NADEAU

THE COOPERATIVE SOLUTION

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How the United States can tame recessions, reduce inequality, and protect the environment

E.G. NADEAU

"A significant contribution to fostering the understanding of how co-operatives are part of the solution to either avoiding or responding to growing economic uncertainty and despair. This is a message of hope."

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"A timely discussion of how cooperatives can benefit us all through their emphasis on people over profits, with thoughtful discussion of how cooperatives can address the current failures of the market economy in the US. The examples of different types of cooperatives illustrate how cooperatives are as American as apple pie."

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"For those searching for a way to take control of their economic future, this book provides hope and guidance. It also provides sound facts about the role member-owned economic enterprises play in the US economy."

Judy Ziewacz, executive director, Cooperative Development Foundation

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How the United States can tame recessions, reduce inequality, and protect the environment

By E. G. NADEAU

Sponsored by The Association of Cooperative Educators
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The cover image was chosen for this book because the rainbow is a symbol of cooperatives and weaving is a metaphor for collaborative activity.

Weaving by Alienore Conrad, D.C., M.M.C.P
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Exhibited at the College of the Canyons Art Gallery, Santa Rosita, Calif.

Dedicated to Rod Nilsestuen,
mentor and friend, 1948–2010

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Despite the help of all of these colleagues and friends, the author takes full responsibility for the information and views presented and for any factual errors that may have crept into the document.

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Introduction

Cooperatives are economic democracy in action. Whether we are shopping at our local co-op grocery store, using our credit union's ATM, or buying car insurance from a mutual insurance company, we own the company and have an equal voice with other members in electing the board of directors and making other major decisions about the business. This essay is about the role of co-ops in our lives, how they could become a much larger part of our economy and society, and the benefits that will result if this transition takes place in the first half of the 21st century.

Political democracy is almost universally valued in the United States, but the idea of economic democracy has been largely ignored in favor of a model that concentrates economic decision-making power in proportion to wealth. The result of this anti-democratic model during the past 40 years has been an increasing disparity between rich and poor in this country, culminating most recently in the Great Recession that began in 2007.

Similarly, the drive for short-term profits and the lack of effective regulatory checks on the market-driven economy have had severe environmental consequences in the United

States and around the world, with climate change beginning to substantially affect the habitability of the planet.

The goal of this essay is to illustrate the potential for co-operatives—organizations that are owned and democratically controlled by the people they serve—to infuse the US economy with the basic value of democracy and to provide citizens with a means to effectively address the shortcomings of the market-driven economy.

This essay makes the case that *cooperatives are the solution* to many of the major economic, social, and environmental problems in the United States today. The basic tenet of the essay is that co-ops are democratically controlled and are motivated primarily by the goal of providing services to their members, not by generating profits for their owners and investors. As a result of this democratic, services-first design, co-ops are much more likely to avoid the negative consequences of economic institutions primarily driven by the quest for ever-increasing profits. This latter model of economic development has led to over 200 years of economic instability, inequality, and environmental degradation in the United States. In the coming decades, co-ops can lead the way to undoing these fundamental flaws in our economic system.

This essay emphasizes an increased role for cooperatives in the United States. However, small and locally based businesses are also critically important in the US economy. In fact, as we will see in Chapters 2 and 3, there are many examples of cooperatives composed of small businesses in the United States and many opportunities for more of them to be formed in the years ahead.

Co-ops and small businesses cannot decentralize and democratize the economy by themselves. Federal and state regulation, tax reform, and lobbying reform are also prerequisites to increasing economic democracy in the United States.

The political barriers that inhibit economic reform, and our role as citizens in surmounting these barriers, should not be underestimated. However, this essay focuses on the role of cooperatives in this transformation process.

The year 2012 has been designated by the 193 member countries of the United Nations as the International Year of Cooperatives.[1] During the year, people all over the world are celebrating co-ops, teaching and learning about them, and increasing the role these democratic organizations play in improving our economic and social lives. The uniquely democratic business form of cooperatives can provide an antidote to the current, dysfunctional system controlled by large corporations and wealthy individuals. As the United States and other countries look to stabilize their economies and revitalize their social institutions in the wake of the Great Recession, cooperatives represent an approach to economic decision-making that parallels and supports political democracy rather than undermining it.

The International Cooperative Alliance (ICA) has developed a definition and set of principles that elaborate on the basic tenet of democratic ownership presented above. This definition and these principles have been unanimously approved by ICA's membership.[2] They are presented below.

> **Definition:** A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.
>
> **1. Voluntary and open membership**
> Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
>
> **2. Democratic member control**
> Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.
>
> **3. Member economic participation**
> Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of member-

ship. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter to agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, training and information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of co-operation.

6. Cooperation among cooperatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Most of the co-ops in the United States and in other countries subscribe to these seven principles.

For the purposes of this essay, the definitional component "association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations," and the principles related to "democratic control" and "commitment to community" are particularly relevant. Note that *sustainable development* is part of the definition of commitment to community.

This definition and these principles emphasize the sharp contrast between the motivating forces behind cooperatives and for-profit businesses. Both kinds of organizations participate in the market economy and need to be profitable to survive. But for co-ops, profitability is a means to meet human "needs and aspirations." For-profit businesses are just what their name indicates. The products and services they provide are a means to generate income for their investors, just the reverse of cooperatives' underlying purpose.

Large, investor-owned corporations, especially financial institutions, brought the world economy to its knees in the fall of 2007, primarily as a result of irresponsible trading in subprime mortgages. The United States and many other countries are still grappling with the high unemployment, stagnant economies, and reduced quality of life precipitated by the casino mentality of some of the world's largest banks, insurance companies, and credit rating agencies and the lack of regulatory oversight that permitted this irresponsible behavior.

In contrast, most cooperatives, credit unions, and mutual insurance companies[3] have been calm ports in the storm during this turmoil. The reason for this is that they are member-based organizations, driven primarily by service rather than by profit. Thus, these democratically controlled organizations usually operate in a transparent manner and are held accountable by their members and are therefore less likely to take the kinds of extreme risks taken by the corporate banks.

There are hundreds of thousands of cooperatives in countries around the world. Over 1 billion people are member-owners of these democratic businesses. In the United States, there are about 30,000 cooperatives with a reported 350 million members.[4] These co-ops are involved in every facet of the US economy, including financial institutions and insurance companies, manufacturing firms, wholesalers, retailers, housing, and service businesses of all kinds. And yet, most Americans have no idea about the pervasiveness of cooperatives in our lives.

