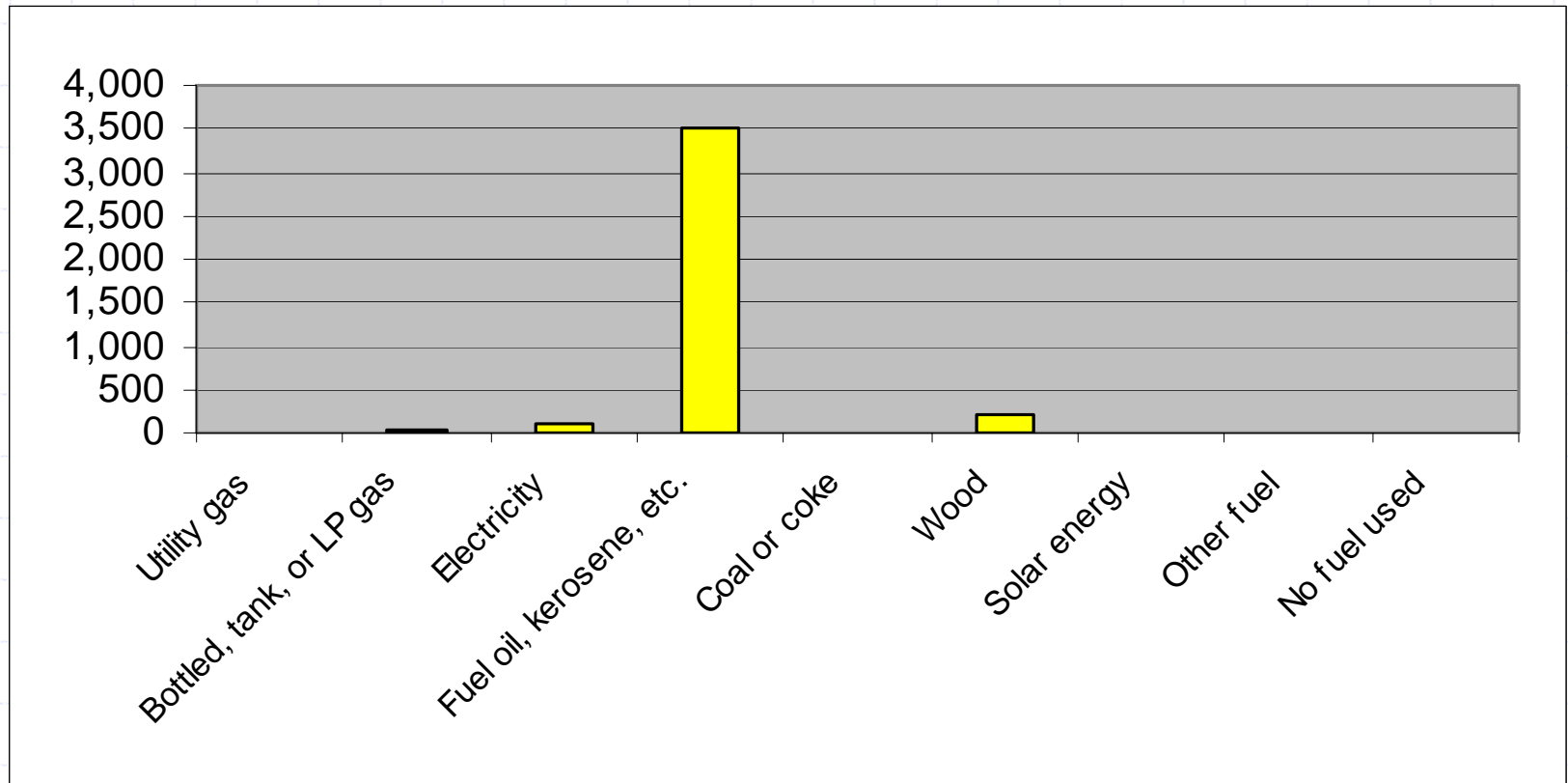
# Indicator #3: Brain-Draining of Youth



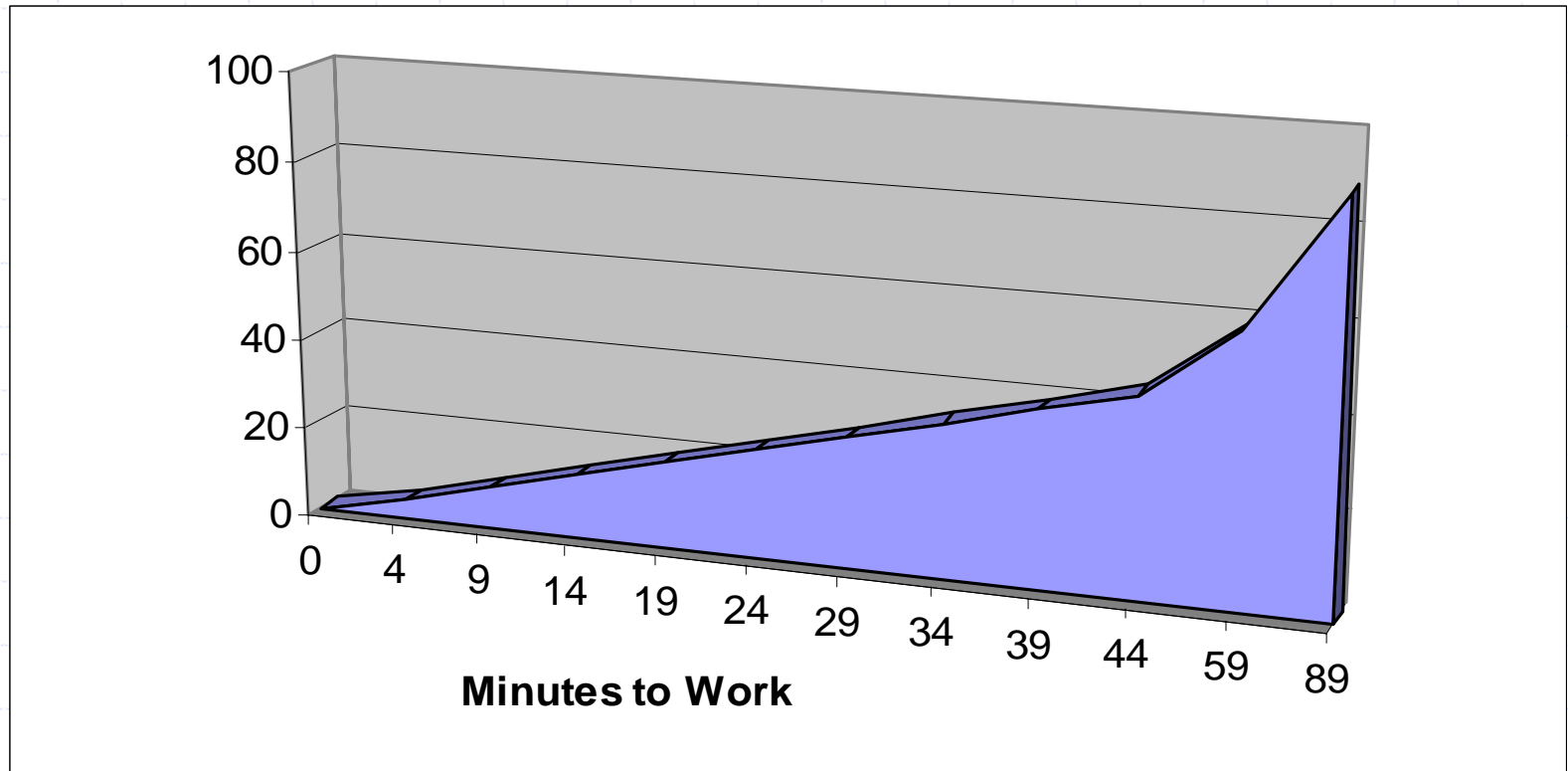
# Indicator #4: Shrinking Incomes



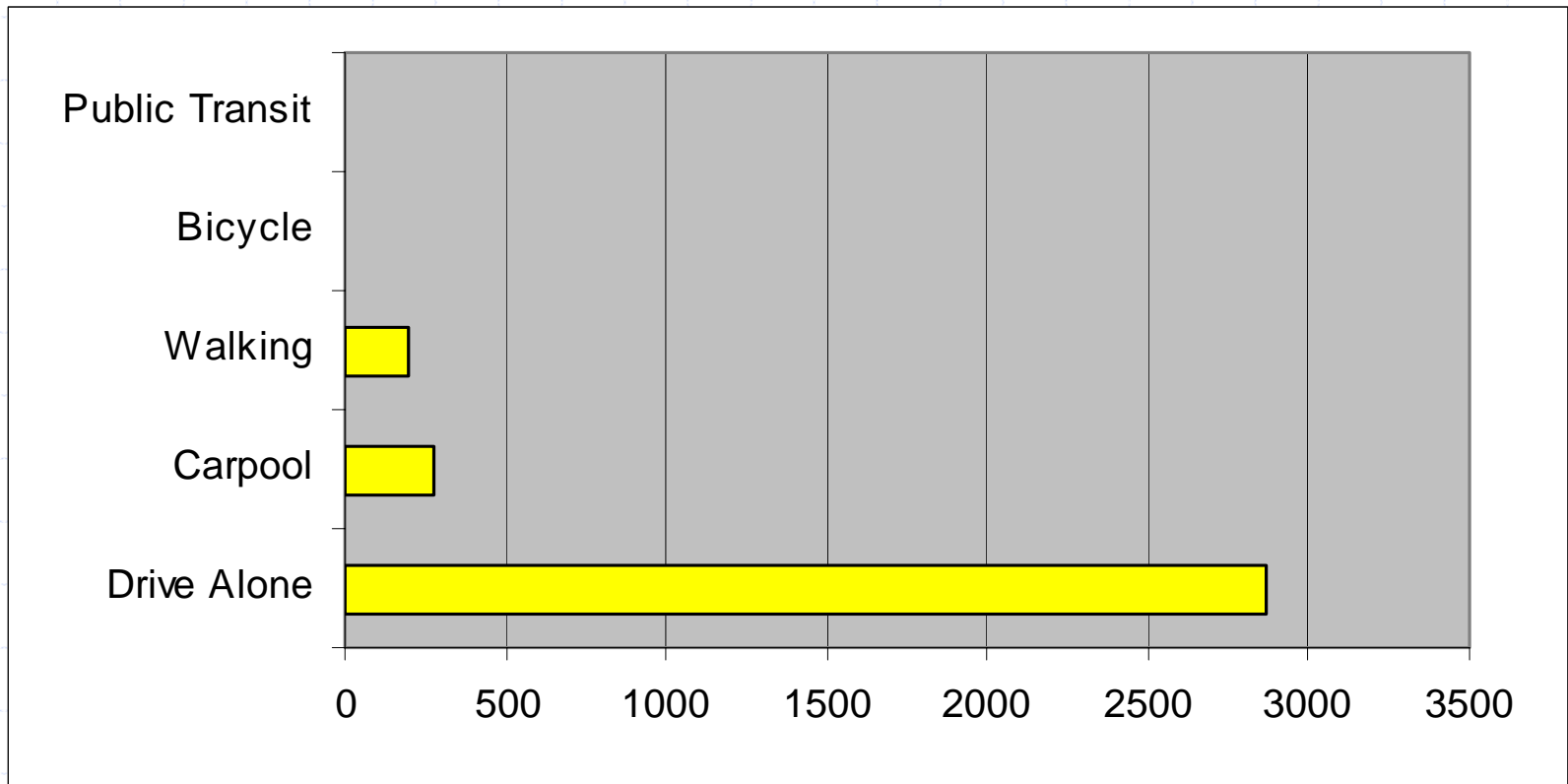
# Indicator #5: Home Heating Indicators



# Indicator #6: Work Transit Indicator

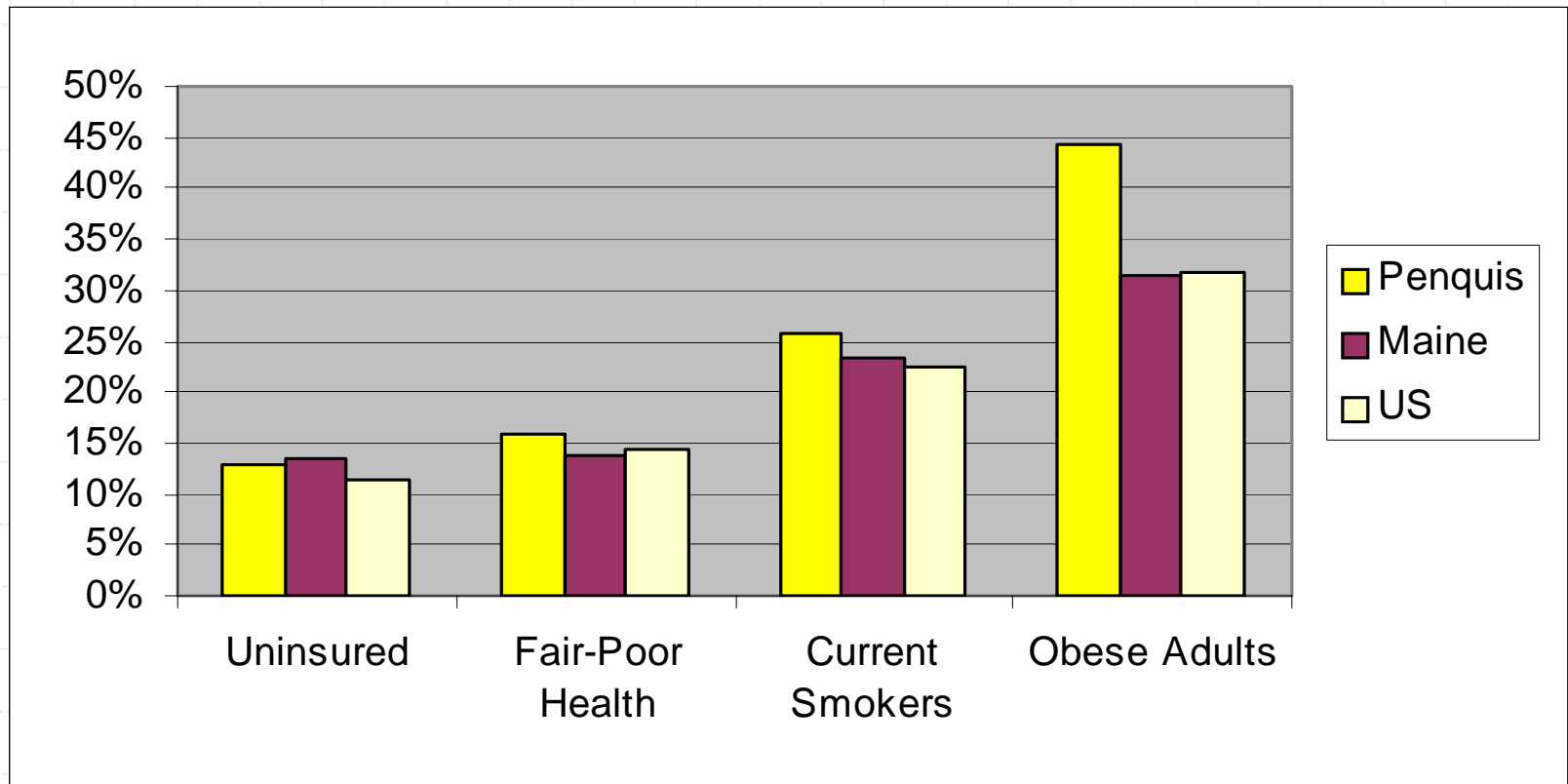


# Indicator #7: Commuting Alone

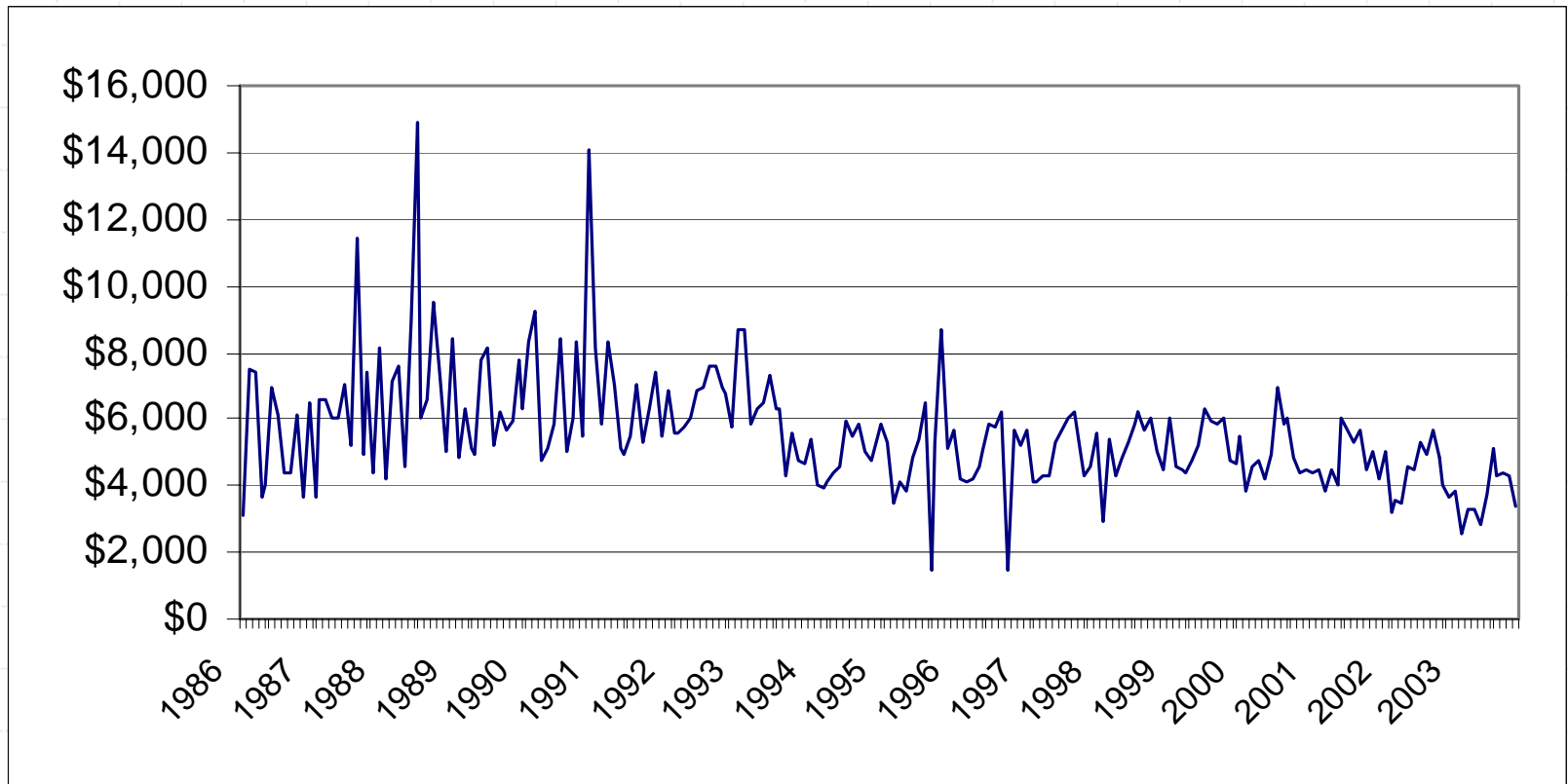




