

# **Back to Basics: Worker Cooperatives as Economic Development**

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*Here was no mere Ideology. [Cooperatives] seemed to offer a peaceable way of achieving democratic control over the means of production and distribution. To many who wondered what they might do to transform the profit system, with its cruelties and hardships and the constant threat of breakdown, cooperation appeared as a heaven-sent answer. [...] The cooperative movement in America is an actuality, complete with lunatic fringe. Some observers have discounted it as merely another passing fad, like technocracy. And while it is true that past depressions have called forth an interest in cooperation which [sic] has subsided with a rising tide of prosperity, I believe this time it is here to stay.*

—**Marquis W. Childs**  
*The North American Review (1937)*

At the end of the 20<sup>th</sup> century, the civic and business elites of Louisville, Kentucky gathered to strategize and plan for a decade of growth and prosperity for their region. In December of 2010, a headline in the Louisville Courier-Journal read, “Louisville area lost 24,600 jobs as plans for prosperity falter” (Otts 2010). The story of Louisville is of course rather familiar for metropolitan regions and inner cities during the first decade of the 21<sup>st</sup> century. Many cities in the United States have been stagnant or losing population for decades. This widespread problem has been met with a narrow range of solutions such as industrial incentive packages, sectoral strategies, “Creative Class” strategies, and so forth. Yet for all of the focus on these “new” solutions, the cities that implement them are often perpetuating traditional growth strategies that are mischaracterized as economic development. Typically, these strategies fall under the umbrella of an “export-base” theoretical model, which assume the mobility of capital, and that the role of places is to compete for the affections and benefits of these footloose economic engines.

No longer content to play the contemporary equivalent of smokestack chasing, dire economic indicators in off-market cities have reinvigorated the use of some less conventional theories and practices. Some cities are avoiding export-base approaches by “anchoring” investments in localities to lessen the inherent mobility of capital and the damage this can do in the form of chronic unemployment and poverty (DeFillipis 2004). Cleveland, Ohio, a striking symbol of post-industrial economic upheaval and decline, has become a proving ground for worker cooperatives that are rooted in local anchor institutions such as hospitals, community foundations, and universities.

Drawing upon the literature on anchor institutions and on Ann Markusen’s (2007) analysis of the “Consumption Base” theory of development, I look at the assets deployed in the “Cleveland Model.” From the network of small and medium cooperative businesses that already exist in the United States, there is sufficient evidence to indicate that worker cooperatives can assist in the stabilization of communities by offering living wages as well as a chance to build wealth in the form of workplace equity. In so doing, they have the potential to turn the “non-basic” sectors that export-base models for growth ignore—such as home repair, nursing care, local fresh food supply, and cleaning services—into jobs that can grow wealth and expand the workforce to marginalized populations such as the underemployed, women, and the formerly incarcerated.

Thus, rather than attempting to only change *what* cities produce for growth and competitiveness, worker cooperatives, as part of a consumption-base strategy, can reap tangible benefits by also changing *how* cities produce for the engines they already have. This creates wealth from quotidian activities that take place in most cities, and

particularly activities that are not typically associated with wealth accumulation and living wages.

### **The Consumption Base and Anchor Institutions**

Because of the hegemony of export-base modes of thought, there is a general lack of awareness that alternatives exist, and these strategies have taken on an aura of monolithic inevitability. This dominance has rendered the practice of economic development woefully myopic and unimaginative. In addition to competing to bring new firms and jobs to their regions, cities, just like nations, have a consumption base on which to build wealth. As Markusen notes, “unwarranted focus on exports produces lopsided strategies that fail to consider other sources of growth” (2007: 11). Markusen further critiques the export base theory as being neither “theoretically nor empirically as powerful as practitioners generally believe” (2007: 10). She further notes that some studies have found a questionable link between the cause-and-effect of export increases: “in a number of carefully constructed empirical tests, scholars find mixed evidence on both the existence of a relationship and the direction of causality” (*ibid*). As with export-base theories, however, there must be institutional or other such engines that can promote the consumption base if it is to rise to the level of effectiveness that Markusen asserts it possesses.

In 2001, the Aspen Institute and the Annie E. Casey foundation convened a roundtable on community involvement with typical local institutions such as public utilities, and educational institutions and healthcare centers. Out of their dialogues, they emerged with a definition of a class of “anchor institutions,” which collectively “have a significant infrastructure investment in a specific community and are therefore unlikely to

move out of that community” (Anderson, et al 2001: 1). A small body of literature on anchor institutions has emerged more recently because of what they offer to municipalities (Adams, 2003; Bostic, Lewis, & Sloane, 2007; Harkavy & Zuckerman, 1999). Chief among these investments are targeted expenditures, employment, and real estate development. We also see that because these anchors are typically dominant employers in struggling core cities, even relatively small changes in the quantity and/or quality of employment can have significant impacts on local economies (Harkavy & Zuckerman, 1999; Nelson and Wolf-Powers, 2010).

