



**Rural Distress and the Concentration of
Financial and Economic Power**

Testimony before the
U.S. Senate Committee
on Banking, Housing, and Urban Affairs

*Hearing: An Economy that Works For Everyone:
Investing in Rural Communities*

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Good morning, Chairman Brown, Ranking Member Toomey, and Members of the Committee. Thank you for holding this important hearing and inviting me to participate. My name is Stacy Mitchell. I am the co-director of the Institute for Local Self-Reliance (ILSR), a public interest research and advocacy organization. Since 1974, we've worked to advance policies that disperse economic power and strengthen local communities.

Rural America is in crisis, and the gap between struggling rural towns and coastal supercities is growing ever wider. Much of this distress stems from the concentration of corporate and financial power, which is centralizing wealth in the hands of the few while wiping out the independent businesses and well-paying jobs that are the foundation of rural economies. Financial consolidation furthers this dynamic by starving rural entrepreneurs of capital, while providing ample backing to the largest and most dominant corporations. My statement begins with an examination of how monopoly power is harming rural communities. It then looks at the role of the financial system in fueling concentration and undermining independent businesses. Finally, I outline several policy approaches to promote economic recovery and investment in rural communities.

1. Rural America is in Distress

One of the most striking and troubling trends that we've seen in our research in recent years is the widening economic gap between different regions of the country. A few "superstar" cities, mostly along the coasts, are prospering. Meanwhile much of the rest of the country, including much of rural and small town America, is falling further behind. This divergence began before the 2008 financial crisis, but it has grown more pronounced in the years since. Today, rural communities lag behind on nearly every measure.

In rural America, good jobs are hard to come by. Many rural residents are struggling to survive on jobs that are low-wage and insecure. And even then, there's simply not enough work. Between 2014 and 2018, more than 43 percent of rural counties experienced a net decline in jobs, compared to just 16 percent of non-rural counties.¹ This lack of opportunity has left many rural areas with a shrinking and aging population as people of prime working age move away, further accelerating the downward economic spiral.

Many rural communities are suffering from a lack of critical infrastructure and services. Nearly 40 percent of rural households did not have broadband Internet access in 2019.²

¹ "Redefining Rural: Towards a Better Understanding of Geography, Demography, and Economy in America's Rural Places," Economic Innovation Group, March 9, 2021.

² "Digital Gap Between Rural and Nonrural America Persists," Andrew Perrin, Pew Research Center, May 31, 2019.

Across rural communities, we're seeing the loss of grocery stores, pharmacies, and other essential businesses. More than 100 rural hospitals have closed since 2013, forcing residents in these communities to travel a median distance of 25 miles to obtain care.³ One-third of rural counties do not have a local bank, up from about 14 percent in 1995.⁴

The median household income is much lower in rural areas than in non-rural areas, and people in rural communities are more likely to be living in poverty. On average, the poverty rate in rural areas is nearly three percentage points higher than in non-rural areas.⁵ While this gap exists in every part of the country, it's worse in some regions, including the South, where the rural poverty rate is a full five percentage points higher than the non-rural rate.⁶

We can't understand the struggles of rural America without contending with racial inequality. One in five rural residents are people of color, and the fastest growing rural populations are Native American, Asian, and Latino.⁷ While rural communities of all kinds are struggling, many of the most distressed rural communities are those harmed by our country's history of racially discriminatory policies. More than 70 percent of rural Black and Native American residents live in counties that are distressed or at risk, compared to just over 40 percent of rural whites, according to the Economic Innovation Group.⁸

Layered onto the economic problems, many rural areas are also facing a health crisis. Poverty and lack of opportunity have put rural residents more at risk of chronic diseases, addiction, mental health disorders, and suicide.⁹ Yet they have less access to health care facilities and services than non-rural places.¹⁰

2. Concentrated Economic Power is Fueling Rural Decline

What's causing the crisis in rural communities? At the root of much of rural America's distress is the concentration of economic and financial power. Nearly every sector of the

³ "Rural Hospital Closures: Affected Residents Had Reduced Access to Health Care Services," U.S. Government Accountability Office, January 21, 2021.

⁴ ILSR analysis of bank data from the FDIC.

⁵ Op. cit. "Redefining Rural: Towards a Better Understanding of Geography, Demography, and Economy in America's Rural Places."

⁶ Op. cit. "Redefining Rural: Towards a Better Understanding of Geography, Demography, and Economy in America's Rural Places."

⁷ "Debunking Three Myths about Rural America," Urban Institute, October 30, 2020.

⁸ Op. cit. "Redefining Rural: Towards a Better Understanding of Geography, Demography, and Economy in America's Rural Places."

⁹ "Chronic Disease in Rural America," Rural Health Information Hub; "Substance Use and Misuse," Rural Health Information Hub; "Rural Mental Health," Rural Health Information Hub; "Suicide in Rural America," U.S. Centers for Disease Control.

¹⁰ "Rural America's Health Crisis Seizes States' Attention," Pew: Stateline, Jan. 31, 2020.

economy has become dominated by a few large, powerful corporations. As these corporations centralized control, they destroyed the ability of many rural communities to sustain themselves. Across rural regions, locally owned businesses and banks have shuttered. This has left many rural Americans at the mercy of distant corporations that view their communities as expendable, nothing more than places they can mine for revenue and cheap labor. It's not only the resulting economic hardship that is causing rural despair. It is also this pervasive sense of powerlessness, lack of self-determination, and the inability to imagine and bring about a better future.