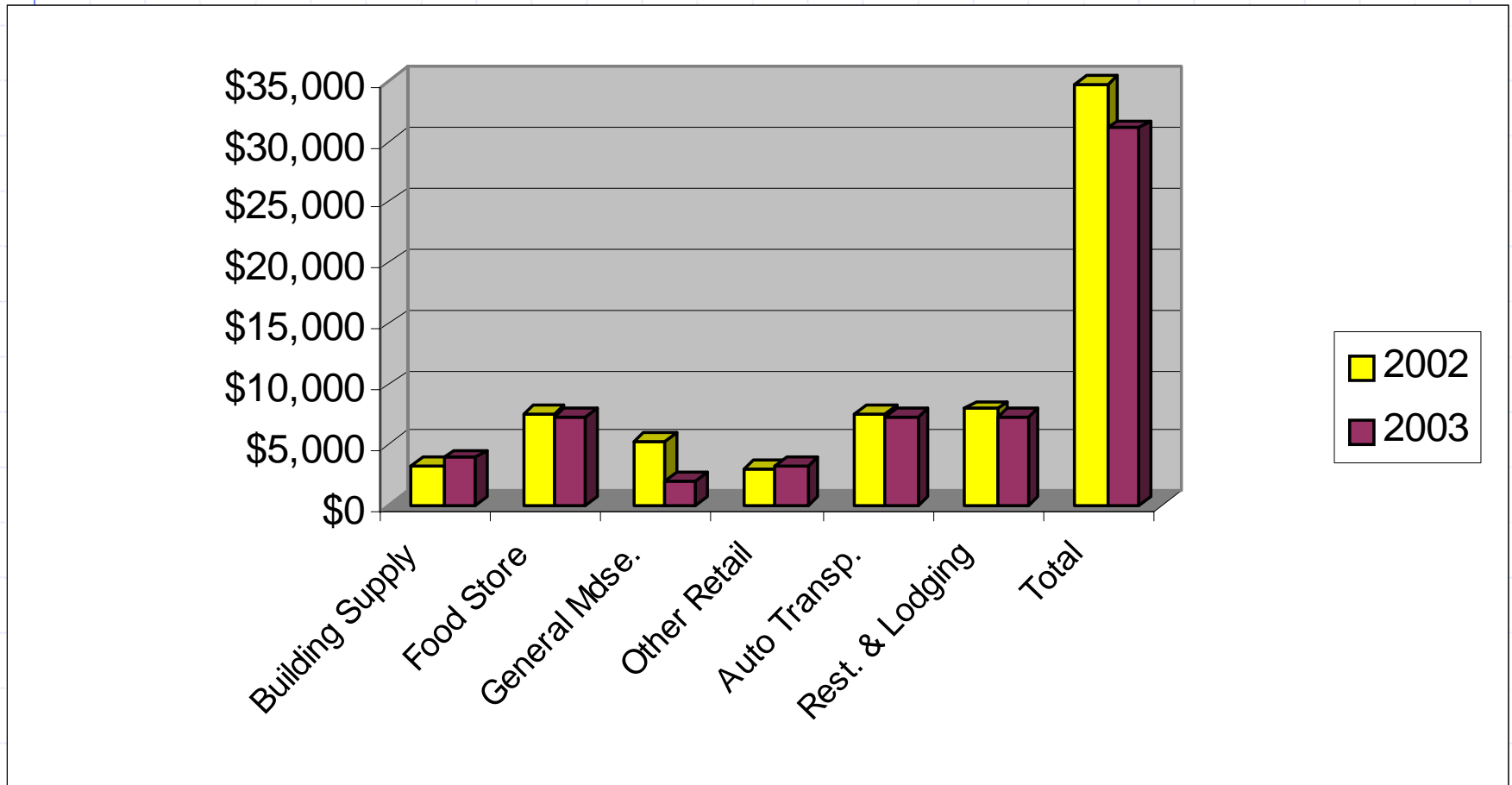
# Indicator #8: Health Indicators



# Indicator #9: Diminishing Retail

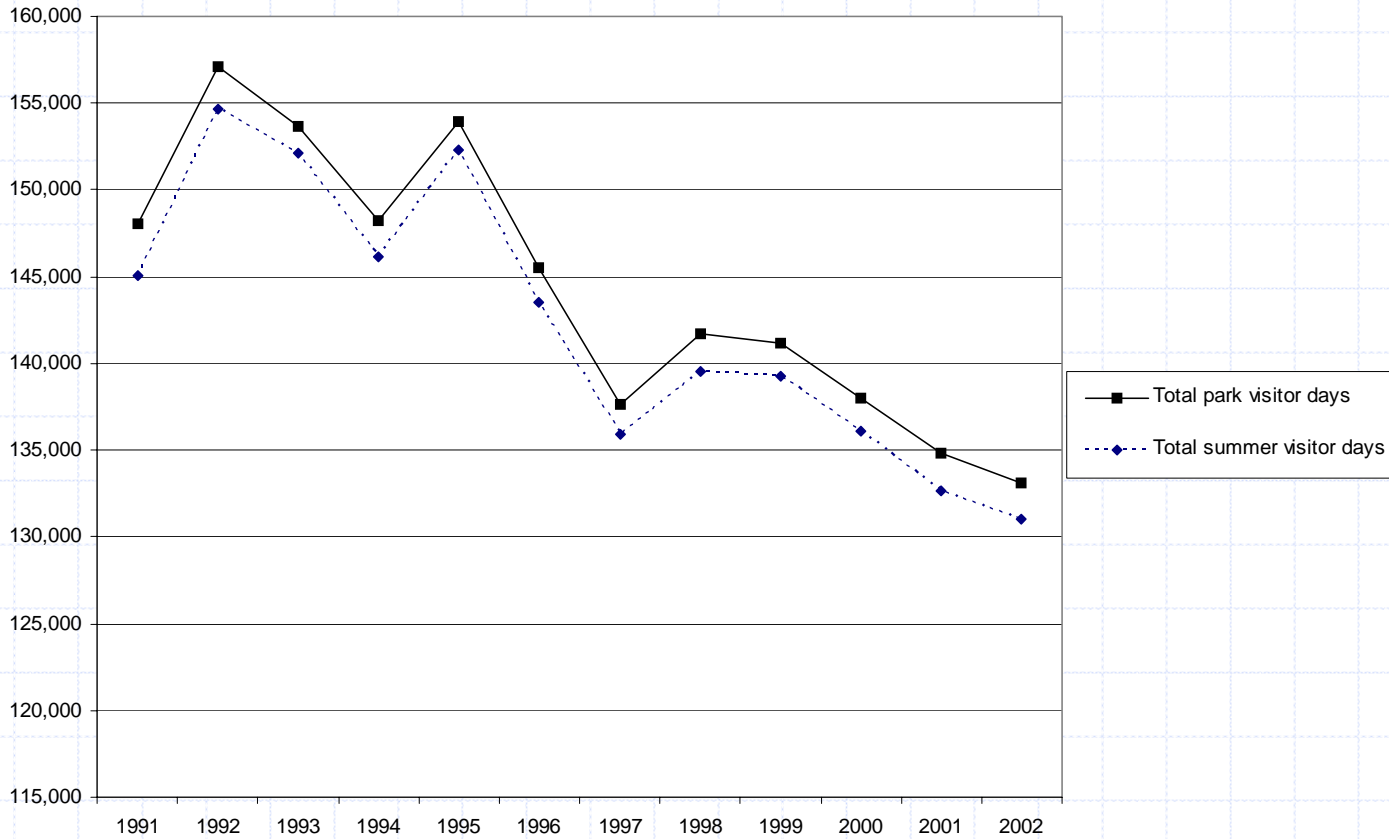


# Indicator #10: Layoff Impacts on Retail

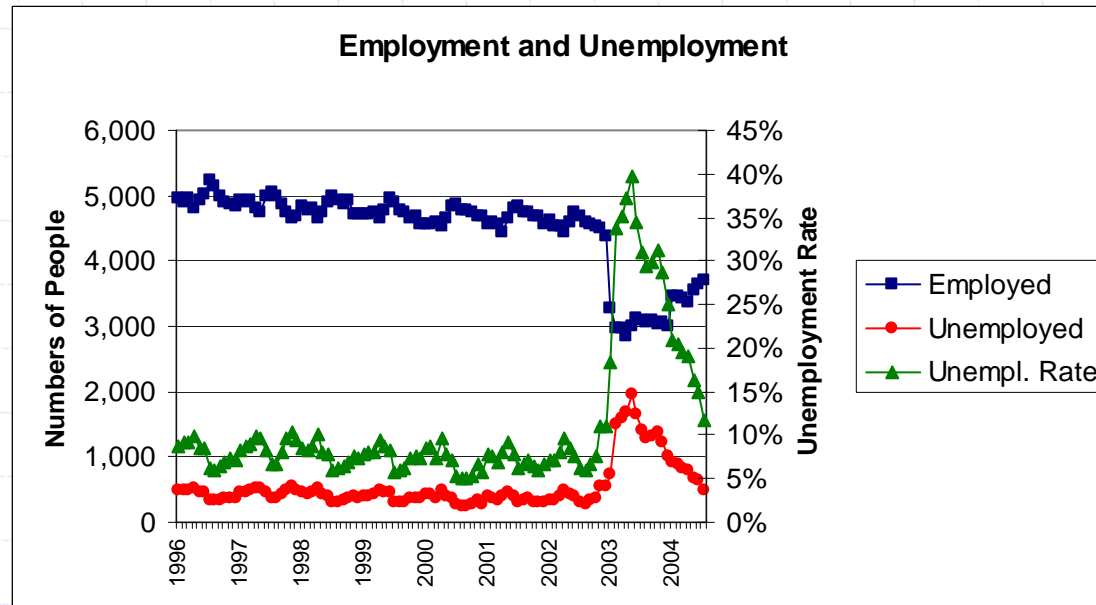


# Indicator #11: Fewer Tourist Days

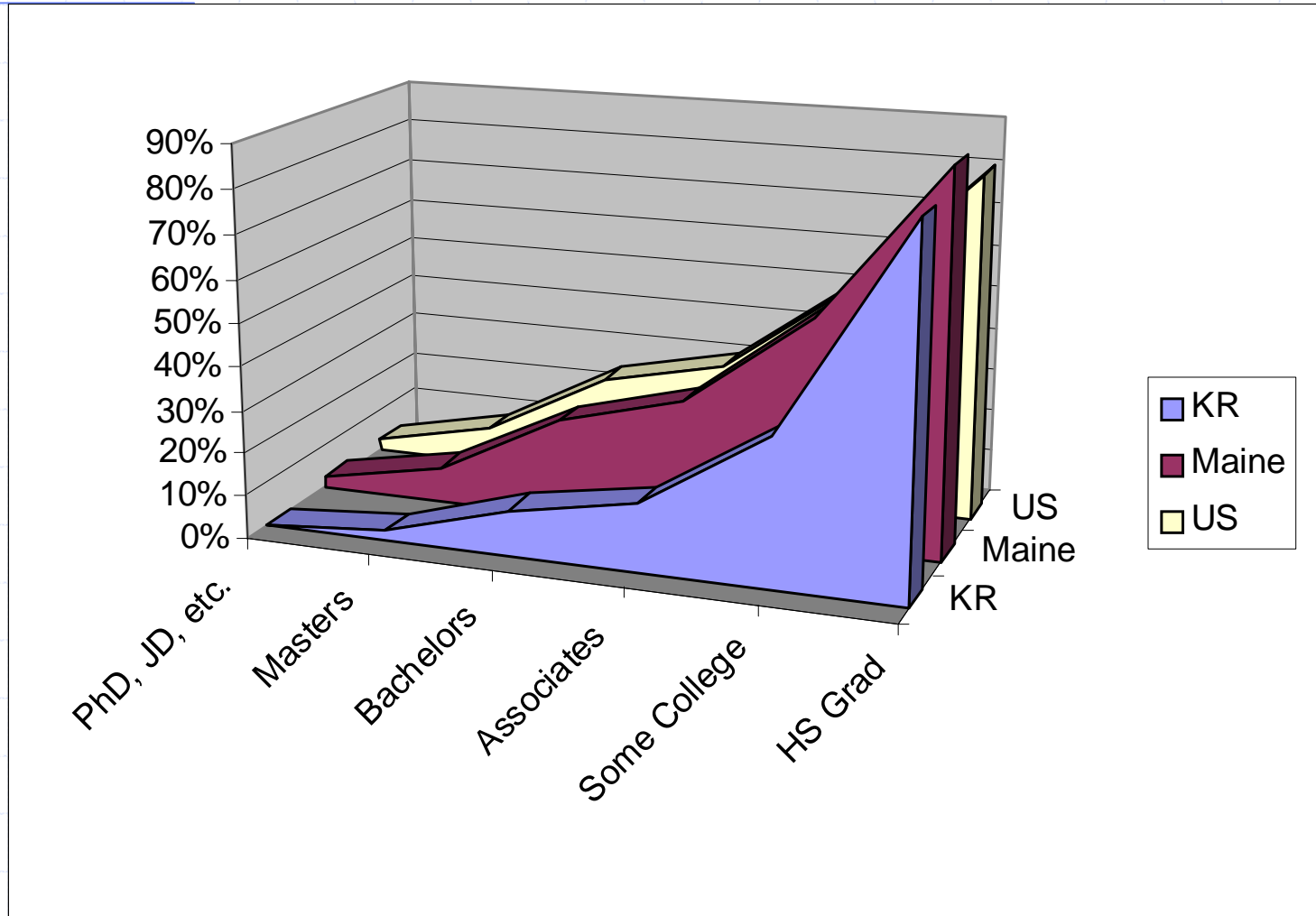
Visitor Days to Baxter State Park (Total and Summer)