For example, Ace Hardware is a co-op owned by over 4,000 local hardware stores; Land O'Lakes, the biggest butter processor in the country, is a farmer-owned co-op; State Farm, the world's largest property and casualty insurance company, is democratically owned by its policyholders; and there are thousands of co-ops and credit unions that are headquartered in communities throughout the country.

The goals of this essay are to make the case that

- Cooperatives are already an important part of the US economy and society;
- There are many ways in which the benefits of co-ops could increase in the United States in the next couple of decades;
- If we move toward an increased role for cooperatives in our society, we can make our economic system more compatible with our democratic political system;
- In the process, we can reduce the severity of the recessions that have played havoc with the US economy throughout its history;
- We can reduce the concentration of wealth in our society, which has resulted in economic decision-making being dominated by large corporations and those who control them.

If we can reduce the economic system's fixation on short-term profitability and shift toward an economy based primarily on serving human needs, we will also do a better job of sustaining our environment, because a habitable environment is a fundamental human need.

The essay is divided into three chapters. The first chapter explores the question: What has been the impact of undemocratic, concentrated economic decision-making on American society?

The second chapter examines a recent census of cooperatives and related information that illustrate the extent and diversity of co-ops in the United States and their impacts on our lives.

The third chapter looks at the potential for increased opportunities for cooperatives in different economic and social sectors in the United States in 2012 and beyond.

In summary, this essay presents the case that it is time to begin to shift the economic system in the United States away from concentrated control by a small number of large corporations and wealthy individuals and toward greater cooperative ownership and decision-making that is more responsive to our economic, social, and environmental needs and more compatible with political democracy.

CHAPTER 1

The Consequences of Concentrated Economic Power in the United States

The Incompatibility of Political and Economic Decision-Making

One of the basic tenets of political democracy is that government officials at the local, state, and national levels should be elected in free and fair elections, with each eligible citizen having the right to cast one vote.[5] In cooperatives, which are the primary form of economic democracy in the United States and in other countries, the same basic tenet applies: "one member, one vote."[6] Thus, as noted in the introduction, a simple definition of a cooperative is "an organization that is owned and democratically controlled by the people it serves."

In the United States and most other countries, however, the predominant basis for making decisions in the economic sector is "one share of stock, one vote."[7] In other words, those with the most money invested in a business control the decision-making. This may seem like an appropriate voting procedure at the level of the corporation, but, aggregated across the economy and society, it often produces disastrous consequences, especially if business decisions are inadequately regulated.

This chapter takes a closer look at three of these disastrous consequences.

Periodic recessions disrupt the economy, throw people out of work, and cause widespread human suffering. The Great Recession of 2007–2009 is the most recent illustration of the boom and bust cycle that has characterized US history.

Economic inequality has also been a part of American society since colonial times. This inequality is currently more extreme than it has been in a generation as measured by the increased concentration of wealth, the decline in the standard of living of the middle class, and the increased number of people below the poverty line.

Environmental degradation is a major consequence of economic decision-making driven by putting economic growth ahead of the environment. The most serious manifestation of this today is that while global warming is accelerating, fossil fuel purveyors are assuring us that there is no climate change problem.

There is a better way to run our economy.

We don't have to accept periodic economic turmoil, extreme inequality, and increasing greenhouse gas emissions as inherent consequences of economic activity in the United

States. The "better way" is to increase the role of cooperatives in the US economy. Putting responsiveness to human needs before profit is a fundamental principle of cooperatives. These democratically controlled businesses can be antidotes to all three of the "disastrous consequences" described above and discussed in this chapter. Making our economy more cooperative is an important next step in the transition of the United States to a truly democratic society.

237 Years on an Economic Roller Coaster

Since the Declaration of Independence was signed in 1776, the United States has experienced 47 recessions.[8] That's an average of about one economic downturn every five years. Some of these crises have been minor, causing only temporary ripples in the economy. Others have been severe, generating years of economic stagnation, unemployment, and financial hardship. The Great Recession, from which we are beginning to emerge, is on the severe end of the spectrum, the biggest economic crisis since the Great Depression of the 1930s.

The question of why the economy of the United States has grown in such an uneven manner is complex. There are many factors that affect the rate of growth or contraction. Markets are never perfectly balanced. Occasional shortages and gluts, bad weather, wars, and other domestic or international events can throw a national economy into turmoil. However, one recurring cause of recessions is not a function of the market imbalances listed above. *It is self-serving decision-making by people with economic power.*

There is currently a lot of anger directed at large American financial institutions because of their role in bringing about the recession that began in 2007. The Occupy Wall Street movement is one manifestation of this anger. But there is much broader discontent than that. For example, a Gallup Poll conducted in June 2011 found that fewer than one in four of those surveyed said that they had “a great deal” or “quite a lot of” confidence in US banks. Gallup’s poll results on confidence in banks in 2009, 2010, and 2011 are the three lowest levels the company has reported since it first posed this question in 1979.[9] Another recent poll found that respondents considered credit unions safer than banks.[10]

It is important to recognize that Wall Street protests are not a new phenomenon. As the historian Steven Frazer recently pointed out, these protests have recurred periodically since the beginning of the United States. For example, in the 1790s, a group of Wall Street bankers participated in an insider-trading scheme that plunged the country into a recession. Protesters stormed Wall Street, chased down one of the bankers responsible for the crisis, and probably would have lynched him had he not been rescued by the sheriff. The banker was convicted and spent the remainder of his life in prison.[11]

What is it about the political and economic system of the United States that results in the concentration of wealth and the abuses that are a direct result of this concentration?

Concentrated economic power means that a relatively small number of corporations and individuals make decisions that affect our entire economy and society. Included in this economic decision-making power is the ability to manipulate parts of the market and, in some cases, bring about financial crises that reverberate throughout the entire society.

There are a variety of self-serving actions that can have market-wide consequences:

Cornering a market—Buyers purchase or otherwise gain control over a large percentage of the supply of something and then jack up the price to make a large profit. [12]

Insider trading—Investors learn through illegal means that a stock or commodity is going to go sharply up or down in value. They then invest (or divest) accordingly in order to reap a large profit.[13]

Collusion—When companies that are supposedly in competition with one another secretly join forces to set prices or in some other way influence the market, these actions can have substantial adverse effects on other businesses and consumers. This activity, which is often referred to as collusion, is illegal, but it happens frequently anyway, especially when regulators are asleep at the switch.