Today's extreme level of market concentration is not the product of inevitable forces. It's the result of deliberate policy decisions. Beginning in the 1980s, policymakers adopted a radical change in the framework underpinning antitrust enforcement. Rather than focus on maintaining robust competition by ensuring fair and open markets, enforcers began to focus on the narrow goal of maximizing efficiency. Because big corporations were assumed to be more efficient, the government began embracing mergers and giving large corporations wide leeway to flex their market power and engage in monopolistic tactics that had previously been blocked. This ideological shift in favor of consolidation affected more than antitrust. It also led to other major policy changes, including the dismantling of Depression-era banking laws in the 1990s.

Concentration has harmed rural communities in several ways. In agricultural regions, consolidation among big agribusiness corporations has dramatically reduced the number of buyers for milk, meat, and other farm products.¹¹ This has allowed a few dominant players to drive down the prices that farmers and ranchers are paid. In the poultry industry, for example, only three firms — Tyson's Foods, Pilgrim's Pride, and Sanderson Farms — account for 60 percent of the market.¹² As these big processors took over the industry, they forced chicken farmers into a contract system that drives down what they're paid while forcing them to take on more risk.¹³ Farmers are not the only ones losing out: Consolidation has led to lower wages and diminished health and safety protections for people who work in slaughterhouses and other food processing facilities.¹⁴ Research has linked consolidation in agriculture to higher rates of crime, less civic participation, and declining social cohesion in rural communities.¹⁵

¹¹ "The Food System: Concentration and Its Impacts," Mary K. Hendrickson, Philip H. Howard, Emily M. Miller, and Douglas H. Constance, November 19, 2020.

¹² "The American Dream Deferred," Senator Cory Booker, Brookings Institute, June 2018.

¹³ "The Rise of the Zombie Small Business," Annie Lowrey, *The Atlantic*, September 4, 2018.

¹⁴ "Monopolies in Meat: Endangering Workers, Farmers, and Consumers," *The American Prospect*, May 4, 2020;

¹⁵ "Top 5 broiler producers dominate US production," Austin Alonzo, *WattAgNet*, June 2016; "The community effects of industrialized farming: Social science research and challenges to incorporate farming laws," Linda Lobao and Curtis Stofferahn, *Agriculture and Human Values*, December 2007.

Another consequence of market concentration is that it's led to plant closings and layoffs in small towns as companies merge and consolidate their operations. The town of Eden, N.C., for example, lost its two main employers a few years ago when the world's largest beer brewer, Anheuser-Busch, closed the local brewery after acquiring SABMiller, and then Ball Corp. shuttered its bottling plant after buying Rexam.¹⁶

More closures and layoffs are on the way. The president of Goldman Sachs, John Waldron, recently warned that an expected wave of mega-mergers in the coming months will cause widespread job losses. These deals will be good for Goldman, but with big businesses "looking to consolidate smaller companies," he told investors, "Politicians are going to be faced with the uncomfortable reality...that there's going to be more losses of jobs along the way."¹⁷

The Decline of Small Business

One of the most significant yet overlooked harms of concentration in rural America is the decline of independent businesses. In the 1980s businesses with fewer than 100 employees accounted for 40 percent of all business revenue nationwide. Today their share has fallen to about 20 percent.¹⁸ Although this decline has been underway for some time, it's accelerated in the last decade. Since 2010, the United States has lost tens of thousands of small retailers, distributors, manufacturers, construction firms, and more.¹⁹

Small businesses are disappearing in every part of the country, but their loss is especially damaging in rural communities, which depend more heavily on smaller businesses for jobs and services. Indeed, businesses with fewer than 500 employees provide two-thirds of rural jobs, and those with fewer than 50 employees provide 42 percent of rural jobs.²⁰

The problem isn't just that existing businesses are failing; it's also that fewer new businesses are forming. Prior to the pandemic, the startup rate had fallen sharply nationwide.²¹ The decline was especially steep in rural counties. According to research by the Economic Innovation Group, in the recovery years after the financial crisis, the U.S.

¹⁶ "The Downsides of Efficiency," *The Atlantic*, March 2, 2017.

¹⁷ "Goldman Warns of More Job Losses with Jumbo Mergers on the Rise," *Bloomberg*, October 16, 2020.

¹⁸ ILSR calculation based on U.S. Economic Census data.

¹⁹ ILSR calculation based on U.S. Economic Census data.

²⁰ "Why Main Streets are a Key Driver of Equitable Economic Recovery in Rural America," Brookings Institute, December 1, 2020.