So if the Consumption Base and anchor institutions are indeed underutilized for urban economic growth, how can their strengths be used for economic development? If these institutions are to be more than just a slight improvement on export-base strategies, they must transcend the problems of the service sector and become part of an economic development solution that offers more than low-wage employment. It is here we see the utility of the Cleveland Model to demonstrate how worker cooperatives can enhance the wealth-building and transformative capacity of these strategies.

### **From Theory to Practice: Cooperatives and The Cleveland Model**

The Evergreen Cooperative project model in Cleveland demonstrates that the principle of the consumption base can be extended to include innovative, wealth-building production mechanisms for existing sectors and industries, rather than only focusing on new sectors or industries. Through these innovative approaches to wealth building and workplace democracy, inner cities can build wealth and reap tangible benefits such as poverty reduction and increased local consumption.

Given the lack of cooperative infrastructure in the United States, attempting to build capacity for any cooperative endeavor can be challenging. There remains a great deal of mystery about what they are to the general public. The perception that they are impractical contributes to their marginalization (Hoover 2010: 6). The overriding principle of the organizational formation is “one person, one vote”. This democratic governance structure is the backbone of the cooperative venture, and attempts to reconfigure typical owner-worker relationships. Most worker cooperatives are small businesses with fewer than 100, or even 50 employees (*ibid*: 2). In these enterprises, rather than being accountable to external shareholders, the dividends of the profits from the firm typically return to the worker-owners.

Once an iconic symbol of American industrial prowess, the flight of manufacturing from the United States has turned Cleveland into a shell of its former self. From a population of over 900,000 in 1950, Cleveland’s population was 439,000 in 2009, out of a Metropolitan Statistical Area of 2.1 million (Howard, Dubb, Alperovitz, 2009: 44; US Census ACS 2005-2009). The workforce of the Cleveland-Elyria-Mentor MSA shows a predictable employment pattern by sector. Between 2001 and 2008, the educational and healthcare sectors grew from 13.3% of total MSA employment to 15.7%, while manufacturing shrank from 13.9% to 10.9% over the same period (BEA 2001-2008 CA25N, calculations by author). In Cleveland proper, median household income in 2009 was \$27,601, compared with a US average of \$51,425, with over 25% of families poverty compared with the US average of 9.9% (US Census ACS 2005-2009). Yet it is precisely here, in places where footloose capital is less likely to be attracted, that alternative

models of economic development have the greatest chances to not only take hold, but to prove their ability to impact these situations for the better.

The Cleveland Community Foundation (CCF) has put a special emphasis on bringing together local anchor institutions of the Cleveland area to develop locally-serving, cooperatively run businesses for the Greater University Circle Area, which contains Cleveland's largest employers: its healthcare centers and universities (Kuri and Lee 2010; Alperovitz and Williamson, et al 2010). These anchor institutions include the Cleveland Clinic, Case Western University, and the local Veterans Administration Hospital. The initiative currently has two functioning cooperative firms under the Evergreen Cooperative umbrella: the most environmentally-friendly commercial laundry in Ohio, and a solar panel installation and weatherization firm, with three additional firms to be developed in the next two years. These will be a commercial-grade urban greenhouse for local businesses, a local newspaper for the Greater University Circle area, and Evergreen Business Services, which would provide back office services to the network and eventually other firms (Jokisch 2010). As the project consultants note, the economic principles at work in the model are at once simple and novel. Evergreen companies will hire from the neighborhoods immediately surrounding the educational and healthcare institutions with the goal of multiplying the local impact in the inner city, and the University Circle neighborhood more specifically (Howard, Dubb, Alperovitz, 2009: 45).

