Abstract: Places can engage in strategies to secure sustained economic benefit from the creation of new firms and the location of innovative activities. The demise of local banking led to a high concentration of financial resources in the largest cities, with entrepreneurs in many small and medium sized cities struggling to secure loans. Alternatives such as the cooperative banking model, which originated in Italy, and other public banking models are explored as alternatives that keep wealth local. A historical example of North Carolina’s Plan to Raise Capital for Manufacturing, which used private, local stock offering to build textile mills, provides an equity model that could be reinvigorated with newer crowd funding platforms. Equity schemes that promote employee ownership, such as co-operatives and Employee Stock Ownership Plans (ESOPS) are considered. The paper concludes by examining ways of leveraging anchor institutions as well as incentivizing for-profit firms to invest in local communities.
Financing a Future: Investing in Communities and Keeping Profits Local

Regions invest in fostering innovation and entrepreneurship to secure future economic prosperity. Places such as California’s Silicon Valley, Massachusetts’ Route 128, and North Carolina’s Research Triangle Park, have succeeded at creating well-paying jobs that, in turn, produce a solid tax base that support good local schools, and a robust infrastructure. My prior work has contributed to the consensus that the regions in which prosperity flourishes have several common ingredients, including the participation of: entrepreneurs, who invest in building infrastructure as they build their firms; local champions, who believe in a place and make long term investments; benevolent and large anchors, either academic institutions or corporations that build and sustain local resources. Also, critically important to regional prosperity is government that is engaged in making long-term and altruistic investments in the interest of public welfare; and good governance, defined as the democratic process of building consensus to solve a collective problem, which simultaneously creates the social norms and institutions that convey place-specific advantages. Innovative regions link into broader national and international networks, often through multinational firms with a local presence; these connections allow regions to draw on new knowledge and talent. The most critical factor in an innovative region is the temporal process of constructing shared meaning over time: the way local actors build institutions and create social capital during the sequential and dynamic process of creating a successful geographic community in a place.

There are, however, many investments made in innovation and entrepreneurship by local communities that fail to generate wealth, or to yield benefits to their home region. Conventional approaches to economic development promote a model of venture capital investing that is unattainable for most new ventures and will likely yield perverse results if successful. One problem is that the existing new venture funding model favors investment in certain sectors or technologies. Thus, other venture opportunities that are unable to secure financing may never move beyond the project stage, or may remain underfinanced. The result of promoting this venture capital driven model is an under investment in the kinds of diverse firms and technologies that make local regions vibrant. Second, despite the attention it receives, venture capital is not readily available. Kerr et al. (2014) find there are less than 500 active VC firms
investing in startup ventures across the United States in any given year, while Kaplan and Lerner (2010) find that only about 1,000 of the 600,000 new firms that are founded each year receive initial venture capital financing. Finally, the venture capital funding model emphasizes growth and exit rather than patiently building firms for long-term success. Companies that do receive venture capital investments are likely to relocate or are likely to be merged or acquired as the VC firms seek to secure returns on their investment within a limited time horizon. This model is insufficient to anchor local wealth.

The primary question explored in this paper is: how a place can secure sustained economic benefit from the creation of new firms, the growth of existing local enterprises, and the location of innovative activities. There are also equity questions to consider; since places invest current tax revenue into programs to support new firm formation, it is only reasonable to expect that they would reap some of the financial rewards. It is important for us to consider new ways to keep wealth local. At this point, we have ideas about how to generate wealth, yet what is needed now are strategies and alternative funding models to keep this wealth local.

This paper explores keeping wealth local in the following five sections. The first section considers what the research says about the benefits of local ownership. In economics, there is a debate about investments in people versus investments in places. Section 2 considers the demise of local banking, both in the U.S. and internationally, which has led to a high concentration of financial resources in the largest cities, with entrepreneurs and local businesses in many small and medium sized cities and rural areas struggling to secure loans. Section 2 also considers the cooperative banking model, which originated in Italy, and other public banking models as alternatives to help keep wealth local. This second section examines the Slow Money movement, which has been used primarily to finance Slow Food, and considers it as a vehicle for financing other enterprises. Section 3 considers alternative equity financing models that can help keep wealth local. The historical example of North Carolina’s Plan to Raise Capital for Manufacturing, which used private, local stock offering to build textile mills, provides a model that could be reinvigorated with newer crowd-funding platforms. Equity schemes that promote employee ownership, such as co-operatives and Employee Stock Ownership Plans (ESOPS), are then compared and contrasted with current start-up firm practices of offering equity to employees. Section 4 considers ways of leveraging anchor institutions to keep wealth local by
engaging both non-profits, such as academic institutions and hospitals, as well as incentivizing for-profit firms to invest in local communities.

Section 1: The Benefits of Local Ownership

There are many organizations that advocate for local businesses and promote local ownership. The Institute for Local Self Reliance advocates: preserving opportunities for residents to start small businesses, favoring smaller local businesses that preserve downtown areas in neighborhood business districts, strengthening local economies by spending more revenue locally, encouraging innovation and variety, and ensuring the longer-term stability of local economies (Institute for Local Self Reliance, 2017).