Monopolies and oligopolies—This is similar to collusion except that a single company or small number of companies gains control of a major share of a particular market and then unfairly sets prices. This type of activity was very common in the US in the late 1800s and early 1900s.[14]

Misrepresenting the value of an investment or purchase—This was a key factor in the Great Recession, as financial institutions bundled high-risk mortgages and sold them as if they were high-grade investments.

High-margin investing—This means that investments are made with a large percentage of borrowed money, so when the investment goes south, it goes south with a vengeance. The precipitous failure of Lehman Brothers was a result of this kind of heavily "leveraged" investing in the subprime mortgage market. High-margin investing didn't just bankrupt Lehman, it was a major factor in the Great Recession, as financial institutions in the US and abroad borrowed heavily in order to invest in bundled mortgages. It also played a large role in the Great Depression in the 1930s and the recession in the late 1980s and early 1990s precipitated by speculative investing in real estate by savings and loan companies.

Unrealistic expectations—Periodically, companies and investors bid up the price of stocks, commodities, or real estate well beyond their underlying value. This happened in the dot-com bubble of 2000. These unrealistic expectations contributed to the Great Recession because the home construction industry, real estate agents, homeowners and prospective homeowners, and financial institutions ignored the numerous warning signs that the residential real estate market was heavily overbuilt. They were also a big factor in the huge run-up of real estate and stock prices prior to 1929 and then their dramatic crash in the Great Depression.

Fraud—Fraud is the practice of the out-and-out snake oil salesmen, such as Bernie Madoff, the corporate leadership of Enron, and many others, who knowingly dupe investors into making or holding worthless investments.

A lax government regulatory system shares the blame for the damage that some of these practices have done to the American economy. Weak regulatory oversight of financial institutions was a major factor in making the Great Recession as bad as it was. There is a critical need for regulatory reform in United States, but this important topic is not addressed in depth in this essay.

Cooperatives are much less likely to commit the various greed-based sins listed above for one simple reason: they are not motivated by the quest for short-term profits that obsess so many for-profit corporations and their investors. Providing goods and services to their members is the *raison d'être* of co-operatives, and their members have the opportunity to hold the managers and boards of directors accountable to this goal. Of course, co-ops also have to be profitable in the long run or they would go out of business. But for them, profitability is a means to keep on delivering services, rather than the other way around.

It would not be fair to cite only the negative aspects of the US market economy. After all, for most of our history, the United States has had the most dynamic economy in the world and continues to be the major world economic power—although China is gaining fast.

In the past quarter century, we have witnessed the breakup of the Soviet Union and the emergence of major economic reforms in China. In both cases, decades-long experiments with "command economies" were abandoned.

An economic system that is grounded primarily in relying on market forces to meet the supply and demand for goods and services and that rewards entrepreneurial behavior that delivers those goods and services has now become by far the dominant paradigm in the world.

Why change something that has worked so well for so long?

This essay is not about doing away with the market economy. It's about taking the best aspects of our existing economy and reforming it to be less volatile, better regulated, more equitable, and more environmentally sustainable.

What has made our economy great? This essay argues that it is not concentrated power in the financial sector, the energy sector, or any other sector. Quite the contrary, concentrated economic power distorts the market and makes us more prone to suffer through periodic recessions; high levels of inequality; and befouled air, water, and land.

For the most part, big businesses don't generate the innovations that make our economy so dynamic; small businesses, university researchers, and independent inventors do. In fact, large corporations sometimes stifle or suppress innovations, especially when they might cut into their profits or market share. For example, General Electric and other companies were accused of suppressing the sale of more efficient, less expensive light bulbs in the 1920s and 1930s.[15] General Motors bought up streetcar lines in several cities in the 1930s and then closed them down in order to spur auto and bus sales.[16]

Our market economy would be more resilient and more equitable if an increased percentage of businesses were cooperatively owned or owned by medium-sized and small businesses and if our government reduced the economic distortions described above through more effective and balanced regulation and taxation.

In summary, this essay argues that increasing the level of democracy in our economy will not diminish its strength and vibrancy but will cause it to develop in a less disruptive manner and in ways that are beneficial to more of our citizens.

The preceding review has presented a variety of ways in which the concentration of economic power in the United States has caused recessions and economic hardship throughout our history. It has also argued that, rather than weakening our market system, increasing economic democracy will make that system operate more smoothly and more fairly.

The following section takes a closer look at our most recent recession.

The Great Recession

Economic growth, reduced unemployment, and the bottoming out of housing prices indicate that we are beginning to emerge from the biggest economic crisis in the United States since the Great Depression of the 1930s. This crisis was precipitated by a classic example of corporate decision-making based on the goal of achieving large, short-term returns on highly speculative investments. In this case, these speculative activities were primarily carried out through the "bundling" of subprime mortgages and other loans by large financial institutions. These institutions then sold and resold these financial instruments, often with high leverage rates (meaning that investments were made with a high percentage of borrowed funds). These speculative activities were accompanied by a lax regulatory environment that passively allowed these risky corporate behaviors.

The result? A burst financial bubble in 2007, precipitated by defaults on subprime mortgages and exacerbated by a broader collapse of the mortgage market. Some of the over-leveraged financial institutions, like Lehman Brothers, went bankrupt, leaving their investors with worthless shares of stock. Dozens of other large financial institutions would also have gone under if not for a financial bailout by the federal government. The consequences of this massive collapse of mortgage values rippled through the entire economy, not only in the United States but around the world.[17]

An economic recession began in December 2007 in the United States and formally ended in the summer of 2009.[18] However, in 2012, the United States and other countries continue to deal with the aftermath of the recession. The continuing damages include

- High long-term unemployment, which peaked at over 10% in the US in 2010 and is projected to continue above the prerecession level of 5% until 2015 or later;[19]
- Tens of millions of people who lost substantial portions of their life savings through depreciation of the value of their homes and the plunge in the stock market;
- Millions more who lost their homes to foreclosures or are living in homes that are worth less than the amount of their mortgages (sometimes referred to as "underwater" homes); and
- A continuing feeling of economic insecurity by many of us who worry about our future and that of our children and grandchildren.