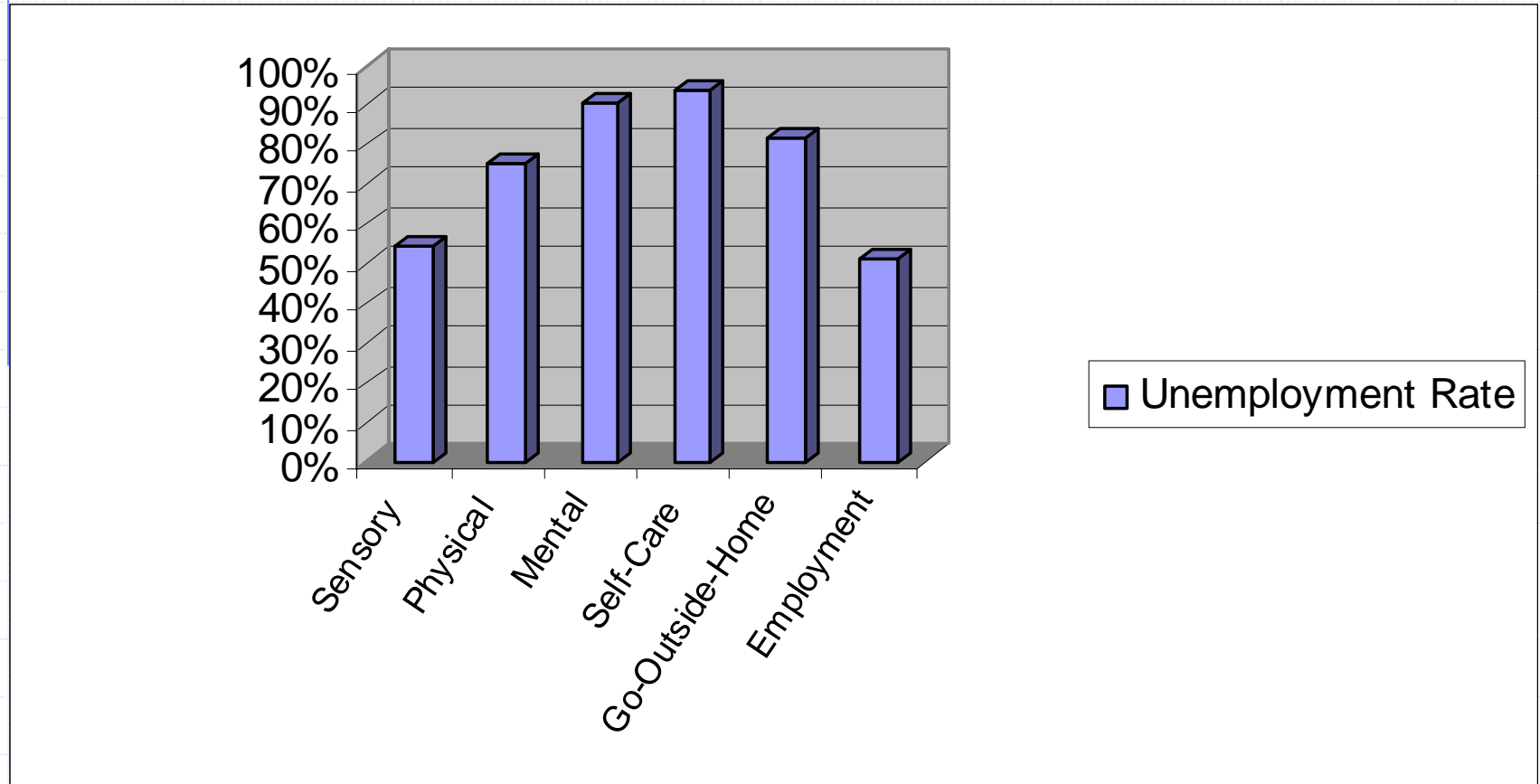
# Asset #1: Workforce



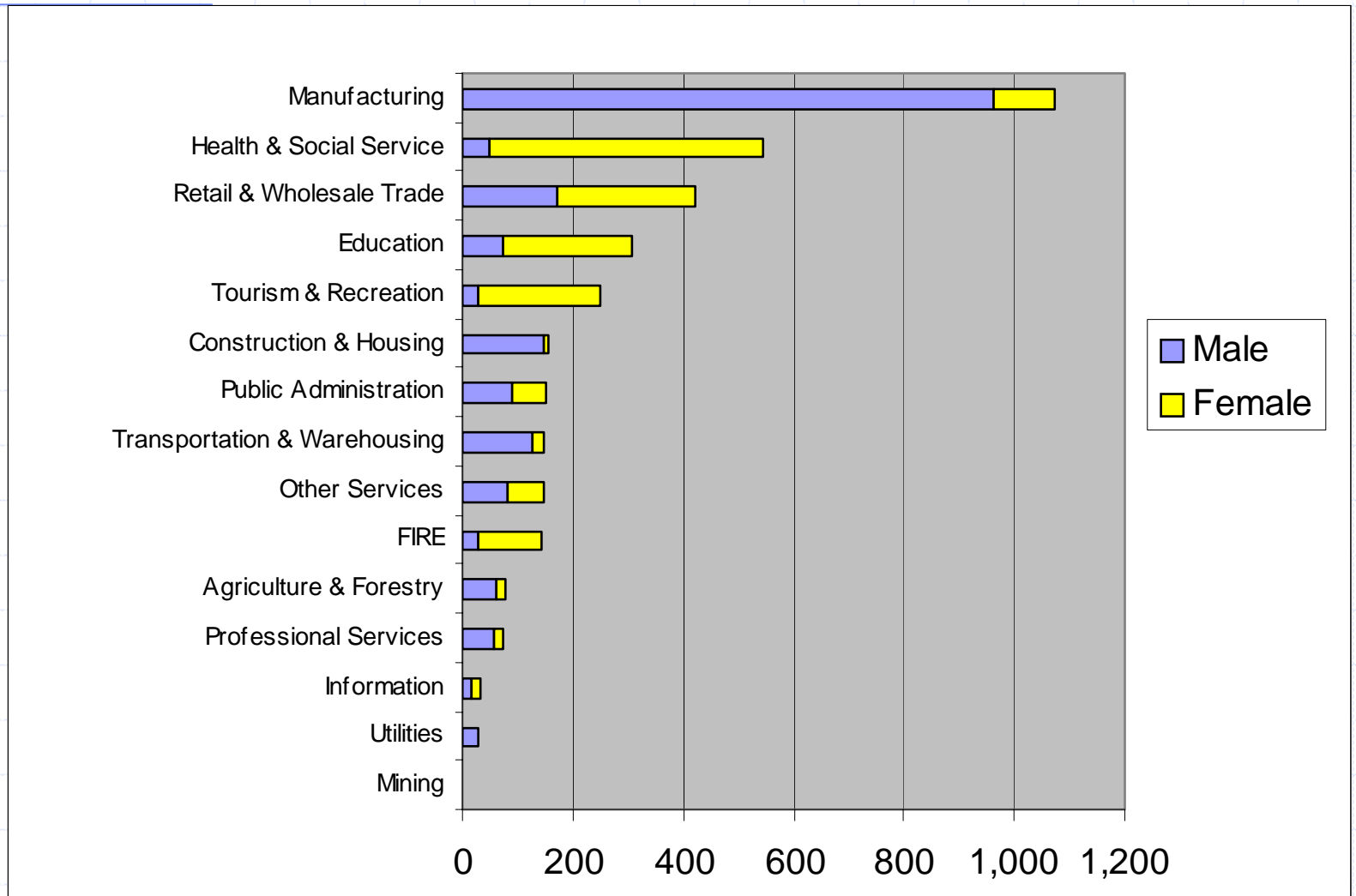
# Asset #2: Education Level of Workforce