The problems associated with nonlocal control of economic activity have been recognized for a long time. Morgan (1953: 161) argues that “with local plants of decentralized big business policy is usually made at a distance and the local community tend to become the ward of it destiny makers… In the evolution of big company policy, a local plant maybe abandoned or moved, leaving the community without an economic base. If a plant is owned in the community the chance is greater that local interest will have consideration.” Williamson (1993: 105) offers a specific reason, noting that outside owners of the business contemplating a plant closing will undervalue the firm specific capital of the existing workforce.

On the other hand, large multi-establishment firms, because of their flexibility and their ability to attract better managers and more finance, may be less prone to cyclical or secular downturns which would make their establishments more stable than locally owned establishments. Bernard and Jensen (2007) find that single unit manufacturing plants are more likely to close than are plants in multiunit firms; however, once they take into consideration plant and industry characteristics (such as age, size, capital intensity, and total factor productivity), the relationship is reversed with single unit establishments being less likely to close. Other studies do not find benefits from nonlocal plants. Caves and Porter (1976) find that the ability of management to find new placement for employees that have been displaced from a closed establishment elsewhere, makes the establishment of multiunit firms more susceptible to closing. Howland (1988) finds that branch plants and subsidiary operations are more likely to close than independent firms. The exception was the location of the multi-establishment firms’ headquarters, which had benefits similar to those of independent local firms.
There is some empirical evidence on the impact of local ownership on economic outcomes. Kolko and Newmark (2010) find that local ownership insulates regions from economic shocks, with the clearest benefits coming from corporate headquarters and from small, locally-owned franchises. Tolbert (2005: 1311) offers a rationale for these effects: "locally oriented businesses have stakes in the local labor market, the local economy, the local infrastructure and usually the local product market. As the community goes, so goes these entities. Persons owning, managing and working in these establishments rarely employ a multinational or corporate perspective. To lay off workers in slack times, for example, would mean taking jobs from relatives, friends, and neighbors.” Most importantly, Dunn & Holtz-Eakin (2000) find that self-employment is associated with upward mobility for low income individuals. Rupasingha (2017) provides evidence of a significant and positive association of smaller local businesses with local economic performance. Dahl and Sorenson (2012), using Danish registry data, find that start-ups located in regions in which their founders have lived longer perform better, survive longer, and generate higher annual profits and cash flows.

Sociologists have identified local ownership as a key factor in a community's long-term economic viability and resilience against shocks (Varghese, Krogman, Beckley, & Nadeau, 2006). Tolbert (2005) argues that locally based businesses along with civic organizations, associations, and churches have a positive impact on a community’s quality of life, and that these entities have a strong capacity for local problem-solving. Certainly, there is more empirical work to be done, especially in considering the different types of organizations that flourish in local areas. Yet still, there is evidence that can help guide policy and decision-making.

The Green Bay Example

Consider the perverse case of the Green Bay Packers—a major American football team that competes in the National Football League (NFL), as a practical example. This is a prestigious football league with teams located in all major American cities. Green Bay, Wisconsin is an outlier, as it is a significantly smaller city than most cities represented in the league. This raises the question of how the City of Green Bay was able to secure a NFL team.
The Packers have been owned by a community-based corporation since 1923, it is the only fan-owned team in any of North America's four major professional sports leagues.\(^1\) The Green Bay Packers have played in their original city longer than any other team in the NFL, despite being the smallest market in all of North America’s professional sports. Presently, 112,015 people (representing 4,750,934 shares) lay claim to an ownership interest in the Green Bay Packers (Pope, 2011). Shares of stock come with voting rights, but no dividends are ever paid, the stock cannot appreciate in value, and there are no season ticket privileges associated with stock ownership. No shareholder is allowed to own more than 200 shares, a safeguard to ensure that no one individual is able to assume control of the club (ibid). The rewards are civic pride and the fact that each home game brings millions of dollars into the local Green Bay economy. One fan noted, “If we didn’t have the Green Bay Packers we would be nothing more than a Fond Du Lac,” (Kientop, 2014).

City Ordinances that Support Local Businesses

There are, in general, many barriers to local ownership. For example, consumer preferences for lower priced national chain stores and restaurants have diminished the demand for local retail and mom-and-pop restaurants. In response, some cities have passed ordinances that regulate the spread of formula businesses (which are essentially national chain stores), specifically, retail and dining establishments. Such ordinances can bar establishments from certain locations, and require notification of neighborhood residents if businesses plan to open near them. The San Francisco ordinance explicitly states that, "San Francisco needs to protect its vibrant small business sector and to create a supportive environment for new small business innovation”. Similar laws have been adopted in smaller tourist destination cities, such as Sanibel Florida or Bristol Rhode Island. There is currently little systematic information about these ordinances, as they are local and very specific. Yet even with local preference ordinances in place, the most pressing need for local business is access to capital. The next section considers that status of local financial institutions.