What does this analysis of the abuses of concentrated economic power in the United States and of the recent recession have to do with cooperatives?

The answer is that cooperatives rarely engage in the kind of self-serving behavior that leads to these economic crises.[20] Because they are democratically controlled and because their primary goal is to provide services to their members, they don't create the kind of havoc described above. Thus, it makes sense to look at cooperative forms of business ownership as means to create a pattern of growth in the United States that is not subject to the “bipolar disorders” of our current economic system. Examples of ways to increase cooperative business activity in the US are presented in Chapter 3 of this essay.

Wealth and Income Inequality

At the beginning of this chapter, the argument was made that concentrated economic power has caused three main problems in our society: periodic recessions, economic inequality, and environmental degradation.

The boom and bust cycle that has characterized the history of the United States was discussed above with particular emphasis on the ways in which self-serving behavior by large corporations and the wealthy has created economic hardship for the rest of us.

This section takes a brief look at just how concentrated wealth and income are in the United States. A more cooperative and better-regulated economy would reduce the extreme disparity between the wealthy and the rest of us that has occurred throughout the history of our country.

Following are some recent statistics on wealth, income, and poverty:

- The wealthiest 10% of Americans owned 56% of all household wealth in 2009.[21]
- The income of the top 1% of households was almost 20% of the income of all households in the United States in the past few years compared to just under 8% in the early 1970s.[22]
- From 2000 to 2010, median income in the US declined 7% after adjusting for inflation. This marks the worst 10-year performance in records going back to 1967. On average, economists expect inflation-adjusted incomes to rise over the next decade, but the 5% projected gain won't be enough to get us back to pre-recession levels.[23]
- "High joblessness and the weak economic recovery pushed the ranks of the poor in the US to 46.2 million in 2010—the fourth straight increase and the largest number of people living in poverty since record-keeping began 52 years ago." [24]

- The share of all people in the US who fell below the poverty line rose to 15.1% in 2010 from 14.3% in 2009. The poverty rate is approaching levels not seen since Lyndon Johnson launched the War on Poverty in 1965.

Because many lower- and middle-income households have most of their net worth in their homes, the current economic crisis, which has devastated housing values, has particularly hurt the savings of these households. Black and Hispanic households have been badly hit by the devaluation of their homes, with their average net worth dropping precipitously since the Great Recession began.[25] In fact, all of these increases in wealth and income inequality, unemployment, and poverty have hit blacks, Hispanics, immigrants (both legal and illegal), the elderly, women, and children the hardest.

Just as this essay was going to press, another bombshell report appeared showing the impact of the economic downturn on American families. The Federal Reserve released a report in mid-June showing that median net worth plummeted almost 40% between the start of the recession and 2010. This means that a typical American family's savings are about where they were in 1992.[26] The report notes that the top 10% of US households had a slight net gain in their wealth during the same three-year period during which most of the rest of us fell off of an economic cliff.[27]

The past decade—for that matter, the past 30 years or more—has been one of those periods in history where the adage "the rich get richer, and the poor get poorer" is literally true. One could add "and the middle class gets poorer, too."

These data paint a picture of increasing economic inequality in the United States since the 1970s, with dramatic increases in the last decade and especially in the last four years as the Great Recession has taken its toll. The pattern includes major increases over the past 10 years in the net assets of the wealthy and a loss of economic security by most middle- and low-income households.[28]

This divergence between the wealthy and the rest of us is increasing at a time when the unemployment rate is hovering above 8%, millions of homeowners have mortgage debt that is greater than the appraised value of their houses, and cutbacks are being enacted or proposed for a range of social services at the federal, state, and local levels.

Economic inequality has always been a fact of life in the United States. But the degree of inequality has varied substantially over time. Today, inequality is at its most extreme in 40 years. The moral of this chapter thus far has been that concentrated wealth and income give small numbers of corporations and individuals disproportionate power to make economic decisions that affect all of us. Some of these decisions have disastrous consequences. These negative consequences are not felt so much by the economic elite who make them but, rather, by the rest of us.

The data show that in these hard economic times, the wealthy have become much wealthier relative to the rest of us than they were before the recession hit. The dangerous games that some companies and individuals play in the economy generally have a minor impact on them but have devastating impacts on many of the rest of us.

Environmental Degradation

When the drive for private profit is inadequately checked by regulation and competition, the consequences can be detrimental not only to social wellbeing but to the environment as well. We have seen this imbalance in terms of the periodic turmoil it causes in our lives and also in the huge disparity of wealth and income in the United States. In the long run, however, the most serious consequence of the concentration of economic decision-making in the hands of large corporations and the wealthy may very well be the rapidly decreasing habitability of our planet in the remainder of the 21st century.

There is very little disagreement among scientists who study climate trends that unless we radically reduce the amount of carbon dioxide and other greenhouse gases going into the atmosphere by 2050, we will reach a tipping point in global temperature that will raise sea levels, increase droughts and floods, and increase the frequency and intensity of severe weather events around the globe.[29]

At the same time, corporate leaders in the fossil fuel industries are doing their best to convince us that there is no environmental disaster at hand. Why would they make this case in the face of virtual scientific consensus that such a disaster is imminent? The answer is easy: short-term financial gain from the continued production and use of carbon-emitting fuels.

The current approach of most of the fossil fuel industry in the United States and elsewhere in the world is reminiscent of the more-than-50-year denial by the tobacco industry, which claimed that "Cigarettes don't cause health problems." This lie was emphatically repeated by tobacco industry executives, the doctors and scientists on their payroll, and tobacco ad campaigns, especially in the latter half of the 20th century.[30] However, as the Center for Disease Control reported in its 2011 online fact sheet on tobacco-related mortality: "More deaths [in the United States] are caused each year by tobacco use than by all deaths from human immunodeficiency virus (HIV), illegal drug use, alcohol use, motor vehicle injuries, suicides, and murders combined."[31]

As the author revised this section of the essay, an ideal illustration of problem-denial by the fossil fuel industry splashed across the national news. As a Reuters headline put it, "Exxon CEO Calls Climate Change Engineering Problem."[32] Rex Tillerson, Exxon Mobil CEO, gave a speech to the Council on Foreign Relations on June 27, 2012. Following are excerpts from his presentation:

> … I'm not disputing that increasing CO2 emissions in the atmosphere is going to have an impact. It'll have a warming impact… It's an engineering problem, and it has engineering solutions. I do believe we…have to be efficient and we have to manage it, but we also need to look at the other side of the engineering solution, which is how are we going to adapt to it. And there are solutions. It's not a problem that we can't solve… I think there are much more pressing priorities [than global warming] that we as a… society need to deal with.[33]

Ironically, Mr. Tillerson's speech came during one of the hottest weeks in US history. Over 2,000 communities tied or broke their record high temperatures.[34] There were also record wildfires in Colorado, and parts of Florida experienced unprecedented rainfall levels. As with most "engineering problems," no rational solution is possible without first recognizing the most basic physics at work: carbon dioxide and other greenhouse gases are fundamentally changing climate patterns worldwide. Any practical engineer would recognize that a first step in addressing this issue is to reduce emissions of these pollutants.