# Asset #3: Disabled Workforce

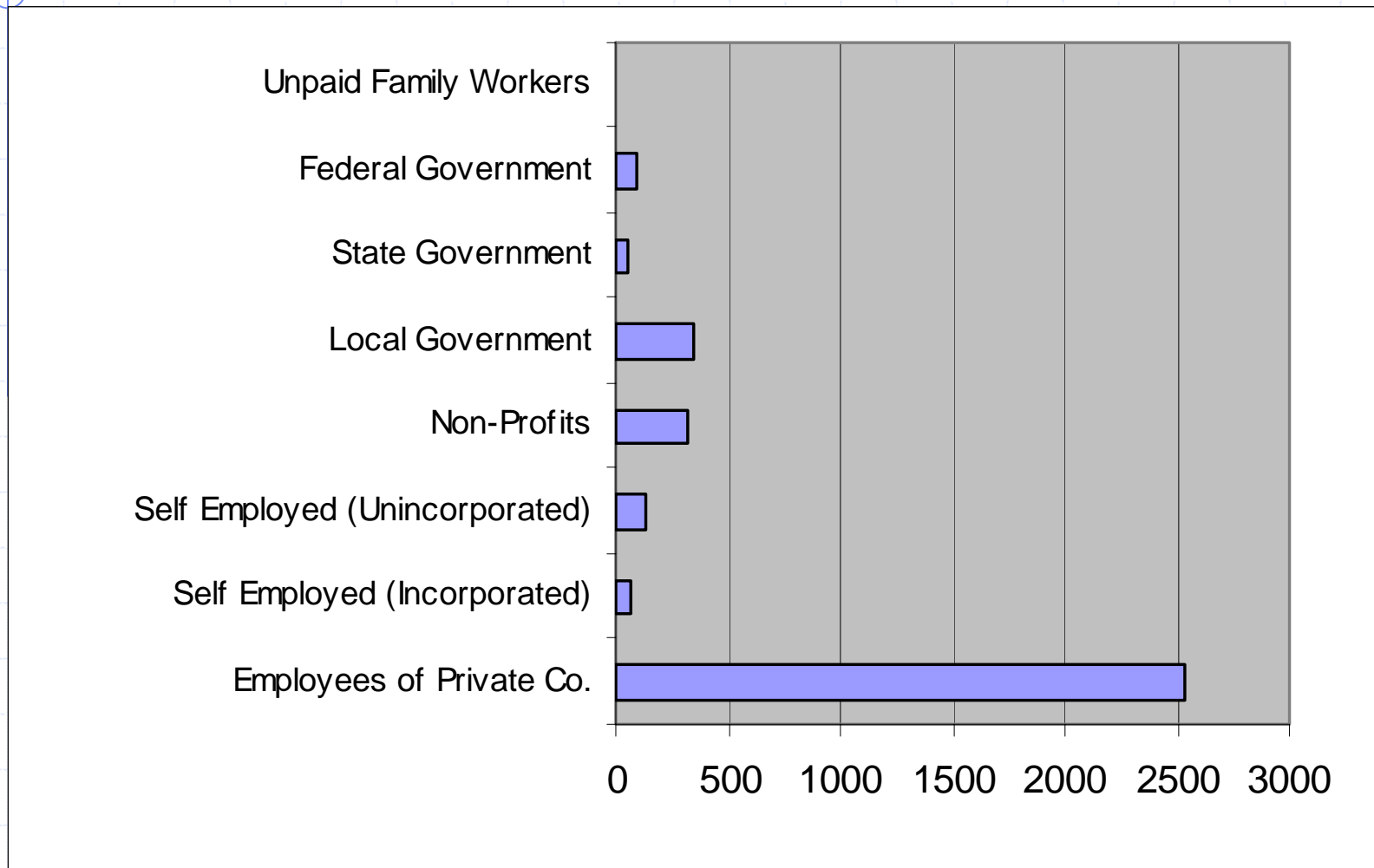


# Asset #4: Pre-Layoff Employment



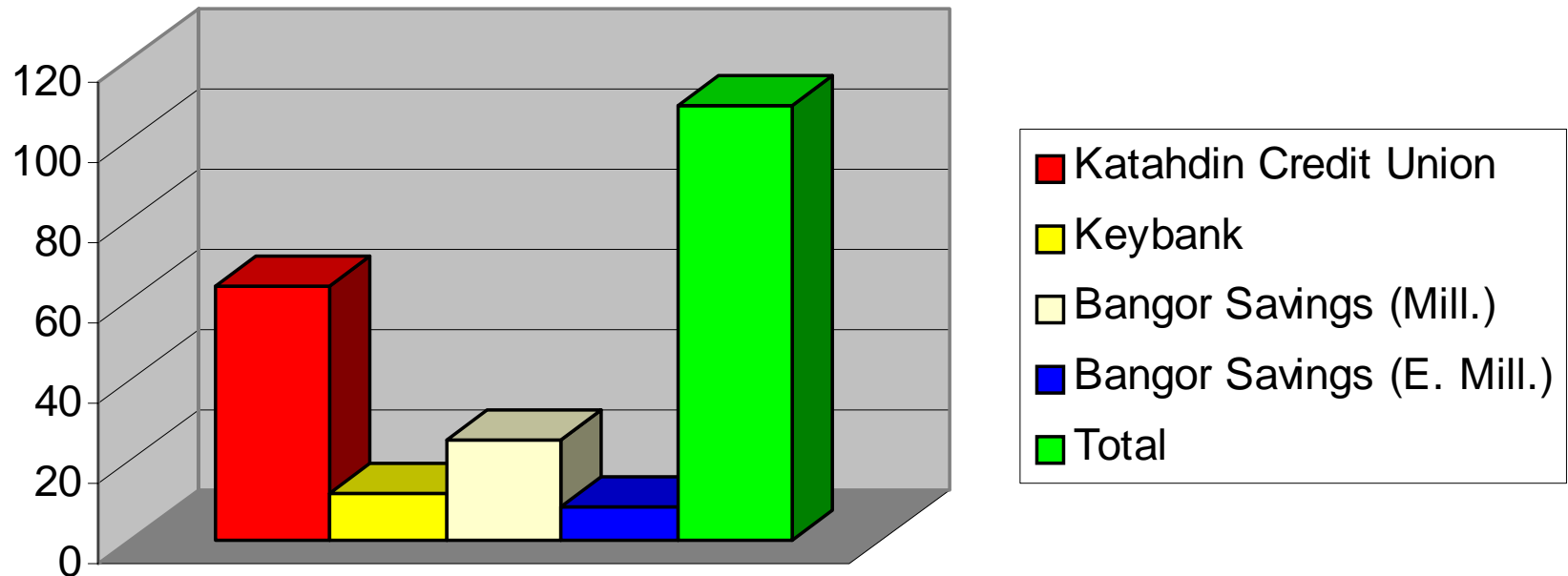


# Asset #5: Pre-Layoff Entrepreneurship



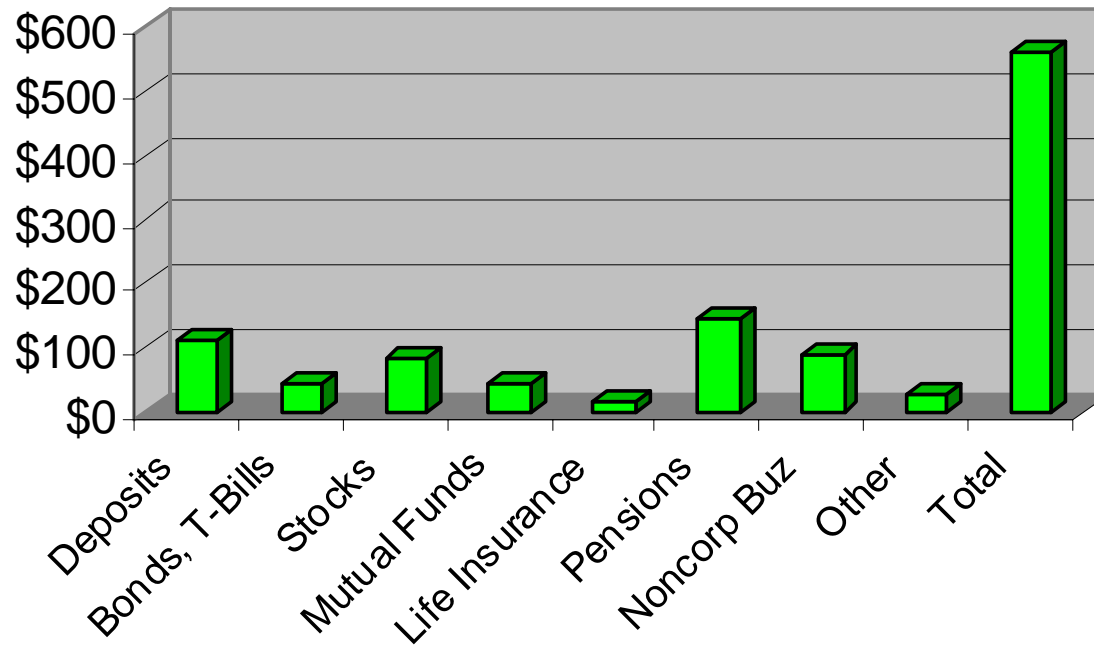
# Asset #6: KR Banking Deposits

**KR Deposits on 6/03 (\$ Millions)**

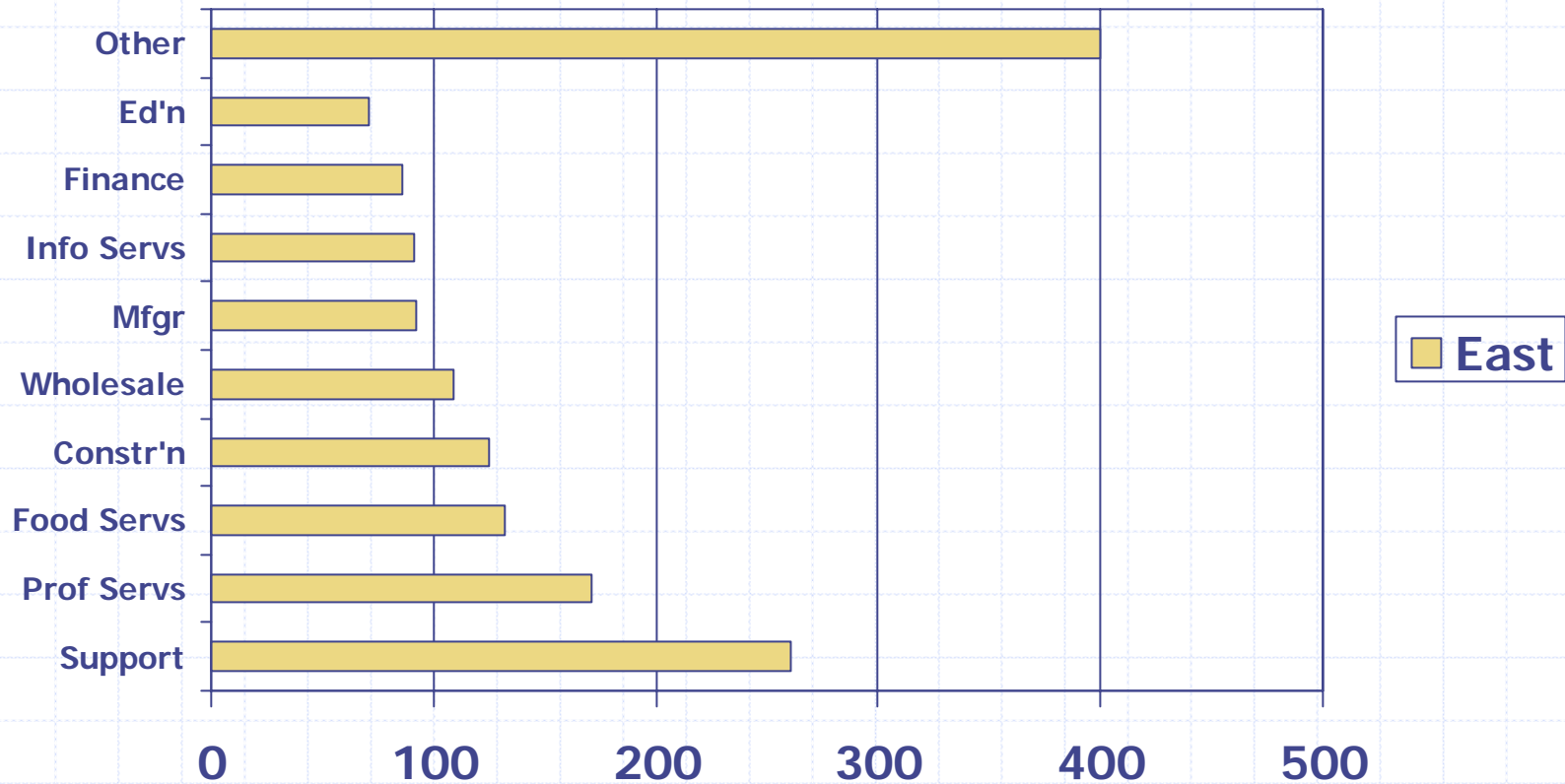


# Asset #7: KR Financial Assets (est.)

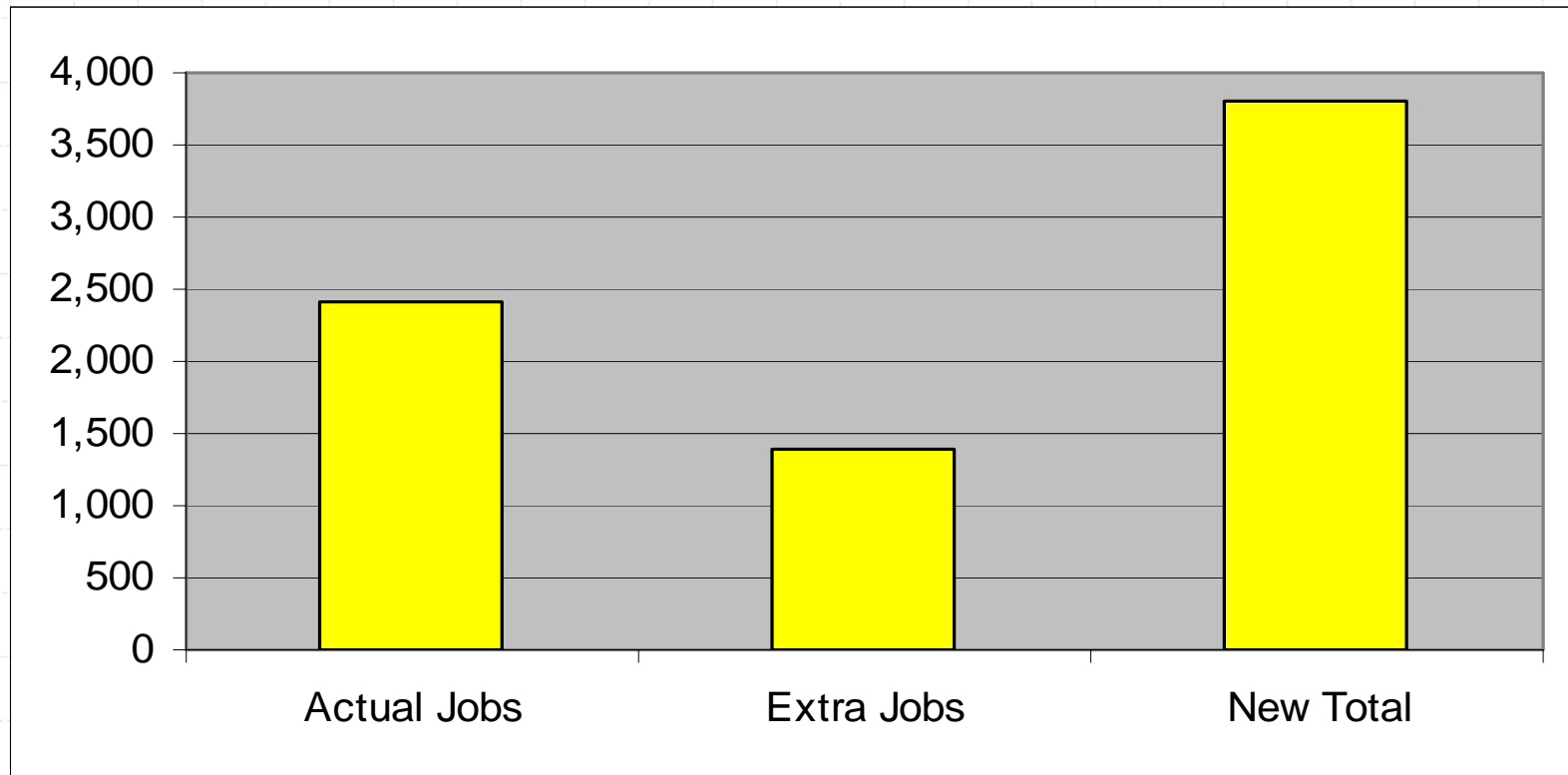
**\$ Millions**



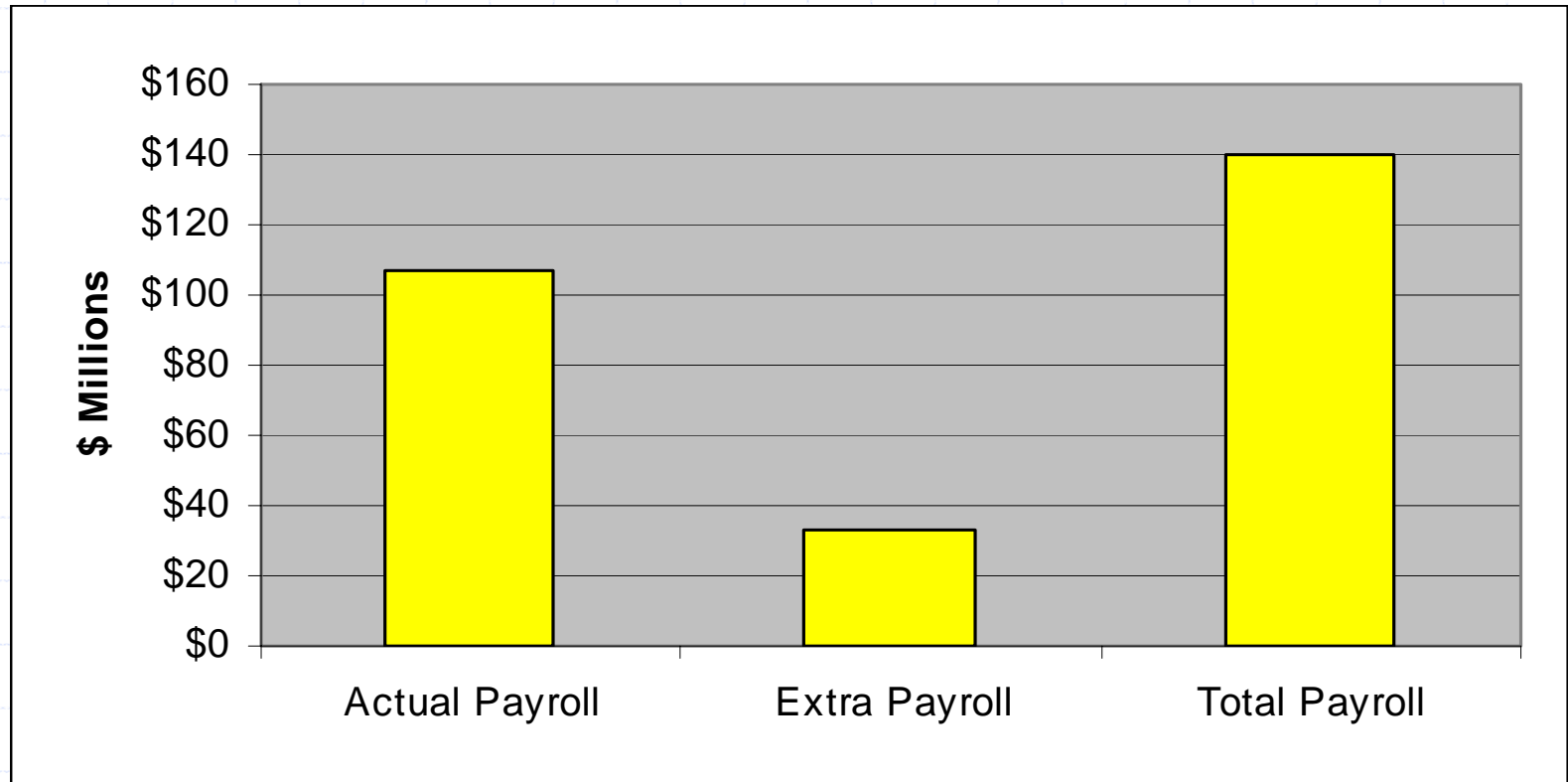
# Total Leakages 1,400 Fugitive Jobs



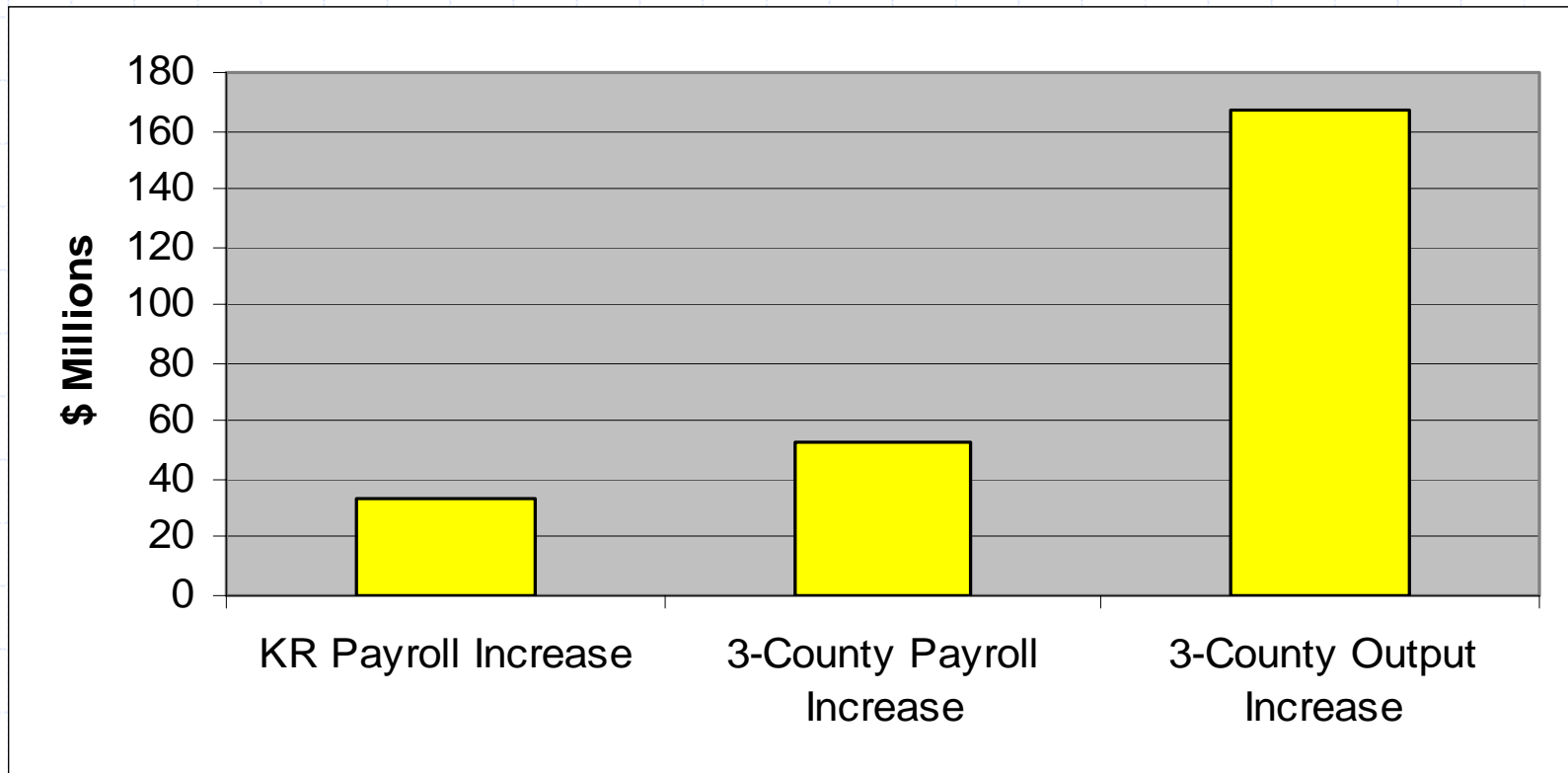
# New Jobs from Leak-Plugging



# New Payroll from Leak-Plugging



# Three County Impact



# Team Business Ideas (So Far)

- ◆ Meat Processing
- ◆ Farmers Market
- ◆ Bottled Water Plant
- ◆ Investment Fund
- ◆ Medical Supplies
- ◆ Redevelop Properties
- ◆ Tourist Transportation
- ◆ Movie Theater
- ◆ Newspaper Printing
- ◆ Wood-based Energy
- ◆ Salmon Farms
- ◆ Katahdin Ice Cream
- ◆ Sports Equipment
- ◆ Business Services
- ◆ Tourist Provisions
- ◆ Moose Mania Store



# More Questions/Comments



# Small Group Assignment

## The New Economic Planners

### ◆ Individually Develop:

- 3 Indicators
- 3 Assets
- 3 Leakages
- 3 Businesses

### ◆ Compare & Improve

### ◆ Pick One To Report



## 2. Local Purchasing

How to Help LOIS  
Businesses Thrive



# Choose Wisely





◆ **Overcharges**

◆ **Transaction Costs**

◆ **Poor Quality**

◆ **Impulse Buying**

# Key Points in Section

- ◆ Background on U.S. Economy
- ◆ Top 10 Ways to Localize
- ◆ Tools for Local Purchasing
  - B-2-C
  - B-2-B
  - B-2-G

# Basic Components

## \$12 Trillion GDP (2004)

Personal Consumption	\$8.2 T
Gross Private Investment	\$1.9 T
Exports	\$1.2 T
Imports	(\$1.8 T)
Federal Expenditures	\$0.8 T
State & Local Expenditure	\$1.4 T

# Basic Components of Personal Expenditures (2004)

Durable Goods	\$993 B
Nondurable Goods	\$2,377 B
Services	\$4,859 B



# Role of Globalization

<b>Component</b>	<b>Personal Expenditure</b>	<b>Imports</b>
Goods	\$3,370 B	\$1,490 B
Services	\$4,859 B	\$ 291 B