Section 2: The Demise of local banking and modern substitutes for keeping wealth local

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\(^1\) Interestingly, since 1960, the NFL has banned a community ownership structure. The Packers ownership agreement was allowed. Additional attempts to secure community ownership have not been allowed.
Perhaps the biggest constraint to increased local financing is the loss of community banks, which accelerated in the U.S. after the 2008 recession. One study found that the number of U.S. community banks, defined as those with less than $50 million in assets, decreased by 41% between 2007 and 2013 (McCord et al, 2015). During these same years, the number of commercial banks dropped by 14%, a trend that is driven by the sharp decrease in new bank entry, which averaged 100 per year from 1990-2010, to just three per year since 2010 (ibid). Given that most new banks start small, this decline in new bank entry seems to disproportionately impact community banks. Another 2015 study, which defines community banks as those with less than $10 billion in assets, found that community banks “withstood the financial crisis of 2008-09 with sizeable but not major losses in market share – shedding 6 percent of their share of U.S. banking assets between the second quarter of 2006 and mid-2010. But since the second quarter of 2010, around the time of the Dodd-Frank Wall Street Reform and Consumer Protection Act’s passage, we found community banks’ share of assets has shrunk drastically – over 12 percent,” (Lux & Greene, 2015).

One paper explores the long term impact of bank distress on entrepreneurship. Using a longitudinal dataset that covers 110 years, Babina and Berger (2017) examined the impact of regional bank distress during the Great Depression on present-day entrepreneurship in those same counties. The study found that entrepreneurship rates between 1930 and 2010 were 9% lower in those counties that experienced high bank distress, a trend which is disturbing given the current decrease in community banks across the United States.

Bank mergers are motivated by a desire to achieve greater economies of scale and improve efficiencies (Kowalik et al, 2015); the acquired banks tend to be smaller, with lower returns on assets, lower net interest income, and higher non-interest expenses than non-acquired banks. As a result, there has been a consolidation in banking: the four biggest banks in the U.S. (JPMorgan Chase, Bank of America, Citigroup and Wells Fargo) control a combined $8.5 trillion in assets, this is nearly $4 trillion more than the combined total of the next 100 biggest banks and thrifts (Badenhausen, 2017). Evidence calls into question the rationale of improved performance. Since 2008, Forbes has ranked banks based on 10 metrics related to growth, profitability, capital adequacy and asset quality. All data is based on regulatory filings, and metrics including: return on average tangible equity, return on average assets, net interest margin, efficiency ratio, net charge-offs as a percent of total loans, 12-month operating revenue growth, nonperforming assets
as a percent of total assets, and risk-based capital ratio and reserves as a percent of nonperforming assets.

The ten highest ranked banks in 2017 had a decided regional and local orientation. For example, CVB Financial, ranked first, was started in August of 1974, by a dairy farmer, George A. Borba Sr., and a group of local business leaders, family members, and friends. Their website states that they, “cared deeply about their community and had a clear vision of how they wanted to impact the community: helping business owners discover, build upon, and enhance the value of their companies.” None of the Big Four make the top 50 of America’s Best Banks due to weak revenue growth and high levels of net charge-offs as a percent of loans: JPMorgan Chase ranked 57; Wells Fargo ranked 63; Citigroup ranked 72; and Bank of American ranked 97.

**Credit Unions**

An alternative to banks that have a decided local orientation are credit unions, which are cooperative financial institutions owned by their members that provide services only to their members, charging lower interest rates and service fees on loans. Credit unions operate as nonprofits. Any surplus generated by credit unions’ operations are either reinvested in operations or returned to members in the form of dividends or rebates. Credit unions originated in Germany in the mid-19th century to provide financial services to artisans and farmers (MacPherson, 2012). Credit unions operate in 101 countries, representing more than 200 million members, and controlling over $1.7 trillion in assets (World Council of Credit Unions, 2016).

**Public Banks**

There are also examples of state-owned banks that have a decided local focus. In 1836, the U.S. Congress did not renew the charter for the Second Bank of the United States, which created an opportunity for states to start their own banks. Alabama, Kentucky, Illinois, Vermont, Georgia, Tennessee and South Carolina all created banks that were completely owned by their state governments. Missouri, Indiana, and Virginia had banks with the State holding a majority interest, and a number of other states created banks with the State owning a minority interest.