This kind of denial and misrepresentation is far more dangerous with greenhouse gas emissions than it is with tobacco use. The atmosphere of the entire planet and all of the animals and plants who inhabit it are being harmed by increasing carbon dioxide levels, whereas the damages of smoking and other tobacco use are restricted to those who use tobacco or suffer from its second-hand effects.

With profit as the driving motive, it is not surprising that corporate leaders, whether in tobacco, fossil fuels, or other economic sectors, fight to defend the economic strength of their businesses.

And they have the economic and political means to be powerful advocates for their continued dominance. Fossil fuel companies are among the largest corporations in the world. For example, Exxon Mobil, Chevron, and ConocoPhillips are three of the top five Fortune 500 companies.[35] They and other fossil fuel businesses have the economic power to flood the airwaves and other media with misleading propaganda about clean coal, safe natural gas, and the importance of increasing our crude oil self-sufficiency. At the same time, they can pour money into political campaigns and lobbying initiatives to water down climate change reforms and continue our dependence on fossil fuel energy. The disinformation and political arm-twisting by these companies may prove over the next 40–50 years to be the primary cause of the most deadly human-caused disaster in the history of the planet, potentially far exceeding the hundreds of millions of deaths caused by tobacco use.

Leaving decisions that will affect the lives of billions of us in the hands of those who are economically biased in favor of putting off or denying the consequences of greenhouse gas emissions is tantamount to selecting a jury based on their stated beliefs that the person on trial is not guilty. Unfortunately, this pattern of biased decision-making is an inherent part of a society in which economic power is concentrated and inadequately regulated.

The economic power of these large corporations must be curbed in order to avert environmental catastrophe. This will require stringent regulation and serious renewable energy policies at the national and international levels.

Cooperatives can also play an important role in addressing climate change problems, including cooperatives that specialize in increased energy efficiency in homes and other buildings, renewable energy co-ops, and forestry co-ops. These "co-opportunities" will be discussed in Chapter 3.

Moving Toward a Fairer, More Secure Economic System

This chapter has chronicled the major ways in which the current economy in the United States is dysfunctional, especially in terms of minimally regulated and ill-conceived decision-making by the economically powerful, the highest economic inequality in four decades, and obstruction by the fossil fuels industry to a meaningful response to global warming.

With these woeful conditions characterizing the US economy today, how can we even think about the potential for a more democratic and just economy in the future?

What should give us hope is that bleak economic times in the past have been followed by periods of economic and social renewal.

One such transition occurred about 100 years ago in the United States. In the late 1800s and early 1900s, major parts of our economy were controlled by "trusts." These trusts were a means for a single company or a small group of companies to gain control of an economic sector through interlocking ownership. Early large trusts controlled the railroad industry and the oil refining and distribution industries.

The first breakthrough in challenging the power of the trusts was the Sherman Antitrust Act of 1890. In support of the Act, Senator John Sherman was quoted as saying "if we will not endure a king as a political power, we should not endure a king over the production, transportation and sale of any of the necessaries of life."[36]

It took over two decades before the courts and federal law were able to build on the Sherman Antitrust Act to break up the major trusts. The Supreme Court ordered the Rockefeller-controlled Standard Oil Company to be subdivided into a number of smaller companies in 1911. In 1913, the Federal

Reserve Act was passed, and in 1914, the Federal Trade Commission was established and the Clayton Antitrust Act was passed. All three of these actions strengthened the ability of the federal government to regulate the national economy and to "bust the trusts." [37]

Between 1913 and 1920, four amendments were made to the US Constitution, creating a federal income tax, requiring the election of US senators (who had previously been elected by state legislatures), making Prohibition the law of the land (overturned in 1933), and providing women the right to vote.[38]

Taken together, these antitrust measures and constitutional amendments (with the exception of Prohibition) made the second decade of the 20th century one of the most progressive time periods in the history of the United States. These reforms did not directly affect the cooperative movement in America, but they helped set the stage for greater opportunities for both economic and political democracy.

The moral of this early 20th century story is that bad economic and political times can be followed by good ones. Just because the US is going through a period of high economic concentration and low regard for equality and the environment today does not mean that we can't turn things around in the next decade and initiate a period equivalent to the "trust-busting" and democratic awakening that occurred a century ago. The democratization of the economy can be initiated and enacted by governmental regulation, as occurred in the early 20th century, but the subject of this essay is that there is another powerful force for economic democracy from the "bottom up," namely, cooperation.

This essay will not get into a discussion of how to improve regulations related to corporate and investor behavior nor how to reform the tax code in ways that reduce the economic disparity between the rich and the rest of us. These are important actions that need to be taken to reduce the likelihood of future severe recessions, create a more equitable distribution of wealth, improve social services, and reduce the long-term federal deficit. However, these governmental reforms are touched on only briefly in this essay. Instead, the focus is on expanding the use of the cooperative business model as one of the antidotes to the problems described above.

In general, cooperatives operate in a fundamentally different manner from investor-owned firms. Cooperatives exist to provide services to their members rather than profits for their investors. Aggregated at the national and international levels, if a greater proportion of our economic behavior in the future were based on this premise, it would mean a much less disruptive pattern of growth and development, one that allocates economic benefits more equitably and that sustains the health of the environment in which we live.

The next chapter reviews the current level of cooperative activity in the United States, and the final chapter looks at ways to increase the impact of cooperatives in the future.

CHAPTER 2

The Role of Cooperatives in the US Economy

Political and economic democracy both emerged in the American colonies about 250 years ago. The first mutual insurance company, organized on cooperative principles, was founded in 1752 by Ben Franklin and others as a fire-prevention "contributionship" in Philadelphia,[39] 24 years before the United States declared its independence from Great Britain.