²¹ "What's Driving the Decline in Firm Formation Rate: A Partial Explanation," Ian Hathaway & Robert Litan, Brookings Institute, November 2014; "Dynamism in Retreat: Consequences for Regions, Markets, and Workers," Economic Innovation Group, February 2017.

created far fewer new businesses than it had in previous recoveries and more than half of this new business growth was concentrated in just 20 large metropolitan counties.²² Meanwhile, 80 percent of rural counties with populations of fewer than 100,000 experienced a net decline in businesses.²³

In small communities, the absence of locally owned businesses has profound consequences. Starting a business has been a long-standing pathway to the middle class. Today that pathway is increasingly blocked. The loss of small businesses has also made it harder for working people to earn a decent living. Economists have found that a major reason that incomes for most Americans haven't risen in decades is that there are too few companies competing for their labor.²⁴ Without competition, big corporations have outsized power to hold down wages. This phenomenon is particularly pronounced in rural labor markets.²⁵ It's left far too many people dependent on side hustles and gig jobs to put food on the table.

Research shows that locally owned small businesses recirculate a sizable share of their revenue within the surrounding area, helping to strengthen the regional economy. They tend to rely more on local and regional supply chains, buying many of the inputs and services they need from nearby businesses. Independent grocery stores, for example, source more of the food they carry from family farms and small producers, and rely on local businesses for marketing, banking, and other services.²⁶ In contrast, studies show that about 85 percent of the dollars that flow into big chain stores like Walmart leave the community.²⁷

As their local economies unravel, rural communities are increasingly governed and exploited by outside forces, from agribusiness monopolies, to Wall Street banks, to dollar store chains. This loss of local power and capacity has contributed to widespread anger and despair. It's also taken a considerable toll on the social and civic fabric of rural communities. The loss of local economic control "involves long-term social costs to the

²² "The New Map of Economic Growth and Recovery," Economic Innovation Group, May 2016.

²³ "Decline of Rural U.S. Businesses Contrasts with Prospering Cities," Sam Fleming, *The Financial Times*, October 15, 2018.

²⁴ "Concentration in US Labor Markets: Evidence from Online Vacancy Data," Jose Azar, Ioana Elena Marinescu, Marshall Steinbaum, Bledi Taska, 2018; "Antitrust Remedies for Labor Market Power," Suresh Naidu, Eric A. Posner and Eric Glen Weyl, *Harvard Law Review*, December 10, 2018.

²⁵ "Why is Pay Lagging? Maybe Too Many Mergers in the Heartland," Noam Scheiber and Ben Casselman, *New York Times*, January 25, 2018.

²⁶ "Benefits of Hometown Grocery Stores Fact Sheet," Center for Engagement and Community Development, Kansas State University, 2019.

²⁷ "Thinking Outside the Box: A Report on Independent Merchants and the Local Economy," Civic Economics, Sept. 2009; "Indie Impact Study Series: Salt Lake City, Utah," Civic Economics, Aug. 2012.

community, including lower civic involvement,” the scholar Richard Brunell has concluded.²⁸

For a long time, the story we told ourselves about the decline of small businesses is that they can’t compete. We assume that large corporations are inherently better and more effective. When an independent grocery store vanishes or a dairy farm goes bankrupt, there’s a resigned sense that this is inevitable. But research by my organization and the work of others has found that in many sectors, small businesses outperform their bigger rivals, and deliver distinct benefits to their markets and industries that big companies do not match.²⁹

The problem is not that small businesses can’t compete. It’s that dominant corporations, empowered by policies that tilt the playing field, are muscling them out and, in the process, destroying the economic vitality and resilience of many small towns.

The Spread of Pharmacy Deserts

Take the case of independent pharmacies. According to research by Consumer Reports, local pharmacies offer significantly lower drug prices on average than CVS, Walgreens, Walmart, and other chains.³⁰ They also provide better care, including more one-on-one consultations with patients and help with adhering to life-saving regimens to manage chronic illnesses such as diabetes.³¹ More than 70 percent of independent pharmacies provide home delivery, a crucial service for the elderly and disabled, and most do it for free.³²

Independent pharmacies are especially crucial sources of health care in rural communities, many of which have been bypassed by chain pharmacies and lost hospitals and other medical services to consolidation. Three-quarters of the nation’s 21,000 independent pharmacies serve areas with a population of less than 50,000.³³ One reason many rural

²⁸ “The Social Costs of Mergers: Restoring Local Control as a Factor in Merger Policy,” Richard M. Brunell, 85 N.C. L. Rev. 149: 2006.

²⁹ For example, see “Monopoly Power and the Decline of Small Business,” Stacy Mitchell, Institute for Local Self-Reliance, August 10, 2016.

³⁰ “Shop Around for Lower Drug Prices,” Lisa L. Gill, *Consumer Reports*, April 2018. “Finding the Right Pharmacy,” *Consumer Reports*, January 2014.

³¹ “Medication Use Drops When Local Drugstores Close.” Carolyn Crist, Reuters, May 2019.