Only the Bank of North Dakota (BND) survived and offers an illustrative example. During the early 1900s, North Dakota’s economy was based on agriculture, specifically wheat. An arduous growing season was further complicated by: grain dealers outside the state who
suppressed grain prices, farm suppliers who increased their prices, and banks in Minneapolis and Chicago which controlled interest rates on farm loans. North Dakotans were frustrated, and attempts to legislate fairer national business practices failed. A colorful local politician, A.C. Townley, organized a new political party, the Non-Partisan League, with the intent of protecting the social and economic position of farmers. The Non-Partisan League gained: control of the Governor’s office, majority control of the House of Representatives, and one-third of the seats in the Senate in 1918. Their platform included state ownership and control of marketing and credit agencies. In 1919, the state legislature established Bank of North Dakota (BND) and the North Dakota Mill and Elevator Association. BND opened on July 28, 1919 with $2 million of capital. Between 1996 and 2008, the Bank of North Dakota returned $340 million in profits to the state general revenue fund (Bank of North Dakota, 2010). This success has not gone unnoticed. In the aftermath of the Great Recession, between 2010 and 2012, activists and legislators introduced public bank legislation, of one form or another, in 20 states (Public Banking Institute, 2012). Also, a number of cities are considering creating their own public banks, including: Allentown, Philadelphia, Pittsburgh, Reading, San Francisco, Santa Fe, Seattle, and Tacoma (Public Banking Institute, 2014).

Further precedents for public banking range from Small Business Administration loans to the activities of the U.S.-dominated World Bank. In fact, the federal government already operates 140 banks and quasi-banks that provide loans and loan guarantees for an extraordinary range of domestic and international economic activities (Pollin, 2009). Through its various farm, housing, electricity, cooperative and other loans, the U.S. Department of Agriculture alone operates the equivalent of the seventh largest bank in America (Childes, 2009). In spring of 2012, under pressure from American business, Congress reauthorized the Export-Import Bank to support U.S. trading interests (Runnigen, 2012).

Community Development Initiatives

Changing the nature of financial institutions and banks by democratizing them would afford them a greater ability to use a triple bottom line, investing in projects that are beneficial to actual communities. The response to this has happened iteratively over the past 40 years starting in 1977 when the Community Reinvestment Act (CRA) was passed in an effort to support greater investment into economically distressed communities. In 1991, the U.S. Congress
introduced the Bank Enterprise Act which had a far more strict definition of “distressed” communities than the 1977 CRA. The Bank Enterprise Act was introduced because it was, “believed that the CRA was not effectively reaching deeply distressed places,” (Bennett et al, 2017). In 1994 the Bank Enterprise Act reemerged in the form of the Riegle Community Development and Regulatory Improvement Act. The Riegle Act of 1994 was successfully passed, and included the establishment of the U.S. Community Development Financial Institutions (CDFI) Fund and the Bank Enterprise Award program.

The CDFI Fund’s purpose is to promote economic revitalization and community development in low income, inner city and rural communities through investment and technical assistance. There are 1,000 CDFIs operating nationwide. They are a collaborative force that brings together diverse private and public sector investors to create economic opportunity in low-income communities. CDFIs continue to grow in size and impact, and continue to support community transformation. The CDFI Fund commissioned a 2017 study of the Bank Enterprise Award (BEA) Program, which works to “increase the dollar amount of investments in the most economically distressed communities in the nation,” (CDFI Fund, 2014). This study found that banks participating in the BEA program focused their lending and services on more highly distressed communities than is required by the Community Reinvestment Act (Bennett et al, 2017). Between 1994 and 2015, the BEA Program awarded approximately $429 million in grants to FDIC-insured depository institutions, with impacts that break down as follows: a $112.8 million increase in loans, deposits, and technical assistance to CDFIs; a $340.2 million increase in loans and investments into distressed communities; and a $7.6 million increase in the provision of financial services in distressed communities (CDFI Fund, 2016). These targeted investments contribute to community revitalization in the parts of our country that need it most.

The Small Business Development Center (SBDC) is another institution that provides assistance to small businesses and aspiring entrepreneurs throughout the United States and its territories. There are 900 SBDCs, which are hosted by universities, colleges, and state economic development agencies, and funded in part by the United States Congress through a partnership with the U.S. Small Business Administration. As an example, the Pure Michigan Microloan Initiative was created as a collaboration with the state of Michigan’s Economic Development Corporation, Huntington Bank (a regional bank), and two non-profits (the Grand Rapids Opportunities for Women, or GROW, and LINC Community Revitalization Inc.) in partnership
with the SBDC. Micro-lending is defined as the extension of credit to small businesses that typically employ five or fewer individuals—with loans ranging from $1,000 to $250,000. Microloans increase access to capital that traditional loans may not offer due to: the small size of the loans, a limited operating history, and the lack of traditional collateral. The program has a delineated geography and the loans may be used for purchasing inventory, working capital, startup costs, purchase of equipment, leasehold improvements directly related to the growth of the business, loan subordination, business acquisition and/or contract financing.

Modern Initiatives for Keeping Funds Local

There are new digital platforms and initiatives that have the potential to keep more funds local. Some—such as blockchain, and cryptocurrencies—are rapidly evolving and their direct effects are uncertain. Online crowdfunding, via platforms like Kickstarter, has become more popular in recent years. Sorenson et al. (2016) revealed that crowdfunding has funded innovators in U.S. counties generally ignored by VCs.