Democracy has become the bedrock of the American political system since that time, and cooperatives have also grown steadily in number, size, and diversity. However, as discussed in Chapter 1, the US economy has been dominated throughout most of its history by large, for-profit corporations, not by businesses organized around democratic, cooperative principles. Chapter 1 looked at some of the negative consequences—especially the frequent recessions, extreme wealth and income inequality, and environmental degradation—that have resulted from the domination of our economy by big business and wealthy investors.

The previous chapter also posed the question of why, as part of our political democracy, we don't have an economy that is also grounded in democracy, one that fosters long-term financial stability and equitability.

This chapter reviews the roles that cooperatives play in the contemporary economy of the United States. This review relies heavily on a recent census of cooperatives conducted by the University of Wisconsin Center for Cooperatives (UWCC).[40] For the first time ever, this census provides a good gauge of the number and kinds of cooperatives in the United States. Understanding what cooperatives look like in the US today provides an excellent starting point for identifying opportunities for increasing their importance in our economy in the coming years.

As mentioned in the introduction, there are approximately 30,000 cooperatives in the United States, with about 350 million memberships.[41] The combined annual revenue generated by American cooperatives is about $515 billion, and they employ almost 900,000 people.[42]

Cooperatives can be classified into five categories based on who the member-owners are:

Consumer co-ops are made up of people who purchase goods or services through a cooperative. This is by far the most common type of co-op in the United States.

Producer co-ops are composed of farmers, artists, craftspeople, or other independent producers who join together to market their products cooperatively.

Employee-owned co-ops are owned by the people who work for the cooperative. In effect, the primary "service" provided by the co-op to the members is their jobs and their role in directing the business.

Co-ops of businesses and other organizations, as the name indicates, are composed of businesses, including co-ops, as well as other organizations such as nonprofits and governmental agencies. These co-ops can be used both to sell and to purchase goods and services.

Multi-stakeholder cooperatives are owned and controlled by more than one type of member-owner. For example, a grocery co-op may be owned by both consumers and employees, or a purchasing co-op may have both individuals and organizations as members.

This chapter provides a sector-by-sector review of the historical and contemporary impact of cooperatives in the United States. This approach provides an overview of the emergence and growth of different co-op sectors, presents a summary of the current level in each co-op sector, and sets the stage for an analysis, presented in Chapter 3, of opportunities for co-op expansion in the future.

Overall Economic Impact

As noted above, co-ops employ almost 900,000 people in the United States. This represents less than 1% of the estimated 121 million non-farm, private sector jobs in the country.[43] The cumulative annual income for all co-ops is estimated at well under 1% of the US Gross Domestic Product.[44]

The relatively small employment and GDP impacts of cooperatives understate their importance in our society. There are numerous examples, presented below, that show how co-ops have brought about significant changes and benefits in an economic sector, even when they have accounted for a relatively small percentage of its financial activity.

One of the oldest of these examples is in agriculture. In the late 1800s and early 1900s, farmers and ranchers accounted for about 40% of the American workforce.[45] They were dependent on a range of other businesses to supply them with agricultural inputs and to transport and purchase their crops and livestock. These agriculture-related businesses had an unfair advantage over dispersed, small farmers in negotiating prices for these various services.

As historian Joseph Knapp wrote,

> [The farmer] blamed much of his plight on an unfair system of "interchange," whereby he was forced to pay excessive toll in marketing his products, and excessive prices for his purchased supplies; and he was vehement in his resentment of all "monopolists" and "middlemen." As the farmer saw his condition, he was "fleeced both coming and going."
>
> Unable individually to protect himself against exploitation from industry which was rapidly becoming organized in corporations and combinations, the farmer turned for

> relief to economic cooperation as a counter method of organization....[46]

For example, after the transcontinental railroad system was completed in 1869, California citrus growers struggled for over three decades to gain control of the shipment of their fruit to eastern markets. These growers had to figure out a way to counter the power of middlemen and to organize growers. The solution was through the formation of the California Fruit Growers Exchange, which developed a strong marketing strategy in 1903.[47] This cooperative, now known as Sunkist, "is the oldest continually operating citrus cooperative in America and the largest marketing cooperative in the world's fruit and vegetable industry."[48]

For decades, farmers struggled to form business organizations to level the playing field. By the 1920s, farmers in many states had formed successful cooperatives to provide these services for themselves or to negotiate with farm-related businesses for fairer prices and other concessions.[49]

Today, about a third of all farm supplies and agricultural products in the US are purchased and marketed through cooperatives.[50] Even in areas where cooperatives account for a relatively small percentage of agricultural business activity, their presence in the marketplace makes a difference because competitors know that if they charge too much for farm inputs or don't pay enough to purchase farm products, there are co-ops that can step in and outcompete them.

The next section of this chapter reviews the status of nine cooperative sectors. These sectors include the large majority of the cooperatives in the country. They are presented in order of combined annual revenue in each sector.[51] The concluding section of the chapter briefly reviews the historical development paths that different kinds of cooperatives have taken and their current strengths and weaknesses in the US economy. These historical and contemporary patterns provide the backdrop for Chapter 3, which provides examples of how cooperatives have the potential to dramatically democratize and stabilize the US economy in the coming decades.

A Sector-by-Sector Review of Cooperatives in the United States

A composite picture of US co-op shows their scope:

The Major Cooperative Sectors in the US[52]

Sector	No. of Co-ops	Revenue (billions)	No. of Employees	No. of Members
Mutual insurance	1,500	140	122,000	233,000,000
Agriculture	2,700	135	161,000	2,900,000
Cooperative finance	43	73	6,000	28,000
Credit unions	7,200	51	240,000	93,000,000
Rural electrics	920	34	70,000	18,000,000
Social service	1,800	8	188,000	1,600,000
Housing	9,500	?	?	840,000
Grocery	325	1.6	14,500	700,000
Worker	220	0.2	2,400	55,000
Totals from the UWCC census	**29,300**	**515**	**860,000**	**351,000,000**

Mutual Insurance

In 2007, almost 1,500 mutual insurance companies comprised the largest cooperative sector in the United States, with $140 billion in annual revenue, 122,000 employees, and an astounding 233 million member/policyholders.[53,54] These companies range from some of the world's largest insurers, such as State Farm and Nationwide, to those serving clients at the town and county levels.

