BRINGING COOPERATIVE BUSINESS BACK IN

How Might We Overcome Political Gridlock to Meet Our Community Needs?

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INTRODUCTION

Community economic development (CED) professionals, the first-line providers of public goods, are facing a challenging policy environment where the politicians cutting the checks have objectives misaligned with the citizenry, despite popular opinion polling consistently indicating support for more such goods and services (Dahlgren, 2013; Gilens, 2014; Lichtman, 2014). CED professionals have an impossible task: take control of the steering wheel driving delivery of new public goods and services to overcome CED challenges in an era when legislatures everywhere have prioritized slimmer budgets, low taxes, and special interests. How do CED professionals credibly commit to initiatives and programs aligned with the needs of the constituencies they serve in this environment?
“Gig Economy” entrepreneurs and venture capitalists have masterfully repackaged a tried and true method of securing public resources for private gain by tapping into the status quo economic development practice of Smokestack Chasing: a focused, large infusion of capital investments, offsets, and tax incentives resulting in significant economic impact. Facebook server farms. Amazon distribution and fulfillment centers. The Tesla Gigafactory. Foxconn’s first U.S. factory. Gig Economy proponents brandish an image of ecologically aware, socially-conscious projects promising thousands of jobs, an injection of local tax revenue, and a massive economic spillover effect into surrounding local communities.

Modern-day Smokestack Chasing all-too-often comes with unforeseen tradeoffs. These Faustian Bargains cost the public billions in incentives in return for unaccountable pledges of economic trickle-down, with nary a claw-back clause attached. Each day that goes by, the tab for Foxconn’s Wisconsin’s factory goes up, the Gigafactory fails to employ the workforce numbers promised, and we find that even investor-owned renewable energy developers fail to deliver on economic pledges to their host communities despite lavish tax abatements, subsidies, etc. These actors are well aware of their shaky value proposition: the vernacular in modern-day startups refers to their “next-big-thing” as unicorn chasing, since launching a successful venture is tantamount to catching a unicorn.

Smokestack Chasing undermines central aspirations of CED by:
• Application of technological solutions to socio-political problems;
• Extracting collective assets, and diminishing community wealth;
• Redirecting public goods redirected into the hands of a few;
• Curtailing local governance rights;
• Obstructing economic and civic participatory pathways;
• Furthering generational opportunity gaps.

The CED profession has neglected diversified, bottom-up economic development programming, missing an opportunity to empower individuals at the bottom of the economic hierarchy. Small business entrepreneurship is declining, wages are stagnant, rents increasing, household indebtedness is in bubble territory, and homeownership is on the wane. Misapplying privatized solutions to collective problems leads to increasing societal maladies. The CED profession is overdue to re-engage with a forgotten tool at the back of the economic development toolbox: the cooperative business model.

THE COOPERATIVE BUSINESS SECTOR
Three models of cooperative business development promise a practical pathway for CED.

Philanthropic Partnerships. Retailer Edward Filene was one of the wealthiest men in the world at the turn of the 20th Century. A Progressive Era industrialist, Filene was a champion of progressive causes and benevolent capitalism. Frustrated with the predatory lending practices loan sharks meted out upon his staff, Filene took on the task of democratizing a share of the consumer finance market. From 1920-1937, Filene infused the Credit Union National Extension Bureau (CUNE) with $1 million to grow a national credit union sector – and supportive public policy – in tandem with public entrepreneurs. By 1953, the CUNE’s efforts resulted in the creation of over 25,000 individual credit unions. Today’s credit union sector is owned by over 100 million Americans, governed by 70,000 board directors, employing over 300,000 professionals, controlling 10% of the consumer finance market.

Leveraging Economic Development Resources.
In the depths of the Great Depression, the FDR Administration initiated a goal of 100% national
The collaboration with rural interests resulted in the creation of a flourishing electric system that continues to be stewarded by the users. Second, Edward Filene leveraged his extensive wealth not to tell people what to do, but to create consumer-owned financing alternatives operating in the public interest and competing head-on against powerful financial interests.