Slow money, started in 2008, is a social movement that represents an alternative financing model that typically supports sustainable agriculture. Slow money works to “Catalyze the flow of capital to local food systems, connecting investors to the places where they live and promoting new principles of fiduciary responsibility that ‘bring money back down to earth,’” (Slow Money, 2017). This movement works to create economic opportunity while respecting, protecting, and promoting fertility of soil. The movement is guided by six principles, one of which emphasizes the, “new generation of entrepreneurs, consumers and investors who are showing the way from Making A Killing to Making a Living,” (Slow Money, 2017). In North Carolina, the Slow Money movement is led by Carol Hewitt who often acts as a matchmaker, identifying people who need loans and people who would like to give loans, then introducing them to one another. In addition to making introductions, the organization offers sample paperwork and technical assistance to the interested parties that typically make loans for $5000 or less, at an interest rate of 2-3 percent (Maguire, 2017). As of 2017, $57 million has been invested into over 625 small food enterprises in the U.S. (Slow Money, 2017). The Bluemoon Fund, of Charlottesville Virginia, provided seed support for the Slow Money Alliance which now has 55 chapters nationwide. Inspired by Schumacher’s (1973) book “Small is Beautiful,” the idea is to move away from always increasing growth to valuing local communities over
Though this movement has thus far focused on food and agriculture, its guiding principles could be applied to financing small businesses that have a local, community focus. Certainly, this is a fruitful area for both new organizations and further research.

**Section 3 Equity financing models that keep wealth local**

Crowdfunding, or the ability to raise funds from a diffuse number of investors, is considered a recent innovation; yet, an earlier form of community capital aggregation to finance entrepreneurial ventures was critical to the industrialization of the North Carolina economy in the late 19th century. Over the course of two decades, between 1880 and 1900, a largely "home grown" entrepreneurial movement established the textile, tobacco, and furniture industrial base that sustained the state for a century. The destruction caused by the Civil War, and the abolition of slave property (which had been the region’s principal form of capital), caused the postbellum South to become the poorest region in the nation, with per capita income levels at half the rate of the national average (Ransom & Sutch, 2001). While in the Northeast (and eventually the Midwest) large blocks of investment capital were available to entrepreneurs who had the right social and professional links, there was a scarcity of available capital in the South (Carlton & Coclanis, 1989). Thus, Southern entrepreneurs had to pool together small investments from individuals in their local region, and take on a corporate organizational forms in order to fund their ventures. One such example is the Trenton Cotton Mill based in Gastonia, NC which was entirely funded by eight local incorporators—two merchants, a banker, a physician, a farmer, a hotel keeper and a mill man—at contribution sizes ranging from one to five thousand dollars (ibid). This trend of being funded with small investments from mostly local investors is consistent across firms started in the cotton and furniture industries in the South in the end of the 19th century. The pervasive nature of the phenomenon also instituted a dispersed economic geography that still affects state-level policy and politics.

Worker-owned cooperatives are business enterprises that are owned and governed by their employees. All worker cooperatives have two common characteristics: 1) member-owners own and invest in the business together, and share the enterprise’s profits, and 2) decision-making is democratic, with each member having one vote. Currently, there are over 300 worker-owned cooperatives in the U.S., operating in a diverse range of industries. While the majority are small businesses, with fewer than 50 workers, there are also notable larger enterprises.
Quilted is a worker-owned, coop company that provides strategic consulting, graphic design, web development, game design and development services. They define their target market as progressive arts, education, and non-profit organizations. Their objective is, “We take on work that challenges us to be more critical and insightful designers, engineers, and thinkers while remaining pragmatic and focused on adding real social value to our projects,” (Quilted website, 2017). The biggest challenge co-ops face is lack of capital, which is why they are often labor-intensive businesses with low start-up costs. Banks can be hesitant to lend to co-ops, perhaps because they aren’t familiar with the model. Meanwhile, credit unions—another form of a cooperative—face stringent regulations on business lending.

Employee stock-ownership plan (ESOP) companies are for-profit entities in which employees own part or all of the businesses for which they work. ESOPs are created through a pension plan with two unique features: 1) most of the employee pension money is invested in the company where the workers are employed, and 2) workers may borrow against future corporate earnings to purchase company stock. Money or stock that the business contributes to fund the plan is tax deductible.