Mutual insurance is one of the oldest kinds of cooperative business. It developed during the early years of the Industrial Revolution both in Europe and in the United States, as exemplified by the fire insurance mutual co-founded by Ben Franklin in Philadelphia mentioned at the beginning of the chapter. Pooling risk in the 1700s and 1800s, especially against the ever-present danger of fires in cities mostly built of wood, made a great deal of sense. The extension of mutual protection to health, life, and, beginning in the 20th century, automobiles and other vehicles, also made sense. All of these kinds of insurance remove some of the uncertainty from everyday life for families and businesses.

"Membership" in a mutual insurance company is defined differently from other kinds of consumer cooperatives. Instead of buying a share of voting stock or paying a membership fee, one becomes a member-owner of a mutual insurance company by becoming a policyholder. Major decision-making is based on the principle of "one policy, one vote." Holders of multiple policies have a vote for each policy. Ownership of multiple policies partly explains the large number of members of mutual insurance companies.

Another characteristic of mutuals that is different from most other co-ops is "proxy voting," in which policyholders can choose to have the board of directors cast votes on their behalf. In practice, this usually means that the boards of directors of mutuals have a lot more decision-making power than the boards of most other cooperatives.

It is reasonable to assume that many mutual insurance policyholders are not aware of the fact that they own and, at least in theory, democratically control their insurance companies.

Agriculture

In 2007, the agricultural cooperative sector earned about $135 billion, had over 160,000 employees, and served about 3 million members. These calculations are based on combined numbers from farm credit cooperatives, farm supply and marketing cooperatives, and biofuel co-ops.

The introductory section of this chapter reviewed some of the history of farm cooperatives in the United States, especially in the late 1800s and early 1900s. Despite the fact that there has been a dramatic drop-off in the number of people employed in agriculture between 1900 and the present (from about 40% of the workforce to less than 2%), agricultural cooperatives continue to be a strong sector within the cooperative community. As noted in the introduction to this chapter, the US Department of Agriculture estimates that these co-ops account for about one third of the value of agricultural inputs bought by farmers and one third of the value of farm sales.

In the development of agricultural cooperatives, it is important to note that the success of these co-ops resulted both from broad-based action by farmers across the country and from federal legislation. In the late 19th and early 20th centuries, there were several agricultural cooperative failures. This difficult start-up period was due to a variety of factors, including the economic strength of the supply, transport, and marketing businesses the farm organizations were up against as well as ineffective business models and under-financing of many of these early co-ops.[55]

The 1920s began with a severe post-World War I agricultural depression. Farm organizations, especially the American Farm Bureau Federation, the National Farmers Union, and the National Grange, were able to make their voices heard in Washington on both sides of the political aisle because of their strong base of support within the agricultural community and because of the severity of the agricultural depression.

In 1921, representatives of these farm organizations met in Washington, DC, to identify legislation that could address farm credit, transportation, legal, and other issues related to co-ops. Following this meeting, agricultural leaders

> …assembled a number of Republican and Democratic senators from the farm states and got them to pledge themselves to support legislation necessary for the welfare of agriculture. This was the genesis of the "Farm Bloc" which was to exert great political power during the next few years.[56]

Five federal laws were passed between 1914 and 1929 that helped set the stage for a dramatic increase in the number and strength of farm co-ops over the next two decades:

- The Smith-Lever Act of 1914, which formalized the US Department of Agriculture's extension system, including training and development assistance for farmer co-ops;[57]
- The Federal Farm Loan Act of 1916, which provided badly needed credit to farmers and farm co-ops (and was the precursor to today's farm credit cooperatives);[58]
- The Capper-Volstead Act of 1922, which permitted agricultural co-ops to coordinate the marketing of products without running afoul of anti-trust laws;
- The Cooperative Marketing Act of 1926, which broadened the ability of agricultural co-ops to share information and marketing activities; and

- The Agricultural Marketing Act of 1929, which established the Federal Farm Board and provided various means to strengthen and stabilize the prices of agricultural products.[59]

The primary reason to list these federal programs here is to underscore the combined role that farm organizations working at the national level and the federal government played in launching a strong agricultural cooperative movement in the United States that continues to this day.

Cooperative Finance

The third largest cooperative sector, as measured by annual gross revenue, is "cooperative finance." According to the UWCC census report, "Some banks and other finance companies exist specifically to provide capital to cooperative businesses in the US. These include the National Consumer Cooperative Bank, an Association of Corporate Credit Unions, the Cooperative Finance Corporation, and the Federal Home Loan Bank System."

These institutions are second- or third-level co-ops with other co-ops, credit unions, banks, rural electric and other utility cooperatives, and other businesses as their member-owners. Farm credit co-ops also fall into this category of "cooperative finance" but are included in the agricultural cooperatives section of this chapter.

Together, these financial institutions had about $73 billion in revenue in 2007, more than 6,000 employees, and about 28,000 members. Despite the large revenue generated by these co-ops, they are a little known (with the exception of the National Consumer Cooperative Bank) but very important part of the cooperative community in the United States.

Detailed information can be found in the UWCC census report.[60] Two interesting anecdotes, illustrating the impact of the Great Recession on corporate credit unions and the Federal Home Loan Banks, are presented below.

Credit unions, which are financial cooperatives owned by their members, are discussed in the next section of the chapter. As of 2007, there were 28 regional corporate credit unions in the United States. Corporate credit unions are effectively "secondary cooperatives" owned by credit unions. They provide short-term and long-term investments for their member credit unions. They also provide check-clearing and other financial transaction services.[61] One would think that the secondary financial institutions for credit unions would have been a safe haven for credit union funds during the financial meltdown of 2007 and 2008. Not so. Some of the regional corporate credit unions had invested heavily in financial instruments that included high-risk subprime mortgages. These investments lost billions of dollars, and, as a result, five corporate credit unions were dissolved, and the management of their assets was taken over by the National Credit Union Administration in 2010.[62]

Overall, credit unions themselves have an excellent track record in their mortgage lending practices and loan repayment rates. Thus, for their secondary financial institutions to indirectly invest in substandard mortgages is an expensive setback for these credit unions. The lesson in this story is that although cooperatives operate under a different set of principles from for-profit businesses, from time to time, their managers follow the practices of their counterparts in the for-profit sector—sometimes with disastrous consequences.