# Defining Boundaries of "Local"

## Key Considerations

- ◆ Distance v. Multipliers
- ◆ Tax Jurisdictions
- ◆ Envisioned Initiatives



# Ideal Criteria of Local

- ◆ Local Inputs
- ◆ Local Production
- ◆ Local Sale



# Top 10 Ways to Localize Your Household



# (10) Drink Locally & Stop Smoking (\$800)



## (9) Localize Car Services (\$1,000)



# (8) Give to Local Charity (\$1,200)



## (7) Cut Energy Bill in Half (\$1,300)

◆ Conservation

◆ Biofuels

◆ Muni Utilities





# (6) Buy Fresh Food (\$1,700)

- ◆ 1000+ CSAs
- ◆ Farmers Markets
- ◆ Urban Farming



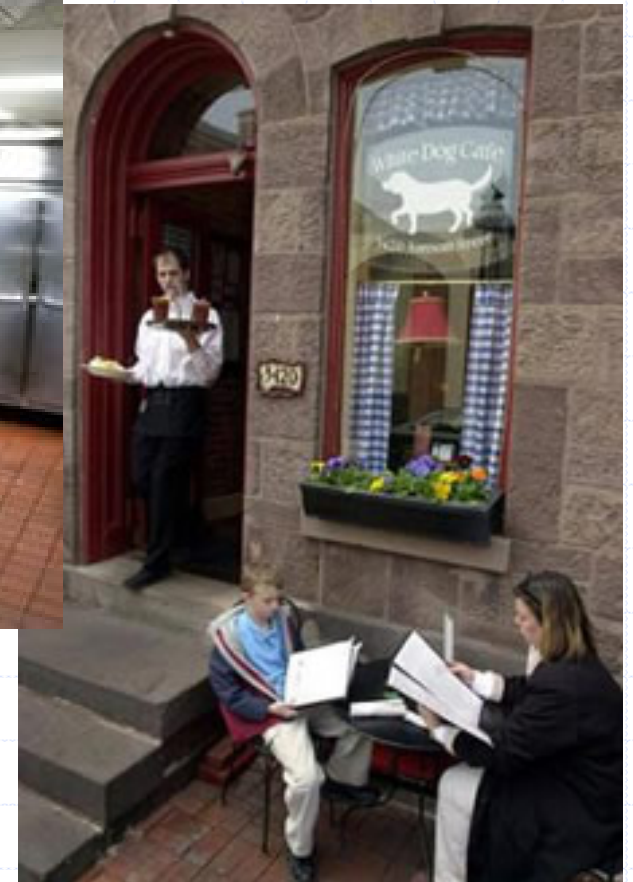
## (5) Use Local Health Care (\$1,900)



## (4) Find Local Entertainment (\$2,100)



# (3) Eat Out Locally (\$2,300)



## (2) Cut Auto Use in Half (\$2,400)



# (1) Own Your Home (\$7,800)



# Tools for Local Purchasing



# Buy-Local Campaigns

◆ “Be A Local Hero”  
Campaign

◆ FoodRoutes Network

◆ “Buy Anapolis Day”



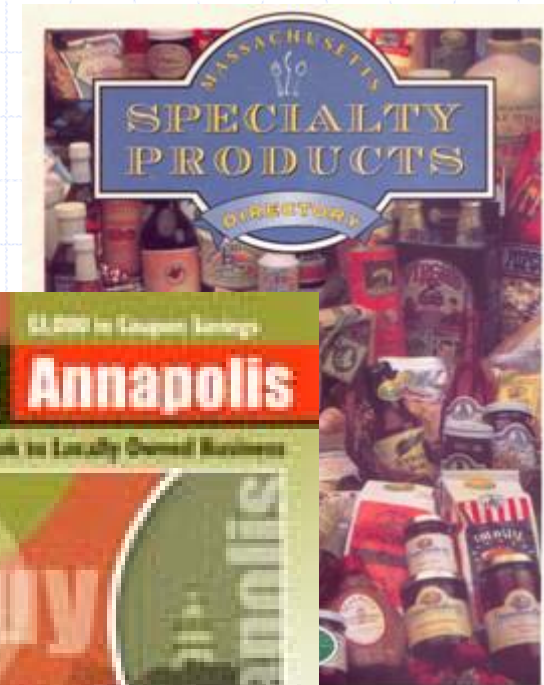


# B-2-C

◆ Product Directories

◆ Store Directories

◆ Labels



# Local Currencies

- ◆ LETS
- ◆ Paper Money
- ◆ Time Dollars
- ◆ Special Cards

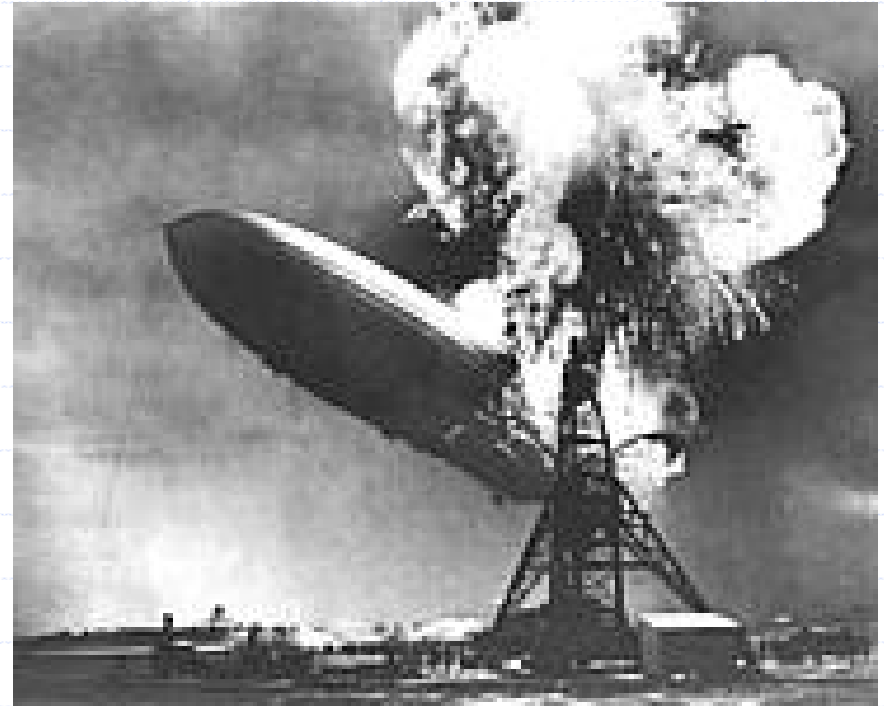


# Cutting-Edge Tools & Challenges

<b>Tool</b>	<b>Challenges</b>
Local Credit Card	Nonlocal Processing Nondiscrimination
Local Debit Card	Link to Particular Bank Nondiscrimination
Local Gift Card	Special Electronics
Interra	All of the Above Local Focus Unclear

# Challenges for C-2-B Tools

- ◆ Too Small
- ◆ Too Funky
- ◆ Not Self-Financing



# Worksphere Buyers Club Card



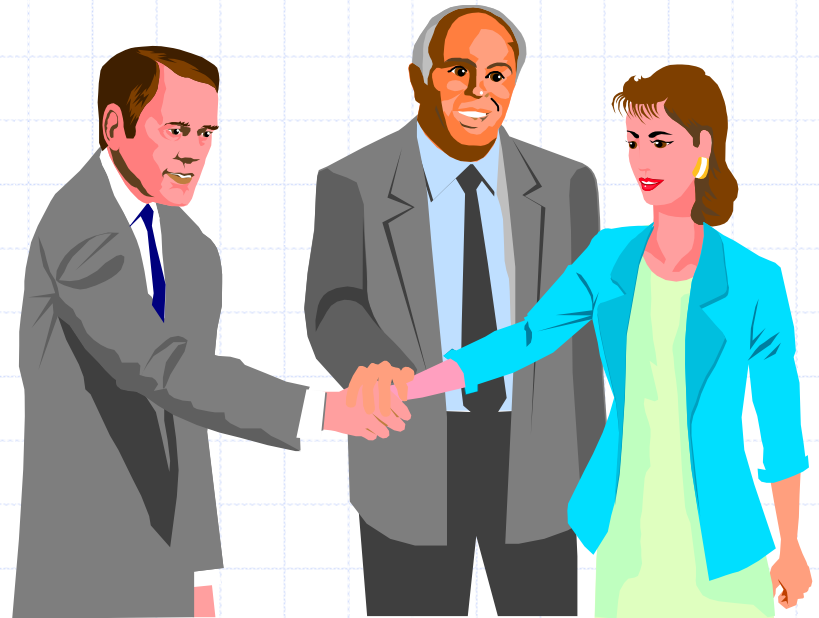
- ◆ Annual Consumer Fee (\$25)
- ◆ Annual Business Fee (\$100)
- ◆ Monthly Newspaper Ads
- ◆ Business Partnerships

# B-2-B

◆ Oregon Marketplace

◆ Economic Circle  
in Switzerland

◆ BALLE/Amiba



# B-2-G

- ◆ Chicago, DC
- ◆ Farm-to-School
- ◆ K Midwives



# What Is Local First?



- ◆ Encourage, Not Require
- ◆ Good, Not Perfect
- ◆ B2C, B2B, & B2G





# Purchasing Hierarchy

- ◆ Don't Buy
- ◆ Buy Local<sup>3</sup>
- ◆ Buy Local
- ◆ Buy Regional
- ◆ Fair Trade
- ◆ The Rest