Municipal Ownership

Municipal enterprises are businesses owned by local governments that provide services and typically generate revenue for local communities. Local governments have long operated public utilities and public facilities such as ports, parking lots and airports. Many are now entering fields traditionally dominated by private companies. This is motivated in part by: political resistance to tax increases and new user fees as cash-strapped municipalities seek to raise revenues; as well as public pressure to create jobs as the economy has faltered. Examples from across the country include: the development of city-owned hotels to promote economic development through tourism (such as a convention center hotel owned by the city of Dallas, which opened in 2011), the provision of cable and broadband services by public power companies, and the increasingly sophisticated use of real estate development to generate lease revenues, especially to help finance public transit development. One successful example is the town of Riverview, Michigan which has been a national leader in trapping methane from its landfills and using it to fuel electricity generation, thereby providing both revenues and jobs. There are roughly 650 similar projects nationwide (United States Environmental Protection
Agency, 2016). There are also more than 2,000 publicly and cooperatively owned utilities that provide power (and, increasingly, broadband services) to more than 21 million Americans; and, in the process, generate $56 billion in annual revenue (American Public Power Association, 2015-2016). Significant public institutions are also common at the state level. CalPERS, California’s public pension authority, helps finance local community development needs (California Public Employees’ Retirement System, 2015); in Alaska, state oil revenues provide each citizen with dividends from public investment strategies (Alperovitz, 2017; Alaska Permanent Fund Corporation, 2015); in Alabama, public pension investing has long focused on state economic development (including employee-owned firms) (Deravi, 2012).

New organizations like the Business Alliance for Local Living Economies (BALLE) and the American Sustainable Business Council (ASBC) have also been quietly developing momentum in recent years. BALLE, which has 80 community networks representing more than 35,000 small businesses, works to promote sustainable local community development (Jarvis, 2015). ASBC (which includes BALLE as a member) is an advocacy and lobbying effort that involves more than 200,000 business professionals, 100,000 businesses, and thirty separate business organizations committed to sustainability (American Sustainable Business Council, 2011).

Section 4 Levering Anchor Institutions to Keep Wealth Local

Anchor institutions are nonprofit institutions that, once established, tend to not move location. Emerging trends related to globalization—such as the decline of manufacturing, the rise of the service sector, and a mounting government fiscal crisis—suggest the growing importance of anchor institutions to local economies. The largest and most numerous of such nonprofit anchors are universities and non-profit hospitals (often called "eds and meds"). In many places, anchor institutions have surpassed private corporations, in becoming their region's leading employers. Effectively harnessed, they could contribute greatly to community wealth building.

Universities and Hospitals as Anchor Institutions

Institutions of higher education have an obvious vested interest in building strong relationships with the communities that surround their campuses. Universities do not have the option of relocating and are thus, by necessity, place-based anchors. While corporations,
businesses, and residents often flee from economically depressed low-income urban and suburban edge-city neighborhoods, universities remain. At a time when foundations that help establish community-based projects are commonly unable to continue with ongoing involvement over long periods of time, universities can play an important role. Universities inherently provide an important potential institutional base for helping community-based economic development in general, and civically engaged development in particular. The question is how to tap this potential in a major way.

Beginning in the 1980s, an expanding movement within higher education has been attempting to make universities more relevant and responsive to the communities and states in which they are located. More than 800 university presidents have signed the “Presidents' Declaration on the Civic Responsibility of Higher Education” committing themselves, “to helping catalyze and lead a national movement to reinvigorate the public purposes and civic mission of higher education.” As the Declaration concludes, “We believe that now and through the next century, our institutions must be vital agents and architects of a flourishing democracy.” In recognition of Campus Compact’s 30th anniversary in 2015-16, a declaration of shared commitment to the public purposes of higher education and a promise to develop a Campus Civic Action Plan to realize those purposes more fully was issued.

The **Cleveland Model**

The potential role of anchor institutions and local procurement can be seen in Cleveland, Ohio, where a group of worker-owned companies have developed, partially due to the purchasing power of large hospitals and universities. The Cleveland cooperatives include: a solar installation and weatherization company, an industrial scale (and ecologically advanced) laundry firm, and a greenhouse capable of producing over three million heads of lettuce a year (Alperovitz et al, 2010). The Cleveland effort, partly modeled on the 74,000-person Mondragon Cooperative Corporation based in the Basque region of Spain, is on track to create new businesses, year by year (Mondragon Corporation, 2015). However, its goal is not only worker ownership, but the democratization of wealth and community-building in the low-income Greater University Circle area of what was once a thriving industrial city. Linked by a community-serving non-profit corporation and a revolving fund, these companies: cannot be sold outside the network, and also return ten percent of profits to help develop additional worker-
owned firms in the area. Hospitals and universities in the area currently spend $3 billion on goods and services a year—none, until recently, purchased from the immediately surrounding neighborhood. The “Cleveland Model” is supported in part by decisions of these substantially publicly financed institutions to allocate part of their procurement to the worker-co-ops in support of a larger community-building agenda. The taxpayer funds that support programs of this kind do double duty by also helping to support the broader community through new institutional arrangements. The same, of course, is true for a range of municipal, state and other federal policies available to local businesses, including employee-owned firms.