³² “NCPA 2018 Digest,” Leon Michos, PhD, Erin Holmes, PharmD, PhD, National Community Pharmacists Association, November 2018

³³ “NCPA 2018 Digest,” Leon Michos, PhD, Erin Holmes, PharmD, PhD, National Community Pharmacists Association, November 2018

states have led the nation in Covid-19 vaccination rates is that local pharmacies have outperformed the chains in getting their communities vaccinated.³⁴

Despite their superior performance, many independent pharmacies have closed in recent years and many more are on the brink of doing so. This has fed a troubling trend: a growing number of rural communities are becoming “pharmacy deserts,” leaving residents without the ability to pick up a prescription or consult with a pharmacist.³⁵ In Ohio alone, more than 400 local pharmacies have closed since 2013, many of them rural.³⁶ A 2018 study from the University of Iowa found that over 600 rural communities that had at least one retail pharmacy in 2003 had none 15 years later.³⁷

Why are local pharmacies losing ground? The problem has to do with giant, vertically integrated health care corporations, including CVS Health, which not only compete with independent pharmacies but also control how much they’re reimbursed by insurers. Through its pharmacy benefit management (PBM) division, CVS has been by cutting reimbursement rates to independent pharmacies.³⁸ In some states, CVS and other PBMs are also using their control over insurance benefits to block patients from using local pharmacies. As newspapers across the country have documented — including a stunning multi-year investigative series by the *Columbus Dispatch*³⁹ — these predatory practices are forcing many independent pharmacies out of business. At the same time, CVS and other chains have declined to open outlets in low-income rural areas; instead they expect people in these communities to rely on inferior mail order services or drive long distances to obtain their medications.⁴⁰

Rural Food Deserts and the Threats Facing Small Town Grocery Stores

Independently owned grocery stores play a crucial role in rural communities. They help ensure that people have access to fresh food in the low-population areas that grocery chains generally ignore, especially those that are low-income and/or predominantly Black. They also provide significant economic benefits. In Kansas, for example, the average grocery store in very small towns (under 3,000 people) contributes \$644,000 to the local

³⁴ “Small Pharmacies Beat Big Chains at Delivering Vaccines. Don’t Look So Shocked,” Stacy Mitchell, *The Washington Post*, February 5, 2021.

³⁵ “The Growing Problem of Pharmacy Deserts,” Fred Gebhart, *Drug Topics*, September 24, 2019.

³⁶ “Independently Owned Pharmacy Closures in Rural America, 2003-2018,” Abiodun Salako, Fred Ullrich, and Keith J. Mueller, Rural Policy Brief, July 2018

³⁷ “Update: Independently Owned Pharmacy Closures in Rural America, 2003-2018,” Abiodun Salako, Fred Ullrich, Keith J. Mueller, University of Iowa RUPRI Center for Rural Health Policy Analysis, July 2018.

³⁸ “CVS Caremark Cut Payments to Pharmacies Amid \$70 Billion Deal to Buy Aetna,” Marty Schladen and Lucas Sullivan, *The Columbus Dispatch*, June 24, 2018; “How the FTC Protected the Market Power of Pharmacy Benefit Managers,” Stacy Mitchell and Zach Freed, February 19, 2021.

³⁹ “Side Effects: An Ongoing Investigation on the Rising Costs of Prescription Drugs,” *The Dispatch*.

⁴⁰ “A Rebirth of Indie Pharmacies Could Cure Rural Ills,” *The American Conservative*, November 5, 2019.

economy, employs 17 people, and generates 20 percent of local sales and property tax dollars.⁴¹ Independent grocers also carry more locally produced foods than big supermarket chains. This opens up distribution channels for local farmers and helps local food companies start and grow.

Despite the important role they play, many independent grocery stores in rural areas are struggling and many have closed their doors. Nationwide, 41 percent of all U.S. counties lost local grocery stores between 2005 and 2015.⁴² In Minnesota, a recent survey found that almost half of the state's 235 rural grocers (those in towns under 2,500 people) fear that they will go out of business within the next five years.⁴³ In Kansas and North Dakota, roughly one-quarter of small-town grocers have closed in the last decade.⁴⁴ When a community loses its grocery store, residents must travel to shop or rely on dollar stores and convenience stores, which stock little or no fresh food and charge higher prices than locally owned grocery stores.⁴⁵ Losing the local grocery store can also trigger a downward spiral of disinvestment and out-migration.

While there are many challenges facing rural grocery stores, these businesses report that concentrated corporate power is a leading threat. In a recent white paper, the National Grocers Association documented how big retailers, particularly Walmart, which controls 25 percent of the national grocery market, have used their power as dominant buyers to demand that suppliers give them lower prices and preferable terms, while charging higher prices to competing independent grocers.⁴⁶ During the pandemic, Walmart and Amazon even compelled suppliers to give them priority access to high-demand items, which left many rural grocery stores with bare shelves.⁴⁷ "These problems disproportionately impact rural communities and urban centers, which are more likely to be served by independent grocers," the paper concluded.

⁴¹ "Benefits of Hometown Grocery Stores Fact Sheet," Center for Engagement and Community Development, Kansas State University, 2019.

⁴² "Independent Grocery Stores in the Changing Landscape of the U.S. Food Retail Industry," Clare Cho and Richard Volpe, United States Department of Agriculture, November 2017.

⁴³ "New Survey Reveals Challenges and Opportunities Facing Rural Grocers," University of Minnesota Extension, December 7, 2020.

⁴⁴ "Losing Rural Groceries," Cally Peterson, *North Dakota Living*; David Procter, correspondence with author, April 2021.

⁴⁵ "Food store types, availability, and cost of foods in a rural environment," Liese, A.D. et al., *Journal of the American Dietetics Association*, 2007.

⁴⁶ "Buyer Power and Economic Discrimination in the Grocery Aisle: Kitchen Table Issues for American Consumers," The National Grocers Association, 2021.