Once established, these co-op systems can be leveraged for spectacular CED ends. Community-aligned vision, leadership, and enabling policy can further drive inspiration and entrepreneurship in the public interest, as persists with the electric cooperatives. Once established, rural residents were trained in practices in starting co-op enterprise to meet their needs. Many of the same interests involved in developing electric co-ops turned their attention to rural teleco cooperatives (100% national telco saturation was attained by the late 1950s). This era saw public entrepreneurs build entire co-op sectors in agriculture, credit unions, housing, and daycare. Local community members, empowered by supportive social entrepreneurial infrastructure in the form of government, CED, and university Extension professionals, were able to leverage experience and the newfound collective, community wealth from self-governed industries to develop critically important enterprise.

These movements have resulted in an American co-op sector that reaches across the entire U.S. economy (see Figure 1). One in every two Americans owns at least a single share in a cooperative. There are 350 million total memberships in over 39,000 cooperatives, employing over two million Americans, turning over a trillion+ dollars annually. It’s well past
time to engage cooperatives in a large-scale CED partnership.

**CATALYZING THE COOPERATIVE SECTOR FOR CED**

Our third example, the Italian co-ops, provides a case study for leveraging public policy and the collective might of cooperatives for the purposes of an enduring CED. Italian law complements the co-op sector in such a way as to enhance their competitiveness and business-to-business solidarity within their respective industrial sectors. All cooperatives contribute three percent of their profits to a central fund dedicated to providing cooperative business investment capital. Further, any cooperative facing dissolution will see its assets diverted into this fund, mitigating vulture capitalists (as recently witnessed by the razing of the True Value purchasing co-op [Zumbach, 2018]). Favorable policy and industrial strategy are vital to the health of cooperatives if they are to serve as complements to CED practices. But CED professionals need not wait for politicians to utilize cooperatives in their economic development portfolios.

Cleveland’s Evergreen Cooperatives were designed utilizing an import substitution strategy with key anchor institutions: hospitals, museums, universities, which are decidedly rooted in place. Doing business with anchor institutions can provide a reliable business partner whose local mission is aligned with community wealth building values of cooperatives. Evergreen’s worker-owned cooperatives in industrial laundry, large-scale inner-city agriculture, and solar energy have signed exclusive contracts with these anchor institutions to provide hundreds of jobs and keeping public dollars rooted in the local community. Evergreen’s central association is harnessing economic surpluses to grow additional cooperatives, and concurrently, complement CED programming and outcomes. Variants of this model are being deployed in Madison, Wisconsin; Denver, Colorado; Jackson, Mississippi; Cincinnati, Ohio; and elsewhere.

**PUTTING COOPERATIVES INTO ACTION**

Public entrepreneurship of this sort is no simple pathway. Fortunately, we have numerous examples of how to get there. CED professionals must add these practices to the CED toolbox. Unchecked, the dominant Smokestack Chasing model benefits only those interests who have diverted billions in public monies to socialize their risk. Even in today’s policy environment, resources exist in abundance and CED professionals must strategize and redirect these resources back toward public goods and community wealth building.

If CED professionals do the hard work of redirecting these resources, there is no doubt we can advance co-op development models similar to the systems we see in Italy, Spain, Indonesia, and elsewhere. In the meantime, we have an existing co-op sector that is not yet at the table. Working with advocacy organizations such as National Cooperative Business Association (NCBA) and Cooperatives for a Better World (CBW), we can tap into emergent attempts at forming local-regional, cross-sector associations of businesses with the co-ops in our own communities. We all see credit unions, farmer co-ops, utility co-ops, food and retail in our daily lives. Working with NCBA and CBW, we can convene prospective partners to initiate the dialogue around co-ops as a centerpiece in CED policy and practice.

Depression-era Rural Americans started the decade with virtually no energy infrastructure and ended up owning their own multi-billion-dollar electric grid in a matter of 15 years. Financial consumers, with the assistance of values-aligned philanthropy, grew credit unions from under 100 to over 25,000 institutions in 30 years. And the Italian cooperatives show us how existing cooperatives can mobilize for authentic self-help CED. Considering the U.S. co-op economy has over 37,000 cooperatives, employing almost two million Americans, with over 350 million co-op memberships, the time is ripe.

Must we chase unicorns? Why continue to prop up an economic development system that often does little to help our communities and too frequently leaves them worse for the wear? It’s time we reassess our CED practice. It’s time to bring cooperatives and community wealth building institutions back, in order to bring balance to our CED toolbox, and deliver on the potential for bottom-up economic development. ✯