The Cleveland Model represents a holistic approach to development through ‘community wealth building,’ an approach that is being replicated both in U.S. cities and in other countries. Traditional for-profit economic development promotes what are often exploitative relationships characteristic of modern society—what Riane Eisler terms the “domination social configuration” (Eisler, 2007). In contrast, community wealth building may be understood as a form of Eisler’s “partnership social configuration” by spreading ownership broadly, providing services that are needed by the community, and fostering mutual support rather than competition among businesses, community organizations, and individuals. Community wealth-building extends relationships of care, which have traditionally been relegated to the domestic sphere, into the economic sphere. Numerous other cities are now exploring efforts of this kind, including Atlanta, Pittsburgh, Amarillo, and the metropolitan Washington, D.C. area. Related institutional work is also underway through the leadership of the United Steelworkers, a union that has put forward new proposals for a co-op-union model of ownership (Witherell, Cooper, & Peck, 2012).

Cities can establish a preference for locally owned businesses in city purchasing, and include clear definitions, goal-setting, and reporting to ensure that their purchasing doubles as economic development, as Cleveland has done. Cities can also establish a preference for local businesses when leasing city-owned commercial space, as Seattle is doing with its King Street Station.

Multinational Corporation Anchor Institutions

Another way to both help communities and keep wealth local is by having corporations consider local places as shareholders of their firms. If corporations adopt this perspective, they can offer support to their communities that help improve the local climate. There are several
ways that large multinational corporations can support their communities, including: providing employment, facilitating firm growth through spawning, and increasing idea flow. These activities, which all support regional economic development, demonstrate how the fortune of firms and the regions where they are located can become interdependent. While in past literature, the question often explored is “how do firm activities benefit from location?” I would like to take a moment to instead explore a slightly different question, “how do locations benefit from the activities of firms?”

Firms have an opportunity to positively impact their regional economy when downsizing, restructuring, or closing (Feldman and Lowe, 2014). The strategies used by firms under these circumstances can be designed to help boost firm growth in their region, and ensure that former employees land on their feet after being laid off. GlaxoSmithKline (GSK) is an important life science anchor firm in the Research Triangle Region of North Carolina. GSK’s presence in the Triangle dates back to 1971 when Burroughs-Wellcome, a British company, relocated its U.S. headquarters to the area from Connecticut. Over the following four decades the entity, which is now known as GSK, underwent multiple mergers. I have spent the past several years building a database (the Platform for Advancing Community Economies, or PLACE, database) with Nichola Lowe that tracks entrepreneurial firms in the Research Triangle region. Through this research, we have been able to identify 230 new firms that were founded by former employees of GSK. In tracing the evolution of GSK, we can see that some of these new firms, founded by former GSK employees, were started at the same time that GSK was undergoing merger activity.

When Burroughs Wellcome relocated to the Triangle region in 1971, it had only 339 workers; yet, by the time Burroughs Wellcome was acquired by British firm Glaxo in 1995, it had grown to 2,100 employees in the region. One motivating factor for Glaxo’s acquisition of Burroughs Wellcome was the need for specialized scientific talent: “despite higher pay (Glaxo) was unable to lure scientists away from Burroughs Wellcome. So it tried another strategy: corporate takeover,” (Calhoun et al, 1997: 80). Due to significant overlap between the two merged companies, approximately 2,200 employees from the firms left—535 with early retirement and 1,652 through a mass layoff. Displaced workers received generous severance packages, with up to 4 weeks of pay for each year of service (Feldman and Lowe, 2014).

Previous to the 1995 merger, former Glaxo and Burroughs Wellcome employees had created just six new entrepreneurial firms. In the year immediately following the merger,
however, 17 firms were started by former Glaxo and Burroughs Wellcome employees (12 in 1995 and 5 in 1996), followed by an additional 26 firms created between 1997-1999 (Feldman and Lowe, 2016). In December of 2000, Philadelphia-based Smith Kline Beecham merged with Glaxo-Wellcome, creating GlaxoSmithKline (GSK). Eight new firms were started by former employees in 2000, then another forty new firms were established over the three years after the merger (20 firms created in 2001, 12 in 2002, and 8 in 2003). This spawning has continued through recent years (ibid).

Multinational firms are often perceived as fixed entities, that are either passive participants in their region, or (on the contrary) overpowering and inherently malevolent. In truth, large firms are complex entities that continually evolve, partially in response to interactions with their regions. Attention is rarely given to the changes that large firms make in their organizational strategies, particularly in response to mergers, restructuring, changes in leadership, or changes in their region. Because of these misperceptions, the contribution of large multinational firms to entrepreneurship and regional vibrancy are often underestimated.

One of the other GSK firm strategies that supported new firm formation was the liberal licensing of rights to intellectual property. Using data from the US Patent and Trademark Office, we see that between 1992 and 2001, 191 patents were reassigned from GlaxoSmithKline back to their inventors. This practice is something that was first mentioned to us during interviews with former GSK employees. In the early 1990s (previous to the 1995 merger), there were a few reassignments from Burroughs Wellcome, however there were none from Glaxo (USPTO, 2017). Our interviewees suggested that there was a different culture between these two firms, with Burroughs Wellcome encouraging academic publications and holding a stronger scientific orientation than Glaxo. Reassignments continued through the early 2000s, reaching their peak years after the two major mergers in 1995 and 2000; until ending altogether in 2003 (ibid).