⁴⁷ Op. Cit. "Buyer Power and Economic Discrimination in the Grocery Aisle: Kitchen Table Issues for American Consumers;" "The Amazon Lockdown: How an Unforgiving Algorithm Drives Suppliers to Favor the E-Commerce Giant Over Other Retailers," Renee Dudley, *ProPublica*, April 26, 2020.

Another threat to small grocers is the predatory expansion of the two dominant dollar store chains, Dollar General and Dollar Tree, which owns Family Dollar. Although these chains sometimes fill a need in places that lack basic retail services, evidence suggests these stores are not merely a byproduct of economic distress; they are a cause of it.⁴⁸ In small towns, dollar stores are leading full-service grocery stores to close, yet most sell no fresh vegetables, fruits, or meats.⁴⁹ Reports from local grocers in numerous communities suggest that it's typical for sales to drop by about 25 percent after a Dollar General opens.⁵⁰ Thin margins in the grocery business mean that such a disruption is often enough to force the local grocery store to close. Residents are left with the small selection of processed foods sold at Dollar General, or they must travel to another town or city to buy their groceries.

The dollar chains are capitalizing on the dire economic condition in rural America, much like an invasive species advancing on a compromised ecosystem. Local grocers that survived Walmart are now falling to Dollar General, leaving a growing number of rural towns without access to fresh food. "This has become the number one challenge of grocery stores," says David Procter, an expert on community development and director of the Rural Grocery Initiative at Kansas State University.⁵¹

Digital Gatekeepers: Amazon's Impact on Rural Businesses

The emergence of the Internet promised to give rural entrepreneurs and other small businesses access to a vast world of customers and opportunities. But online commerce has become controlled by a single powerful gatekeeper. Amazon captures nearly two-thirds of online product search and shopping traffic. It gained this dominant position in large part by exploiting the weaknesses in antitrust enforcement introduced in the 1980s. One notable example involved predatory pricing. Backed by Wall Street investors anticipating future monopoly profits, Amazon sold entire categories of goods, including books and shoes, at a loss until smaller competitors, lacking the resources to sustain similar losses, folded up.⁵²

As a result of Amazon's monopoly power, independent businesses have little choice but to sell on its site if they want to reach much of the online market. But doing so puts them at

⁴⁸ "Dollar Stores are Targeting Struggling Urban Neighborhoods and Small Towns. One Community is Showing How to Fight Back," Institute for Local Self-Reliance, December 6, 2018; "How Dollar Stores Became Magnets for Crime and Killing," Alec MacGillis, *ProPublica*, co-published with the *New Yorker*, June 29, 2020.

⁴⁹ Op. cit. "Dollar Stores are Targeting Struggling Urban Neighborhoods and Small Towns. One Community is Showing How to Fight Back."

⁵⁰ Op. cit. "Dollar Stores are Targeting Struggling Urban Neighborhoods and Small Towns. One Community is Showing How to Fight Back."

⁵¹ Op. cit. "Dollar Stores are Targeting Struggling Urban Neighborhoods and Small Towns. One Community is Showing How to Fight Back."

⁵² "Investigation of Competition in Digital Markets," House Judiciary Committee, Oct. 2020.

the mercy Amazon's predatory tactics and high fees. Amazon has a well-documented track-record of appropriating the proprietary data of third-party sellers and using it to compete against them by creating knock-off versions of their best-selling products.⁵³ Moreover, Amazon has used its gatekeeper power to keep a growing cut of sellers' revenue through the fees it charges. In 2019, Amazon's fees amounted to an average of 30 percent of each sale made by independent sellers on its site, up from 19 percent in 2014.⁵⁴

As a consequence of these predatory tactics, most independent businesses are struggling to succeed online. Only 11 percent of small firms selling in the Amazon Marketplace say the experience has been successful; the rest are losing money.⁵⁵ Today, U.S.-based small businesses represent a shrinking share of the third-party sellers on Amazon's platform; about half of these sellers are based overseas.⁵⁶

While e-commerce holds enormous promise for rural communities, as long as this market is dominated by an all-powerful gatekeeper, the growth of online spending will continue to erode small-town economies while centralizing wealth in the hands of Amazon.

3. Financial Consolidation is Fueling Market Concentration and Depriving Rural Communities of Capital and Investment

Failed antitrust policies are one of the main drivers of rural distress. Another root cause is financial concentration. Today's highly concentrated financial system channels most of the country's available capital to the biggest corporations, which are awash in low-cost equity and debt financing. Wall Street also drives merger activity and generates significant profits from it. The top five banks pocketed nearly \$20 billion in deal fees during the first nine months of 2020, as merger volume soared to over \$1 trillion.⁵⁷

Meanwhile, our banking system is depriving independent entrepreneurs, farmers, small-scale developers, and others of the financing they need. In 2010, banks held \$721 billion in loans to small businesses (adjusted to 2018 dollars). By 2018, their small business loan balances had fallen to \$635 billion.⁵⁸ Surveys by the Federal Reserve show that many

⁵³ "Amazon Scooped Up Data From Its Own Sellers to Launch Competing Products," Dana Mattioli, *Wall Street Journal*, April 23, 2020.