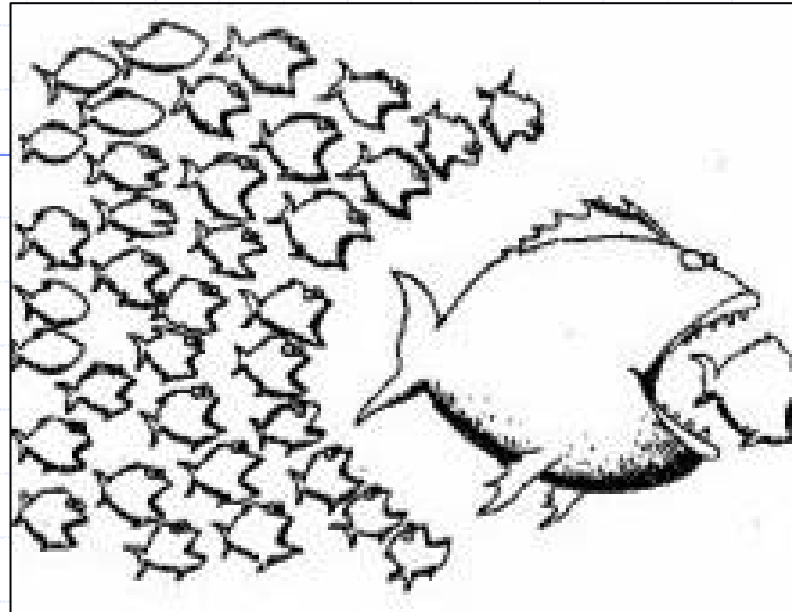


# Questions/Comments



# 3. BALLE

The Role of  
Small Business  
Collaboration



# 4. Local Training

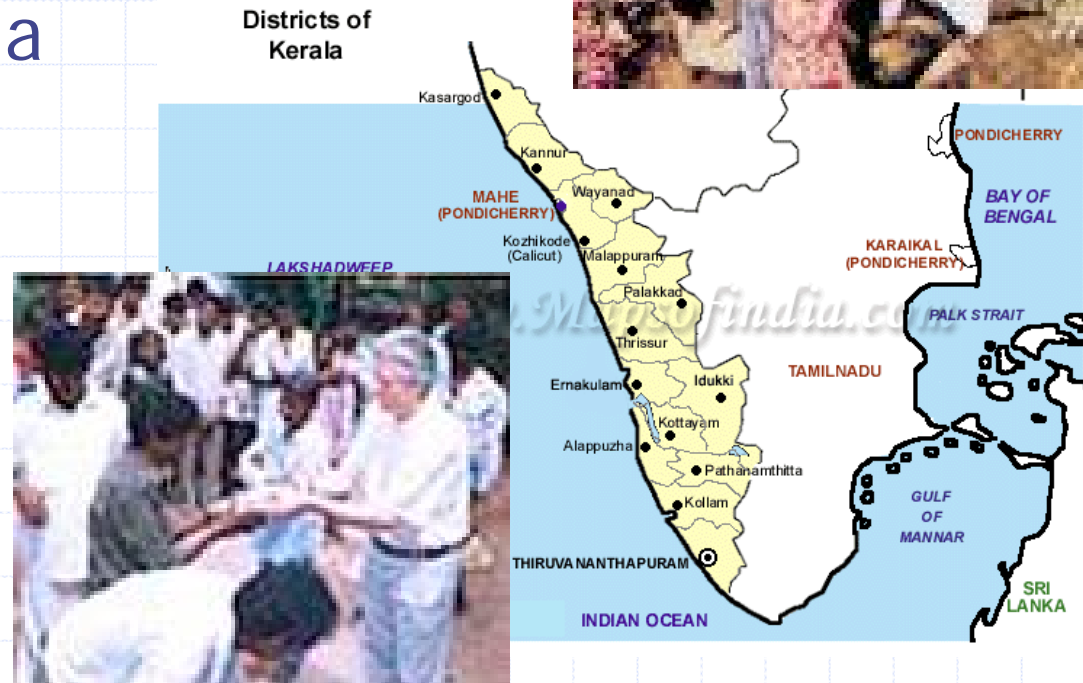
A New Generation  
Of LOIS  
Entrepreneurs



# Expert Inventory

◆ Mentorship

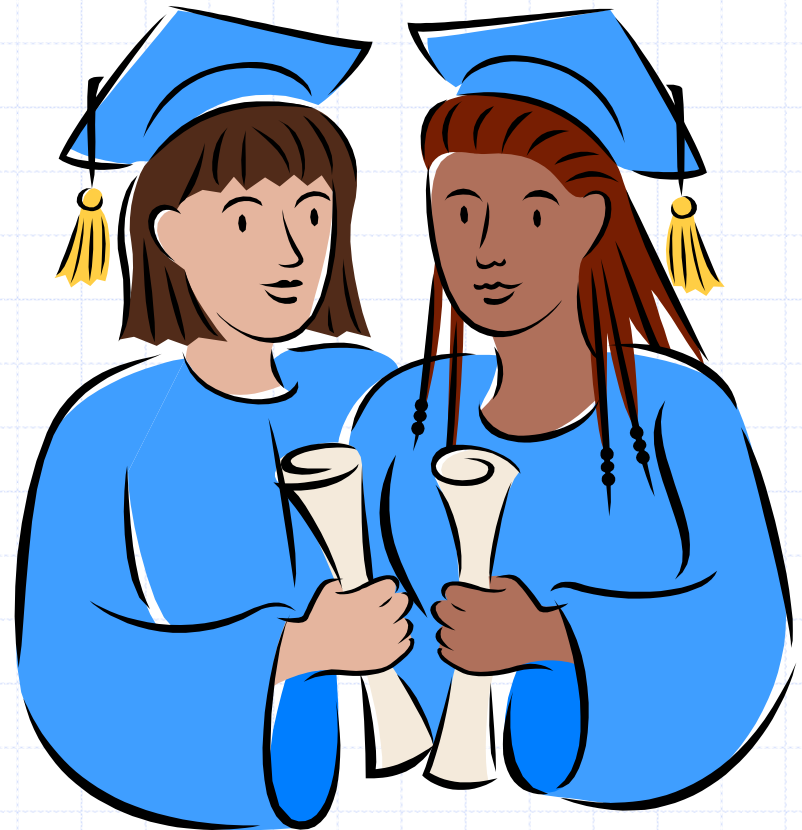
◆ Kerala, India



# Brain Drain Plug

◆ Student Loans

◆ Scholarships



# LOIS Schools

- ◆ Cornell Experiment
- ◆ Mondragon, Spain



# Incubators

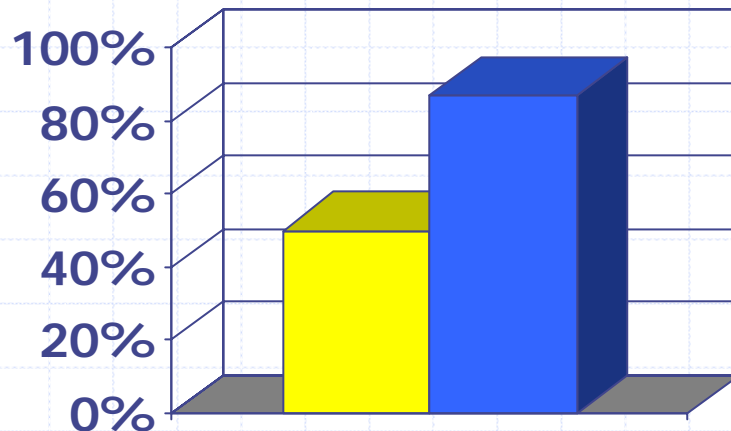
- ◆ Nonprofits
- ◆ Community Kitchens





# The Value of Incubators

## 4 Year Success Rate



■ Startup Buzs  
■ Incubated Buzs

◆ 1,000 Incubators in North America

◆ 19,000 Companies

◆ 245,000 Jobs

# Problems with Incubators

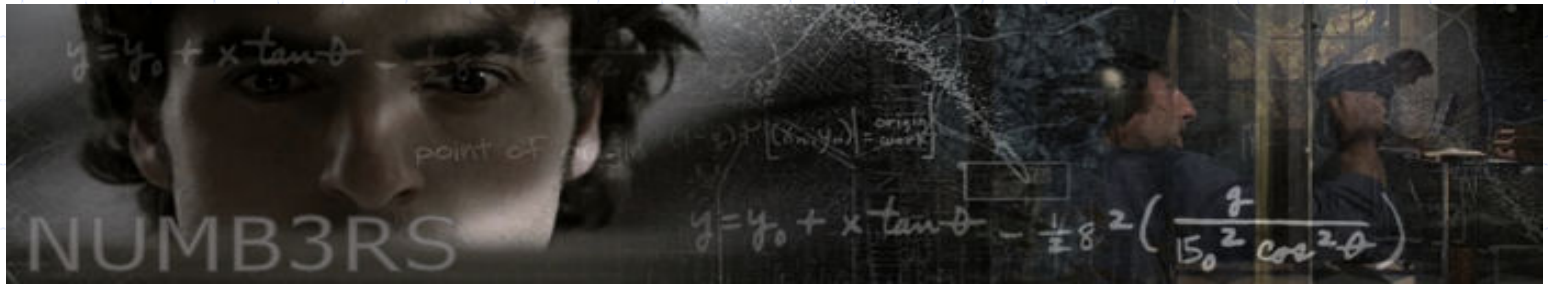
- ◆ TINA Focused
- ◆ Focused on Space & TA (Not \$\$\$)
- ◆ <1% Businesses Assisted  
(Incubators Can Be Expensive)
- ◆ Rarely Take Total Newcomers
- ◆ Rarely Networked

# Features of VenturePower



- ◆ LOIS Focused
- ◆ Provide \$\$\$  
(1 Yr. Salary + \$100k)
- ◆ Spread Incubators
- ◆ Open to Newcomers
- ◆ Learning Communities

# Financial Numb3rs (Over Decade)



- ◆ Startup Investment: \$8 million
- ◆ Businesses Graduated: 312
- ◆ Capital Created: \$187 million
- ◆ Jobs Created: 1,500-3,000
- ◆ Investment Per Business: \$25,000

# 5. Local Investing

Returning Our Savings  
To LOIS Businesses



# Key Points of Section

## **Goal:**

Encourage and help residents and businesses to save and invest locally.

- ◆ Community Banks
- ◆ Community Investment Funds
- ◆ Community Corporations

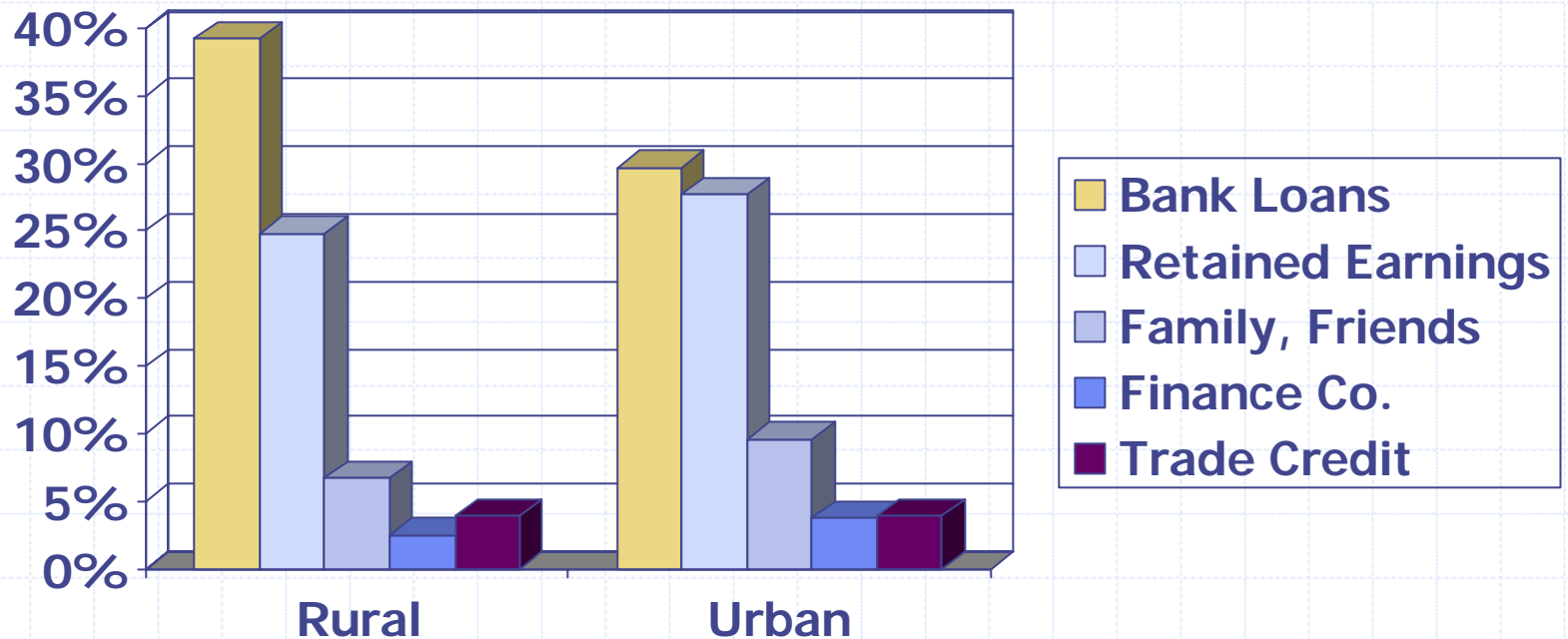
# Importance of Capital

- ◆ Start New Businesses
- ◆ Grow & Improve Existing Businesses
- ◆ Reward Investors for Risk