Another firm strategy that supports new firm growth is that of outsourcing. Outsourcing has become an important strategy, specifically in the pharmaceutical industry, which helps control costs while maintaining an innovative edge (Quinn, 2000). Glaxo Wellcome made the decision to outsource to many of their former employees, including those who started Magellan Laboratories, a pharmaceutical formulary firm, in 1991. The firm founders, Lowry Caudill and Alfred Childers, had both been chemists at Glaxo before founding the firm, which provided analytical services to pharmaceutical companies to scale up new drug production. Glaxo was
Magellan’s first client, though the firm quickly received interest internationally from other large pharmaceutical firms. The timing of Magellan’s scaling up coincided with Glaxo’s downsizing, thus allowing Magellan to benefit from fire sale prices on equipment that had formerly been owned by Glaxo Wellcome. By 2002, when it was acquired by Cardinal Health, Magellan had grown to employ 500 employees in the RT region, and another 100 employees in San Diego, CA.

The strategies of large multinational firms can also shape the type of new firms that start in a region. This is demonstrated by Glaxo, whose strategies influenced the types of firms that were started after the 1995 Glaxo-Wellcome merger. The newly formed Glaxo entity encouraged its former employees to set up regional contract research organizations (CROs) with promises of long term contracts. The impact of this can be seen by the fact that 55% of the entrepreneurial firms created shortly after this merger specialized in some form of contract research or analytics support. This initial cohort of service-oriented entrepreneurial spawns helped pave the way for the now-burgeoning CRO industry. As of today the Research Triangle Region has over 100 CRO firms.

By the time of this 1995 mass layoff, there were several entrepreneurial support programs in the Research Triangle Region. Data from these organizations (particularly the Council for Entrepreneurial Development, or CED) demonstrate strong participation of those laid off during the Glaxo-Wellcome merger. It’s also important to note that Glaxo and Burroughs Wellcome provided financial support and endorsements to help establish CED back in 1984, and continued to support CED’s programs. This provides an excellent example of how multinational firms can invest in their region’s entrepreneurial ecosystem.

Policy Solution

Policymakers can take action to ensure that their communities are places where local businesses can thrive by adopting policies that reduce the costs of conducting business. The dialogue around a business-friendly environment is shifting away from lower production costs, and towards a consideration of local policies and strategies that streamline government processes and provide high quality services. Economic development programs have frequently used incentives that disproportionately favor large companies from outside the region (LeRoy et. al., 2015). Places can instead redirect resources to foster local businesses and to encourage local
small business expansion. One idea is to create a position within city government to guide business owners through local permitting requirements, and liaison between small businesses and policymakers.

Most local government functions are taken for granted unless they do not work. We never acknowledge when the garbage is collected regularly and efficiently, as this is the minimum expectation; municipal provision of trash collection reflects an expectation that this is something best accomplished through coordinated public action. There are other services that might be similarly provided. Democracy works best when citizens are able to be engaged and to make suggestions about new initiatives that would improve their quality of life.

Similarly, there is nothing as mundane at zoning but perhaps nothing more important at the local level. Vacant buildings maybe viewed as a problem or alternatively as an opportunity, depending on the ability to adapt them to needed uses and purposes. Local zoning policy can help entrepreneurs turn vacant buildings into spaces for new businesses. For example, Phoenix offers permit-fee waivers and a faster timeline for reuse projects (City of Phoenix, 2017). Anchorage has established the Anchorage Community Land Trust, which works with local entrepreneurs to repurpose derelict commercial properties. Between 2003 and 2012, the Trust bought and developed 9 commercial properties, with 24 commercial tenants, in Anchorage’s Mountain View neighborhood (Institute for Local Self Reliance, 2015). Since the area did not previously have a full-service bank, the Trust’s first project was to convert a vacant gas station into a credit union. Following this, the Trust converted a vacant furniture warehouse into office spaces for local non-profits. The Trust also advocates to bring important resources to the region, including a library and a call phone network branch (ibid).

Places can also require new construction to set aside a certain percentage of space for local business development. Austin and New York require real estate development projects to reserve a portion of their first-floor space for small storefronts and for locally owned businesses as a condition of permitting. Municipalities have also used business diversity ordinances to ensure that independent, neighborhood-serving businesses don’t get crowded out by chains. San Francisco’s policy, adopted in 2005, is one of the most comprehensive of these types of ordinances. It requires “formula retail use”—defined as, “a type of retail sales activity or retail sales establishment which, along with eleven or more other retail sales establishments located in the United States, maintains two or more of the following features: a standardized array of
merchandise, a standardized facade, a standardized decor and color scheme, a uniform apparel, standardized signage, a trademark or a servicemark,” (San Francisco, 2017)—to apply for a special use permit and meet criteria in order to locate in any of the city’s neighborhood commercial districts.
References