⁵⁴ "Amazon's Monopoly Tollbooth," Institute for Local Self-Reliance, July 2020.

⁵⁵ "Independent Business Survey," Institute for Local Self-Reliance, 2019.

⁵⁶ "Chinese Sellers Outnumber US Sellers on Amazon.com," Marketplace Pulse, Jan. 23, 2020.

⁵⁷ "Wall Street banks net \$64 billion in fees in bumper year for M&A and IPOs," Lina Saigol and Paul Clarke, *MarketWatch*, Oct. 1, 2020.

⁵⁸ Institute for Local Self-Reliance analysis of data from the Federal Deposit Insurance Corporation (FDIC); "Small Businesses, Hit Hard by Pandemic, Are Being Starved of Credit," Peter Rudegeair, *Wall Street Journal*, Dec. 20, 2020

entrepreneurs are struggling to obtain the capital they need to start and grow their businesses.⁵⁹ Many resort to high-cost online loans or credit cards, which puts them at a much higher risk of failing. The problem is particularly acute for minority-owned businesses and those in rural communities. In the past five years, only 23 percent of Black-owned businesses were able to access credit from a bank, compared to 46 percent of white-owned businesses.⁶⁰ And an analysis by the *Wall Street Journal* found, “The value of small loans to businesses in rural U.S. communities peaked in 2004 and is less than half what it was then in the same communities, when adjusted for inflation.”⁶¹

This problem is structural: big banks do relatively little small business lending and, as they take over more of the industry, the amount of capital available for small businesses is shrinking. The largest four banks — Bank of America, Citi, JP Morgan Chase, and Wells Fargo — control 41 percent of banking assets but provide just 16 percent of small business lending. Community banks (under \$10 billion in assets) hold only 17 percent of banking assets, but they supply 46 percent of all bank lending to small businesses.⁶²

One reason big banks avoid small business lending is that they lack access to the rich trove of “soft” information that community banks rely on in order to make these loans successfully. Community banks (and CDFIs and credit unions) get to know their borrowers, and they are deeply immersed in and knowledgeable about the local market. This enables them to extend loans to small businesses on the basis of factors that aren’t readily quantified (while judging correctly that the loan will be paid back). In contrast, big banks are operating at a national or global scale that leaves them blind to this kind of local information.

As community banks disappear, small businesses are increasingly starved for capital. This can be traced to the fundamental changes in banking policy that Congress enacted in the 1990s. Those changes triggered decades of consolidation and a sharp decline in community banks and credit unions. In 1994, there were about 12,500 community banks and they controlled 50 percent of the industry’s assets. By 2006, their numbers had fallen to 8,600 and their share of the market to about 24 percent. Since then, their decline has only continued. Between 2006 and 2018, the country lost a staggering 41 percent of its

⁵⁹ “Small Business Credit Survey,” Federal Reserve, 2020.

⁶⁰ “Why Some Black-Owned U.S. Businesses Are Hardest Hit by Coronavirus Shutdowns,” Reuters, *The New York Times*, June 2020.

⁶¹ “Goodbye, George Bailey: Decline of Rural Lending Crimps Small-Town Business,” Ruth Simon and Coulter Jones, *Wall Street Journal*, Dec. 25, 2017.

⁶² Institute for Local Self-Reliance analysis of data from the Federal Deposit Insurance Corporation (FDIC). For data on small and mid-size banks, we include all banks under \$12 billion in assets.

community banks. Today, there are just over 5,000 community banks and their market share stands at 17 percent.⁶³

This stunning decline should be treated as a national crisis. Its effects have been catastrophic for the nation's small businesses and rural communities. Today, nearly 1,100 counties, more than one-third of the total, lack a community bank, up from about 650 counties in 2006. Most of these counties are rural, and the data show that counties with a larger share of African Americans have been especially hard hit by these losses.⁶⁴

Losing community banks means we are losing crucial institutions of economic growth, stability, and prosperity, especially in rural America. People often say that the problem of banking consolidation is that we have created banks that are "too big to fail." But the deeper, more debilitating consequence is that these banks are too big to succeed. They are too big to succeed at making the kinds of loans that our communities need in order to grow and prosper. Our banking system is dominated by institutions that, by virtue of their vast scale, are fundamentally mismatched to the needs of the real economy.

All of this was dramatically illustrated last year with the rollout of the Paycheck Protection Program (PPP). In some states, far more small businesses were able to secure relief loans than in others. What accounted for the difference? We analyzed the data and found a strong correlation between the number of loans issued in a state and the presence of community banks.⁶⁵ As the graph on the final page of my testimony shows, more loans were made in states where local community banks constitute a larger share of the market. By contrast, businesses located in places where the banking sector is dominated by big banks were much less likely to get relief.

The difference was stark. In North Dakota, where, owing to an unusual state policy, community banks are numerous and account for more than 80 percent of the market, nearly 19,000 small business relief loans were issued, or about 2,500 loans per 100,000 residents. At the other end of the spectrum, fewer than half as many small businesses per capita in states such as Arizona and Nevada succeeded in getting a relief loan. In these states, local banks are relatively rare and account for only a small sliver of the market.

⁶³ Institute for Local Self-Reliance analysis of data from the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration (NCUA).