# Entrepreneurs' Capital Priorities

## Sources of Business Investment in 1995



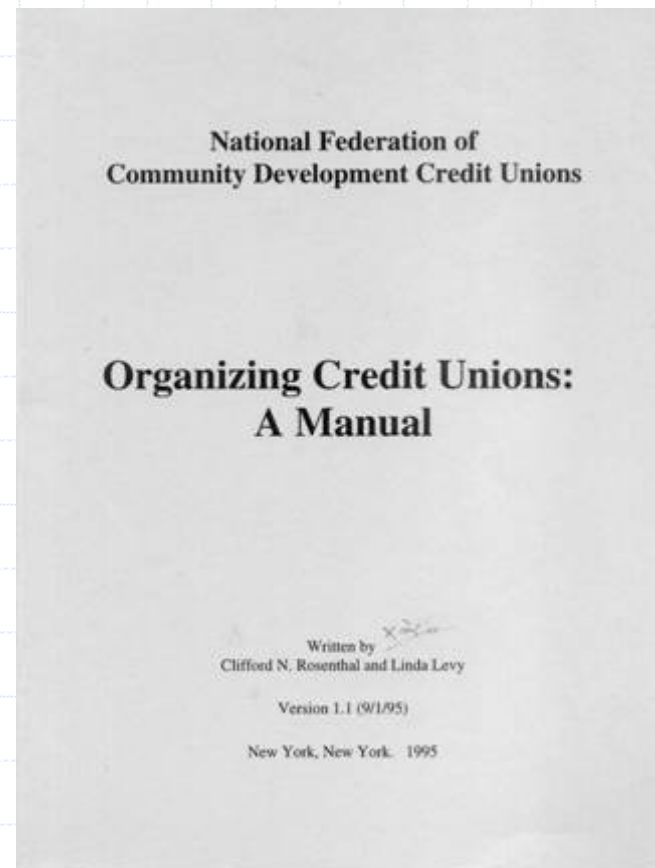


# Community Banks

◆ Credit Unions

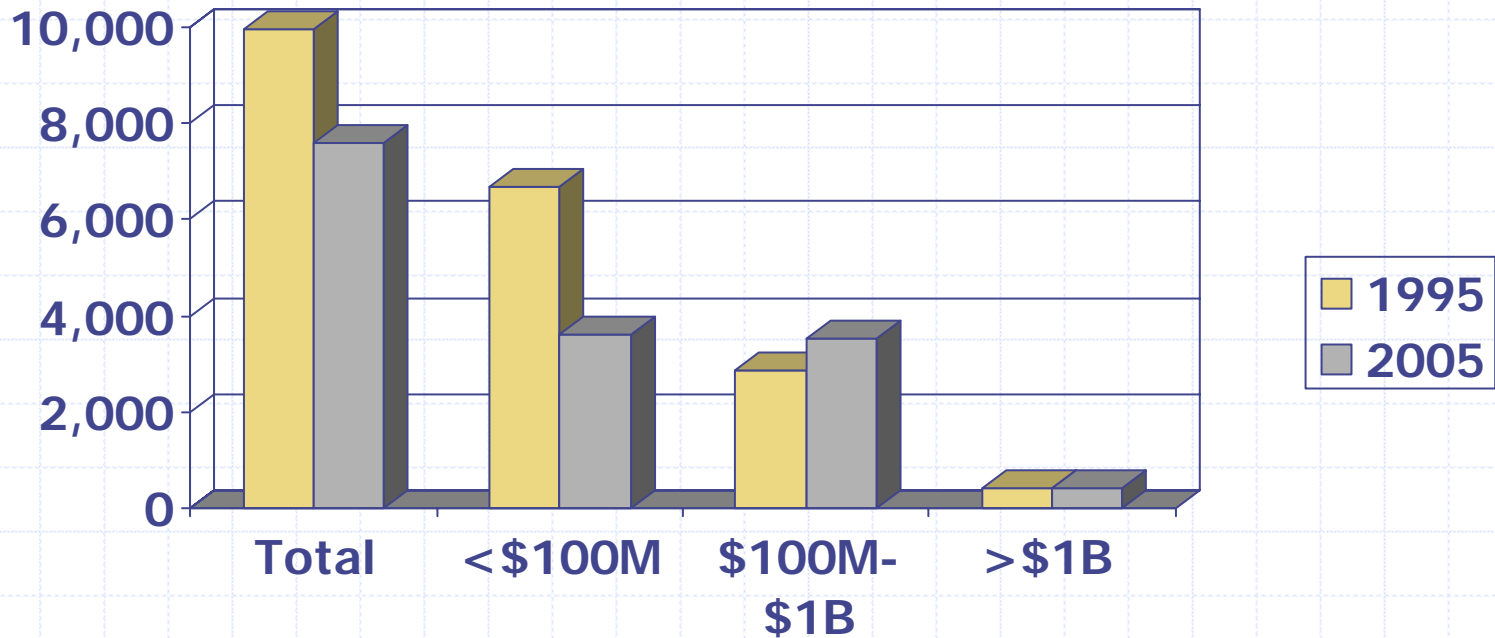
◆ Thrifts

◆ Commercial Banks



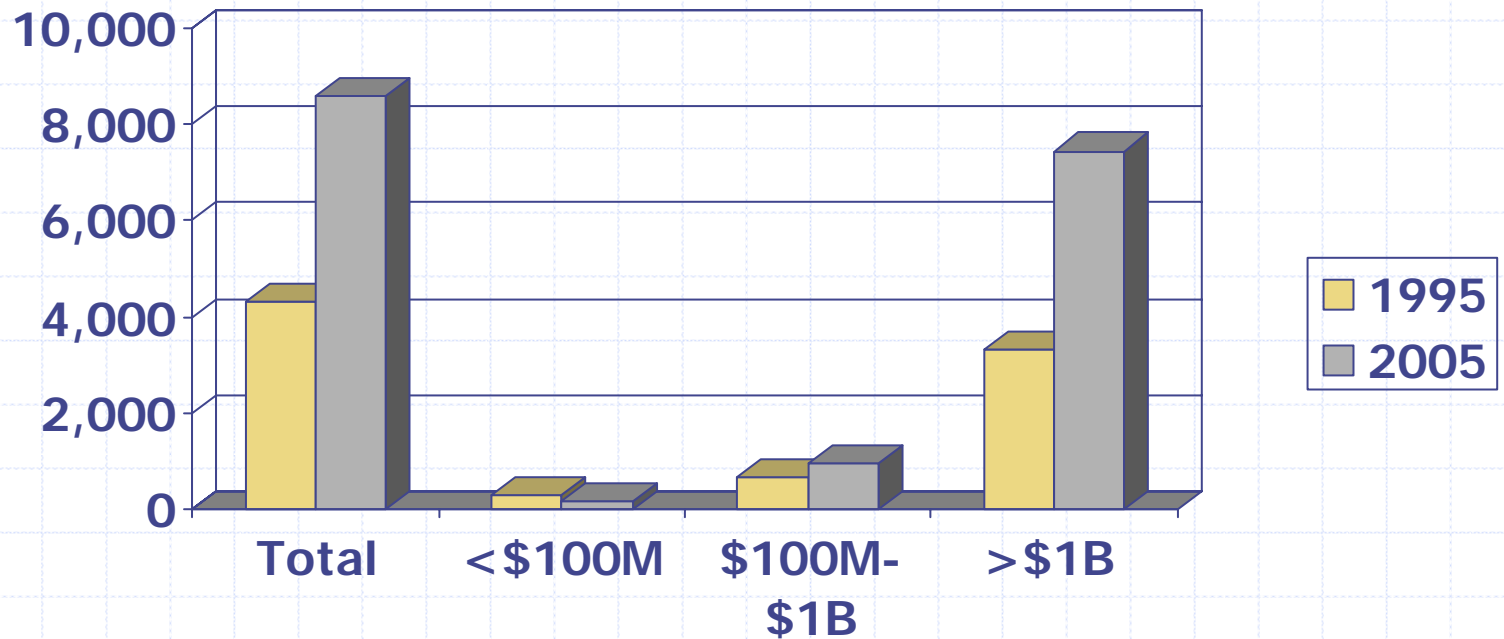
# Disappearing Small Banks

## Changes in Numbers of Banks



# Shrinking Small Bank Assets

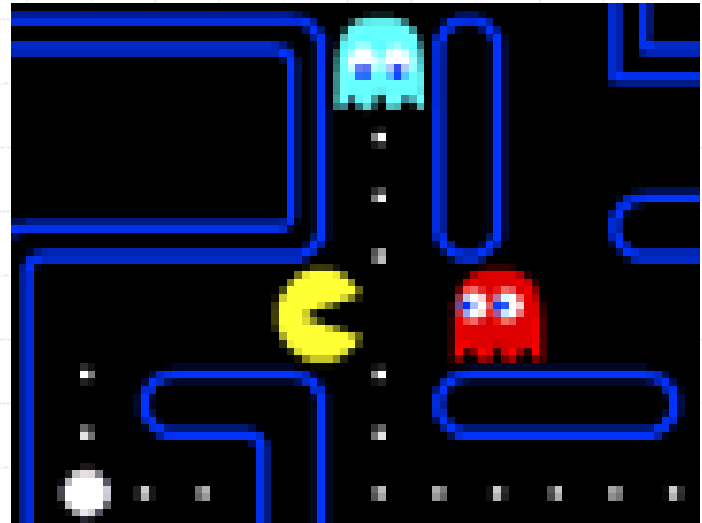
Changes in Bank Assets (\$B)



# Why So Many Mergers?

- ◆ Moral Hazard
  - Acquired firm gets ST stock boost.
  - Acquiring firm management gets salary boost.

◆ 2/3 Are Losers



# Community Reinvestment Act



# How CRA Works

## ◆ Obligations

- Reinvest Locally
- Report Publicly

## ◆ Good Grades Req.

- Mergers
- Moves
- Gain Fed Insurance

## ◆ Results

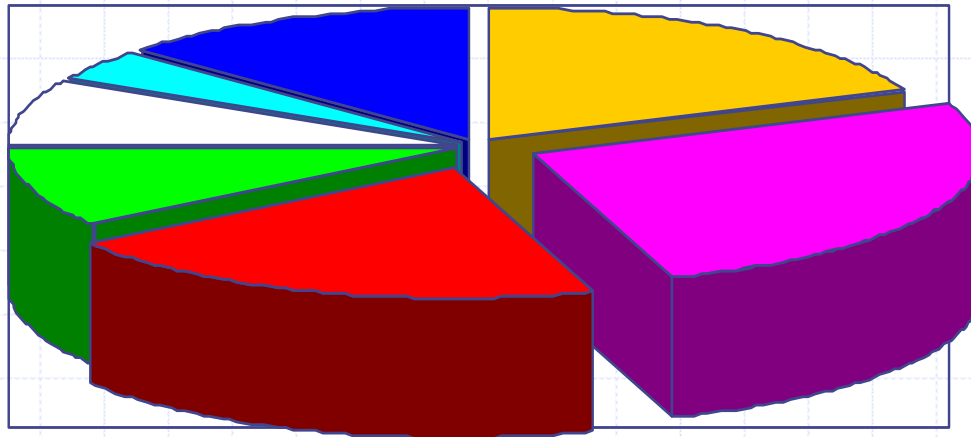
- 360 Agreements
- >\$1 Trillion Loans

## ◆ Limits

- Grade Inflation
- Limited Enforcement
- Weakening

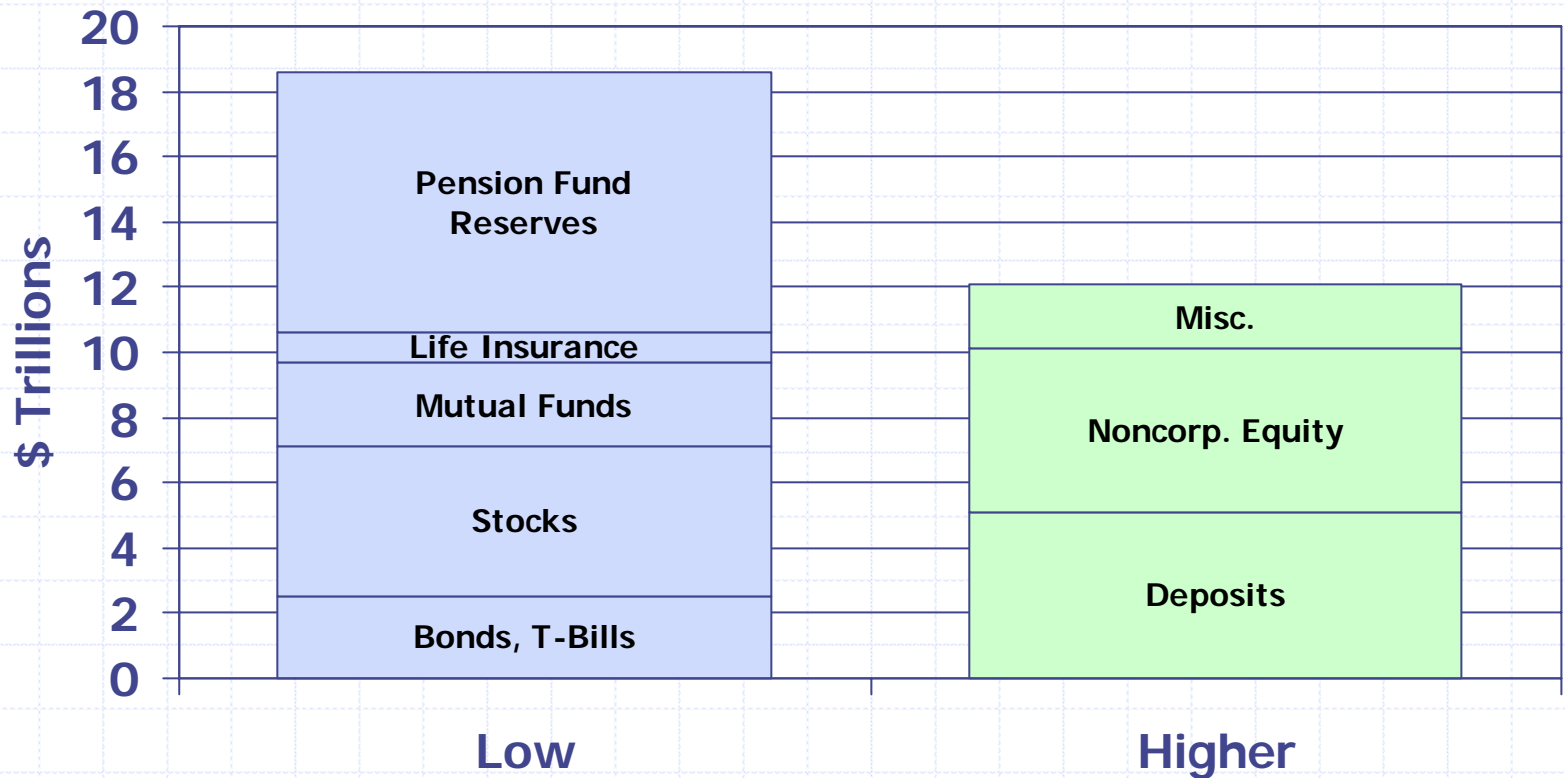
# Limits to Banking

## U.S. Savings



- |                            |            |
|----------------------------|------------|
| ■ Depository Institutions  | ■ Pensions |
| ■ Stocks                   | ■ Bonds    |
| ■ Mutual Funds             | ■ Trusts   |
| ■ Non-Stock Buz Investment |            |

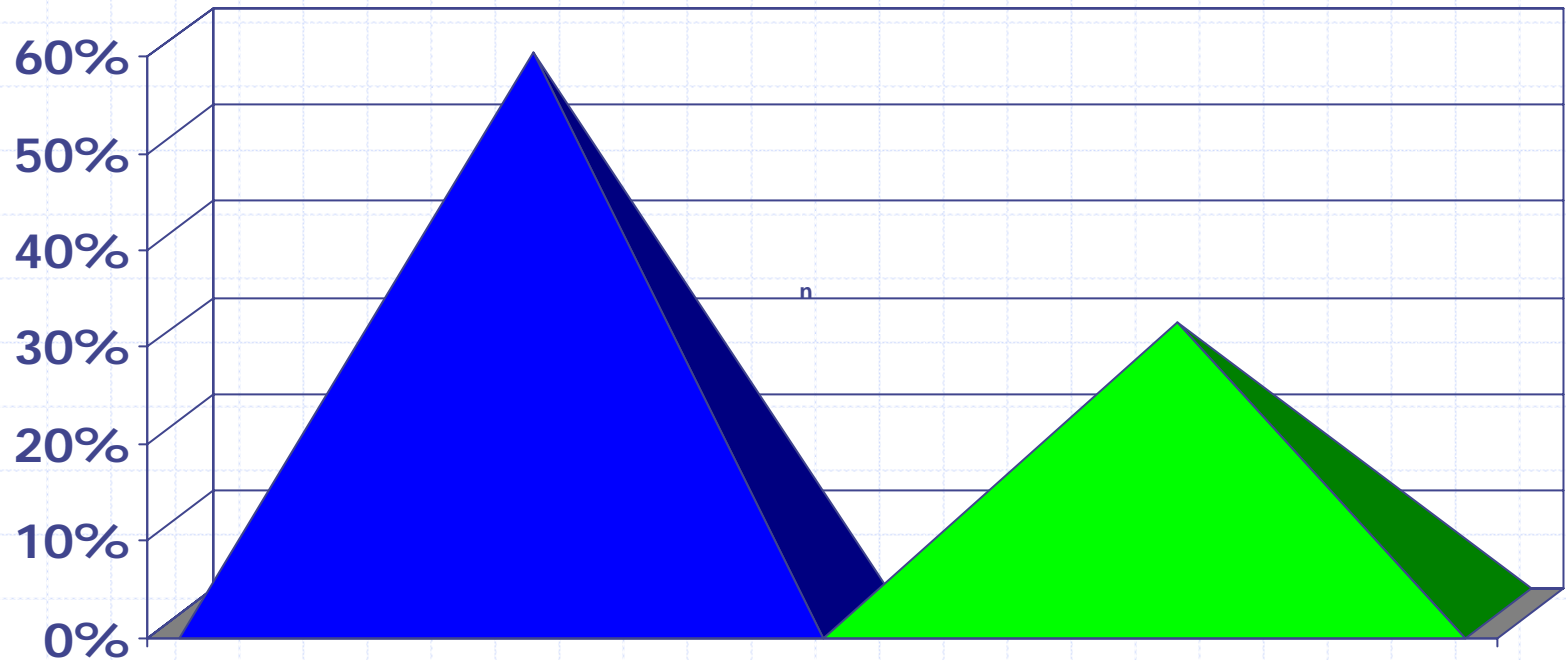
# Localness of Household Financial Assets (\$30 Trillion)