Like many other inner-city employment programs, the Evergreen initiative focuses on the difficult task of building an employee base among those who have faced long-term unemployment and incarceration. Rather than low-wage employment,

opportunities within the Evergreen system offer wages of at least \$10.50 an hour plus health benefits, and the opportunity to build wealth through ownership equity in the firm (Axel-Lute 2010). Once the firms have been operating for about a decade, the Cleveland Foundation estimates that a worker-owner in one of the participating firms will have built approximately \$60,000 in equity—in a neighborhood where the median income is just under \$20,000 (Howard and Williamson, et al 2010). In other cities with long-established cooperative businesses, this equity has been used to purchase homes, or held for economic security to earn substantial interest (Hoover 2010: 4). The wealth-building component of the Evergreen network is above all what differentiates it from other inner-city economic development programs, and is also what enhances the transformative potential of the consumption base. As Melissa Hoover, Executive Director of the US Federation of Worker Cooperatives states, principles such as wealth creation, poverty reduction, and social justice are inextricably linked to the cooperative model:

*Co-ops are a way to build equity in society – not just financial equity but societal equity for people who have traditionally been left out of the economic mainstream. ... [W]orker co-ops are intended to be an economic mechanism to benefit excluded groups (2010: 4).*

Rather than exerting disproportionate energy to attract outside firms, municipalities can thus build on relationships that already exist with anchored institutions to reduce poverty, increase local consumption, and boost local tax revenues simultaneously.

Like any small business proposal, the Evergreen initiative faced critical impediments to its viability. After banks turned down applications for conventional small business financing, the CCF provided a grant for initial operations and assisted with the acquisition of New Market Tax Credits for the startup as well (Jokisch 2010; Howard and Williamson, et al 2010). In 2009, the Mayor's Office of Economic Development also

seeded the project with a \$1.5 million low-interest loan. Once firms become profitable, 10% from pre-tax revenues will flow into a fund for the development of new cooperatives within the Evergreen network. In line with Evergreen's potential for drawing new financial and social capital to inner cities, the CCF capitalized this revolving loan fund with \$3 million, rather than directly subsidizing annual operations. As Lillian Kuri, Director of Special Programs, notes, "They're not coming back year after year for grants. Is that not a better risk to take? It's a much more sustainable use of precious resources" (quoted in Axel-Lute 2010: 2). The lack of direct operational subsidies will assist advocates of cooperative workplaces to demonstrate the viability of cooperative firms and encourage entrepreneurs to consider cooperative business models. This will lead to a more dynamic cooperative sector that is less dependent on direct subsidies—whether public or private—for operations.

Despite the lofty goals and potential of the cooperative model, the challenges cannot be underestimated or overlooked. The amount of "soft" infrastructure that is required to support such even a small cooperative sector is indeed quite significant. There are social dynamics of worker cooperatives that present challenges to their success as well, and those within the cooperative development community have willingly admitted this. Ms. Hoover notes that, even beyond capital acquisition and formation challenges, "the real issue in worker co-op development is the question of creating and building democratic capacity in the workplace. It is not easy.[...] We have very little practice balancing individual needs with the common good" (*ibid*: 3). In the words of Medrick Addison, a worker-owner at the Evergreen Cooperative Laundry in Cleveland, "If you're not interested in giving it everything you have, then this isn't the place you should be" (in

Howard and Williamson, et al 2010). This upfront honesty can pay off by preventing excessive fallout from discouraged workers and practitioners who attempt to initiate cooperative working environments nationwide.

Another critical aspect to recognize is that cooperatives are not automatically by their very nature more loyal to their localities. James DeFillipis describes a factory in Massachusetts that staged a worker-ownership takeover and achieved greater profits than their corporate antecedent. The firm continued to contemplate expansion, but looked to expand to Mexico, rather than locally, for the sake of continued profitability (2004: 82-84). The aim of the Evergreen model, of course, is to counteract these risks by linking the services of the cooperative workplaces to anchored local clients.

Another note of caution on cooperatives is the incredibly miniscule impact that Evergreen enterprises have had in terms of their sheer numbers and economic activity (Hill 2010). This dynamic is at play in Cleveland as well, as Ms. Kuri estimated recently that the Evergreen initiative in Cleveland could employ as many as 500 people in the next 2-3 years. She admits that this projection is “woefully insufficient” as a tool for economic revitalization for the Greater University Circle area, much less the entire Cleveland area (Kuri and Lee 2010).

By way of conclusion, however, it is important to recall that all economic development practices carry drawbacks, pitfalls, or challenges. For all of the obstacles that impede its growth, the Evergreen Cooperative venture in Cleveland offers greater transformative potential for the amount capital invested. The project has garnered positive attention from a variety of journalistic sources as well as among Community Development practitioners and local politicians. Its local institutional and political

support and dedicated revenue streams provide a solid base for growth and success in the coming years, which is no small feat in times of political and economic turmoil. It is bold contribution to the field of economic development that should lead practitioners to contemplate the applicability of the model in their own local communities. Despite the challenges, the Evergreen experiment in economic development and wealth creation in Cleveland is precisely the kind of fresh thinking that the crises of the 21<sup>st</sup> century demand of us.

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