⁶⁴ Institute for Local Self-Reliance analysis of data from the Federal Deposit Insurance Corporation (FDIC).

⁶⁵ "Update: PPP Loan Data Continues to Show that Big Bank Consolidation has Hampered Small Business Relief," Stacy Mitchell, *Institute for Local Self-Reliance*, June 2020; "Report: Fewer Small Businesses are Receiving Federal Relief Loans in States Dominated by Big Banks, Stacy Mitchell, *Institute for Local Self-Reliance*, April 2020.

Our findings align with dozens of news accounts about the extraordinary efforts of community banks (as well as CDFIs and credit unions) to assist small businesses, while the biggest banks put up roadblocks and channeled relief dollars to high-net-worth clients.⁶⁶

It's important to recognize that this dynamic didn't just play out during the pandemic. It's at work all the time. Research has linked a lack of community banks to fewer business startups, fewer firms in operation, and fewer new jobs.⁶⁷ Research shows that in both urban and rural places, where there is a strong community bank presence, there tends to be more robust economic growth.⁶⁸

Consolidation in banking is thus reproducing and amplifying concentration across the economy, with especially harmful impacts in rural regions, communities of color, and low-income areas.

4. Policy Solutions

One crucial answer to the crisis in much of rural America is that we must restore the original purpose and vigor of our antitrust policies and break up monopolies, including Amazon. The Senate Judiciary Committee has held hearings to examine the state of antitrust policy and begun to consider legislation, including a bill by Senator Amy Klobuchar that would represent a substantial first step toward reform. Last year, the House Judiciary Committee completed a historic, 15-month investigation of monopoly power and produced a report outlining policy proposals. These proposals, which the Institute for Local Self-Reliance strongly supports, would lead to a more prosperous, equitable, and dynamic economy. The Committee is expected to consider bills based on these proposals in the coming weeks.

The other crucial answer to rural distress is that Congress needs to fundamentally restructure the banking system to create more local financial institutions and reduce the size and market dominance of the megabanks. We believe the following policy approaches are essential:

⁶⁶ "Banks Gave Richest Clients 'Concierge Treatment' for Pandemic Aid," Emily Flitter and Stacy Cowley, *New York Times*, April 22, 2020.

⁶⁷ "Buoyed by Public Support, Independent Businesses Report Strong Sales Growth, National Survey Finds," *Institute for Local Self-Reliance*, February 2015; "Small Business Lending by Size of Institution, 2018," *Institute for Local Self-Reliance*, May 2019.

⁶⁸ "Further Evidence on the Link between Finance and Growth: An International Analysis of Community Banking and Economic Performance," Allen N. Berger et al., *Journal of Financial Services Research*, 2004; "Challenges and Opportunities for Community Banks in Rural Pennsylvania," Victoria Geyfman and Jonathan Scott, Center for Rural Pennsylvania, January 2010.

Break up banking concentration.

Congress can do this by enacting market share caps and adopting structural separations that would limit insured banks from engaging in speculative investment activity.

Support the establishment of public banks at the local and state levels.

Congress should enact legislation along the lines of Public Banking Act (H.R.8721) to facilitate the formation of public banks by cities and states. As the experience of the Bank of North Dakota (BND) has shown, public banks greatly expand the volume of lending flowing to small businesses, in part by strengthening community banks and credit unions. North Dakota has four times as many local banks per capita as the national average in large part because of the role that BND plays in strengthening the state's local financial institutions and expanding their lending capacity. As a result, the volume of small business lending per capita in North Dakota is significantly higher than the national average.

Implement postal banking.

Congress should enact a Postal Banking program that ensures banking services are available to low-income households in rural and urban communities. With 90 percent of the zip codes lacking a bank or credit union in rural areas, a postal banking program would expand access to low-cost banking services and safeguard rural households from predatory financial services.

Enact protections for small business borrowers.

Congress should extend consumer lending protections for small business borrowers, ensuring that they receive clear and accurate information and are not subject to predatory fees and practices, particularly in dealing with online lenders.

Ensure that fintech and other online lenders are subject to the same regulatory oversight as banks.

Congress and regulators should not allow fintech lenders to have a regulatory advantage over community banks. Many of these lenders charge exorbitant interest rates and are an unstable source of capital for small businesses, especially during economic downturns.

Strengthen bank merger review.

Wall Street anticipates 2021 will be a big year for bank mergers. When Congress passed S. 2155 in 2017 directing the Federal Reserve to ease regulatory requirements for large regional banks up to \$250 billion in assets, experts said the likely effect would be more

consolidation among community banks.⁶⁹ Two years later, the merger between BB&T and SunTrust created the eighth largest bank in the country. To reverse this course, Congress and the regulators must stop weakening the rules that govern big banks. Furthermore, federal banking agencies and the Department of Justice (DOJ) should strengthen their bank merger policies to block further consolidation in the financial sector.⁷⁰

Investigate the sharp drop-off in new bank formation.

The number of community banks has declined sharply in the last decade. A significant share of the decline is owed to the fact that virtually no new banks have been created since 2009. Between 2004 and 2008, before the financial crisis, an average of about 300 commercial banks disappeared each year, mostly as a result of acquisitions. But these losses were offset by the creation of 146 new banks each year on average.⁷¹ Congress should conduct an investigation of the drivers behind the sharp decline in new bank formation and identify the reforms needed.