# The Essential Problem

## Wealth Creation v. Investment



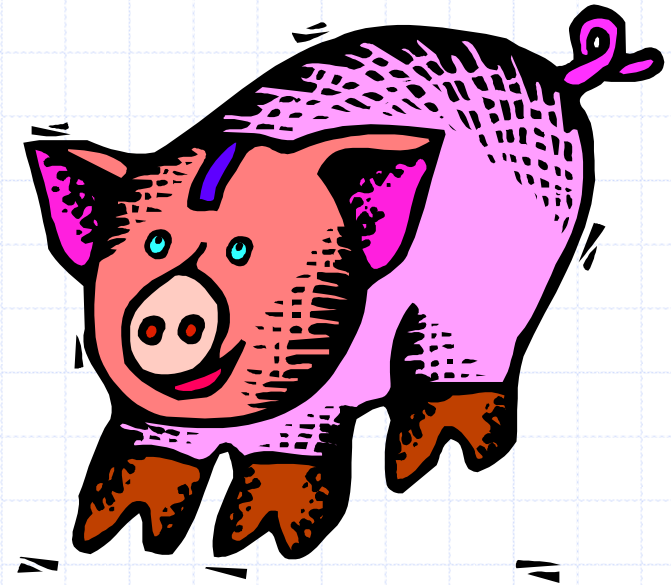
# Why Investors Don't Go Local

- ◆ Few Intermediaries Specializing
- ◆ Doubts about LOIS Profitability
- ◆ Fears of Geographic Concentration
- ◆ Limited Markets for LOIS Securities
- ◆ Limited Information about LOIS Business



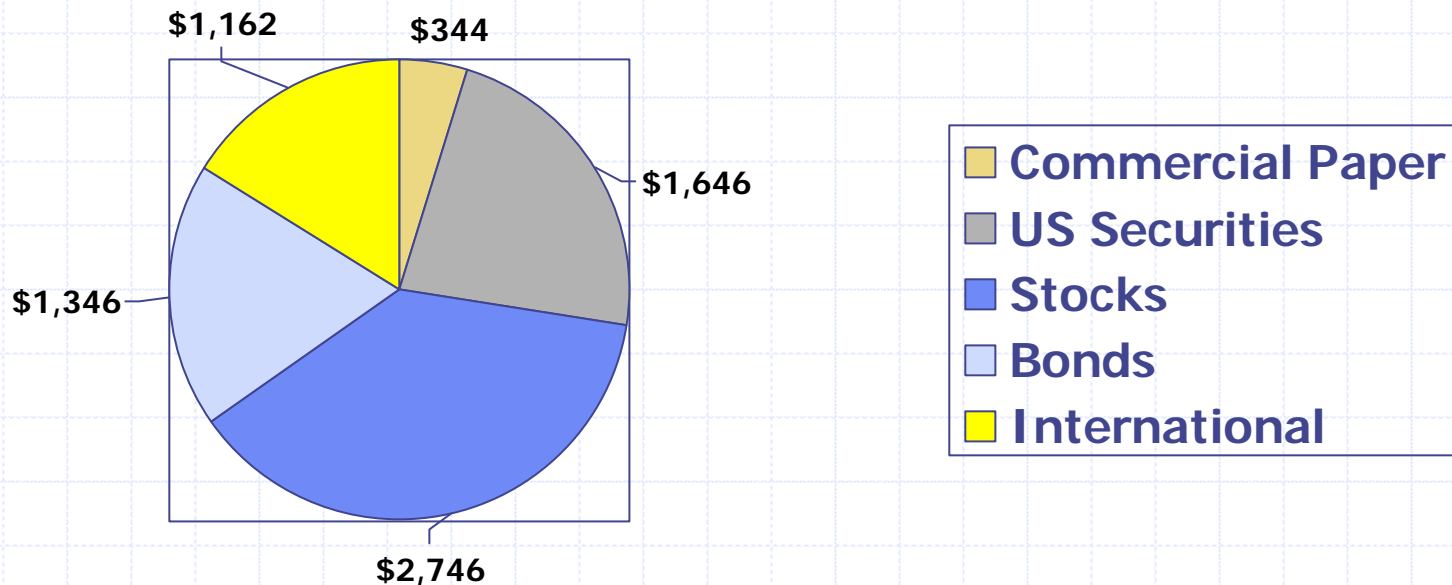
# Why Financial Institutions Resist LOIS

- ◆ Absence of Investor Demand
- ◆ Fiduciary Responsibilities & ERISA
- ◆ Absence of Investment Opportunities



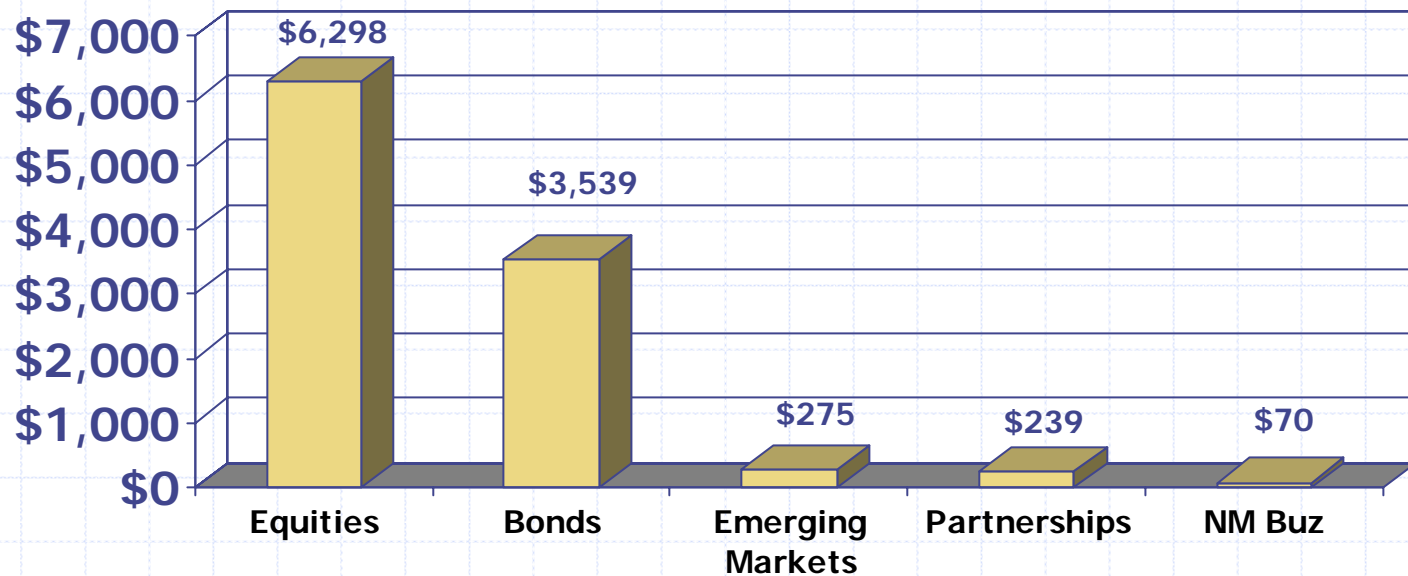
# Anti-Community Bias in Public Pension Funds

NM PERA -- \$Millions (Mid-2002)



# Anti-Community Bias Investment in Public Investment Funds

**\$Millions Invested (mid-2002)  
By NM State Investment Council**



# Solution: Shareholder Localism

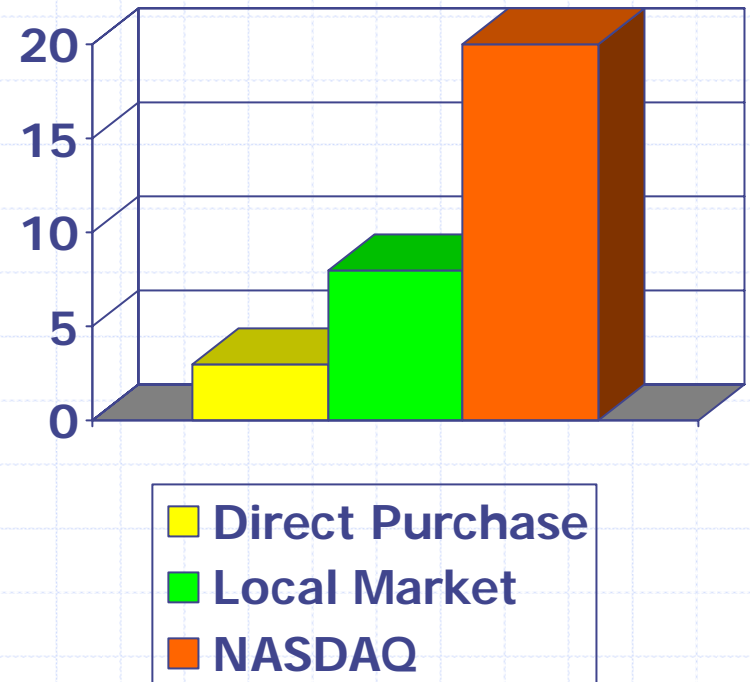
- ◆ Requirement for Localizing Capital
- ◆ Increase Business Accountability



# Solution: Shareholder Localism

- ◆ Requirement for Localizing Capital
- ◆ Increase Business Accountability
- ◆ Increase Value for Entrepreneur
- ◆ Allow Owner Exit

P/E Ratio Scenarios



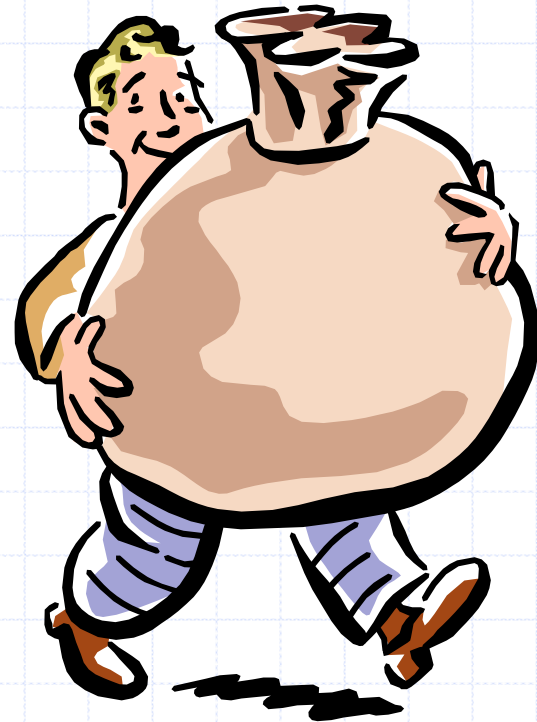
# Won't LOIS Have Lower RoI?

<b>ROI</b>	<b>Typical Institutions</b>
2-5%	Bank CD's
3-4%	Money Markets
3-6%	Public Bonds
3-7%	Corporate Bonds (Last 5 Years)
5.5%	DJI – 1900-2005
-7%, -17%	DJI's 2001 & 2002
???	Venture & Hedge Funds



# What About Risks of Geographic Concentration?

- ◆ Can & Should Focus on Existing, Successful LOIS
- ◆ Ability to Inspect & “Reality Test”
- ◆ Boost When Investors = Consumers
- ◆ High Multipliers in Small Communities
- ◆ Industrial Ecology Opportunities



# Key Social Inventions Needed

- (1) "Public Offering" Templates
- (2) Specialty Underwriters & Brokers
- (3) Specialty Evaluators & Monitors
- (4) Specialty Venture/Hedge Funds
- (5) Specialty Mutual Funds



# Maine Stock Exchange

◆ Virtual

◆ Tobin Tax

Portland in 2010?

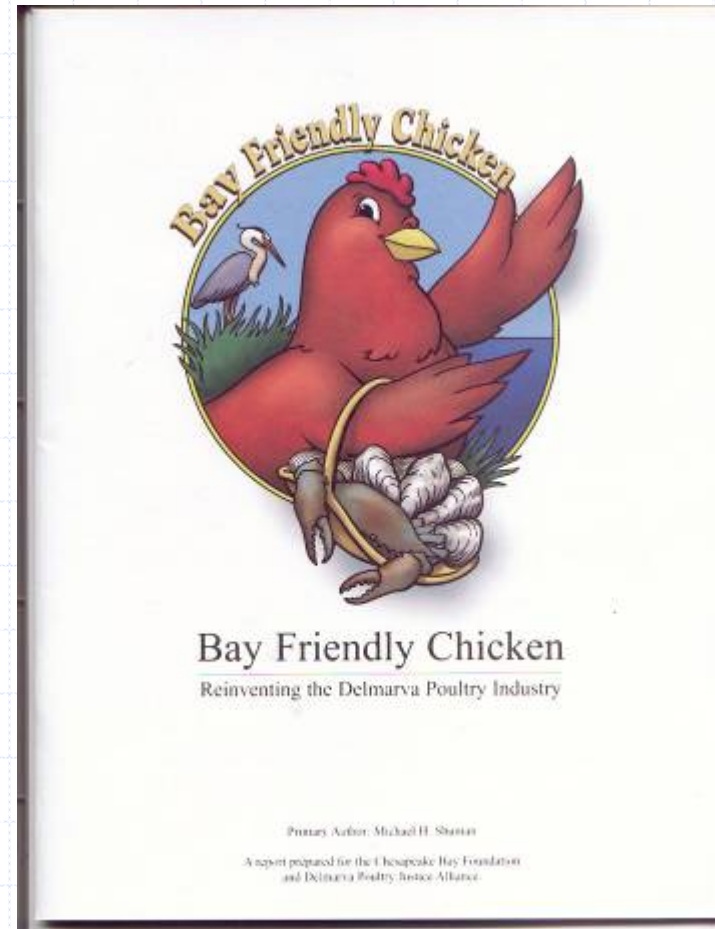


# Other Ways to Capitalize

<b>Type Firm</b>	<b>Capital Opportunities</b>	<b>Local</b>
Private Corp.	Rich Investors	Yes
IPO Corp.	All Investors	No
DPO Corp.	All Investors	Yes
Partners	All Partners	Yes
ESOP	Workers	Yes
Cooperative	Workers, Consumers	Yes
Nonprofit	Philanthropies	Yes
Public Ents.	Government Funds	Yes

# Case EG: Bay Friendly Chicken

- ◆ Natural, Air-Chilled, Certified
- ◆ High Standards
- ◆ Direct Distribution



# Key Challenge: \$1 Million



- ◆ Co-op Difficulties
- ◆ Fallen Angels
- ◆ Venture Capital Trap
- ◆ Direct Public Offering

# "Chicken Stock" Is Good for You

- ◆ Community Base
- ◆ Advertising During Start-up
- ◆ 10,000 Marketers

- ◆ "A" Class
  - = 30 Growers
  - = Voting Control
- ◆ "B" Class
  - = 10,000 Marylanders
  - = Preferred, Nonvoting

# Questions/Comments





# 6. Next Steps?



# Wendell Berry:

“The real work of planet-saving will be small, humble, and humbling, and (insofar as it involves love) pleasing and rewarding. Its jobs will be too many to count, too many to report, too many to be publicly noticed or rewarded, too small to make anyone rich or famous”

# For More Information:

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