Increase funding for Healthy Food Financing Initiatives

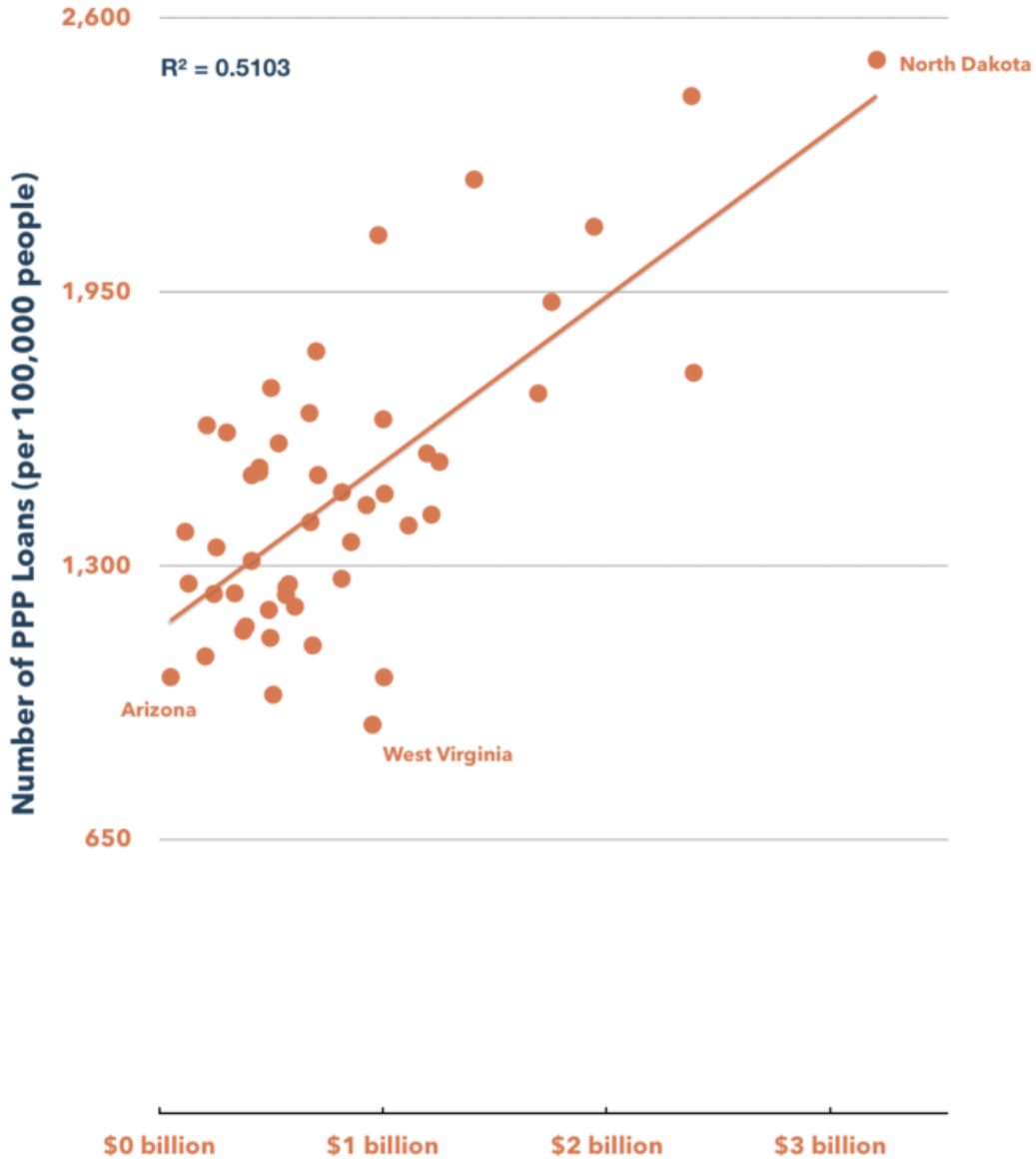
Recognizing the financing challenges faced by grocery stores, states like Pennsylvania, as well as the federal government, have established Healthy Food Financing Initiatives to provide grant and loan funds to support the development and expansion of grocery stores in underserved rural and urban communities. These programs have been a critical source of capital for the independent grocers that rural communities depend on. Congress should look to expand these programs.

⁶⁹ “SunTrust-BB&T Merger: Deregulation is Encouraging the Creation of Regional Megabanks,” Americans for Financial Reform, Feb 15, 2019.

⁷⁰ See: https://www.ftc.gov/system/files/documents/public_statements/1581730/chopra_-_comment_doj_banking_merger_guidelines.pdf

⁷¹ “Number of New Banks Created by Year, 1993 to 2018,” the Institute for Local Self-Reliance, 2018.

More PPP Loans Have Been Made in States where Small Local Banks Have a Bigger Share of the Market (Updated with Data as of June 6, 2020)



Deposits Held by Community Banks (per 100,000 people)

Notes: Community banks are defined as banks that have under \$5 billion in assets.

Data Sources: Federal Deposit Insurance Corporation; U.S. Small Business Administration