The second anecdote, involving the Federal Home Loan Bank (FHLB) system, is a positive one. In addition to being organized as a cooperative, FHLB is a Government-Sponsored Enterprise (GSE). This means that it was created by, and is supported by, the federal government, which strengthens its role in the financial marketplace.[63] Fannie Mae and Freddie Mac are also GSEs, although these two entities are organized as stock corporations. All three entities are heavily involved in the mortgage market.

Despite the fact that over 25% of the loans handled by FHLB are mortgage related, the 12 regional cooperative banks that control the system and their more than 8,000 member lenders navigated through the mortgage crisis of 2007 and 2008 without serious problems. In contrast, Fannie Mae and Freddie Mac, with their for-profit corporate structures, suffered devastating losses during this time. The reason for these losses is straightforward. Both entities were under pressure from their investors to make comparable profits to large banks, which were raking in big bucks in the subprime mortgage market until it collapsed in late 2007. In order to be competitive, Fannie Mae and Freddie Mac played "monkey see, monkey do." By one estimate, these losses may eventually cost US taxpayers over $400 billion.[64]

That FHLB, the cooperatively structured GSE, came through the crisis without dipping into the federal treasury reflects well on its co-op structure and principles.

Credit Unions

With about 93 million members in 2011, approximately 7,200 credit unions have the second-largest number of members of all co-op sectors in the United States after the mutual insurance sector. These consumer-owned, financial cooperatives had revenues of about $51 billion and employed over 240,000 people in 2011.[65]

In the early 20th century, US banks did not show much interest in the savings and borrowing needs of middle- and low-income Americans. Credit unions played the lead role in filling this gap.

As with mutual insurance, the credit union model was developed in Europe. But, in the case of credit unions, the model was imported via Canada. French Canadian immigrants started the first US credit union in Manchester, New Hampshire, in 1909.

At about the same time, the banking commissioner of Massachusetts carried out "an investigation into the operations of professional moneylenders who are victimizing factory workers in Boston."[66] This investigation led to the passage of a credit union law in Massachusetts in 1909, the first such law in the country.

Edward Filene, who is best known for the Boston department store that bore his name, was also a philanthropist who focused his attention on the wellbeing of the employees of his own company and working people in general. Filene was a strong supporter of the 1909 Massachusetts law and, more importantly, in 1921 financed the start-up of the Credit Union National Extension Bureau, a private, nonprofit entity, whose mission was to lead a national movement for the formation of credit unions.[67]

Filene hired the attorney Roy Bergengren to manage the Bureau. These two men launched a highly successful strategy for credit union development. As Bergengren tells the story,

> We agreed on the first day that the Bureau had four objectives... Our first objective was to make it possible, by adequate legislation, to organize credit unions anywhere in the United States... [The] second objective involved the organization of individual credit unions until the plan had been popularized and methods of credit union mass production had evolved.

> The third objective looked forward to permanent, self-sustaining state leagues of credit unions which would, in each state, take over the local direction of credit union development. Finally, it was our purpose, from the beginning to organize the Credit Union National Association as a national union of credit unions…and turn over to the Association when organized, the permanent direction of the cooperative credit movement in United States…[68]

And, that's exactly what happened over the next two decades. The number of credit unions increased from 190 in 1921 to 1,300 in 1930 to 9,200 in 1940. During that same time period, membership increased from 72,000 to 2.7 million. Thirty-three state credit union leagues formed the Credit Union National Association in 1934.

The number of credit unions peaked at about 24,000 in 1969 with a total membership of 22 million. Since then, there has been a great deal of consolidation among credit unions, which now number a little over 7,000. At the same time, however, the number of credit union members has more than quadrupled to 93 million.

The credit unions survived the Great Recession of 2007–2009 in far better shape than most banks, especially the largest banks in the country.[69] [70]

In the fall of 2011, there was a popular reaction against several large banks that had imposed debit card, ATM, checking account, and other fees on customers. During the last quarter of 2011, an estimated 200,000 people and small businesses closed their bank accounts and opened credit union accounts in response to these fee increases.[71]

Rural Energy

Rural energy (or rural electric) cooperatives have the next largest annual revenue among the co-op sectors. In 2007, 920 rural electric co-ops had over $34 billion in revenue. As of 2011, these co-ops had about 70,000 employees and almost 17 million members.[72]

Both rural electric cooperatives and credit unions were launched and had major periods of expansion in the United States during the first half of the 20th century. A similarity in the development of the two co-op sectors is that for-profit banks showed little interest in addressing the financial needs of middle- and low-income borrowers, and for-profit electric power utilities showed little interest in serving rural residents.

However, there was a major difference in the development strategies of these two consumer co-op sectors.

As discussed in the previous section, credit unions grew rapidly after 1921 due to a combination of private philanthropy (primarily by Edward Filene), a well-orchestrated national organizing campaign, and strong grassroots involvement.

Rural electrics, on the other hand, had a more complicated start-up that involved decades of farm organizations lobbying for federal action, experimentation through the federally created Tennessee Valley Authority beginning in 1933, and the passage of the Rural Electrification Act (REA) in 1936.[73] As with credit unions, the subsequent rapid growth of electric co-ops was due to grassroots support, which, among other activities, included door-to-door canvassing by volunteers to get the number of customers required to make local electrification feasible.

A key difference between the two cooperative sectors was that credit unions were inexpensive to start up. Rural electrics were far more capital and labor intensive because of the need to develop sources of electric power and transmit electricity over large, sparsely populated areas.

REA addressed the problem of capitalization by providing long-term, affordable loans to organizations that undertook rural electrification projects. The initial bias of Morris Cooke, the first REA administrator, was to have established power utilities take the lead in rural electrification.

> Believing that the quickest way for getting into action lay through working with the private utility industry, Cooke convened a meeting of industry leaders in Washington, DC on May 20 [1935] where he presented to them the program as he envisaged it, and asked for their cooperation.[74]

At another meeting that summer, Cooke is quoted as saying,

> It's foolish for farmers to think they can build and finance and operate rural electric systems when trained and wealthy power companies can't do it.[75]

But by the fall of 1935, Cooke had begun to come around:

> The foot dragging of the organized power industry made Cooke more responsive to the cooperatives, although he continued to keep the door open to the private power companies, and he hoped for a change in their attitude.[76]

Rather than changing their attitude, however, the private utilities became more entrenched in their resistance to providing rural electric power, organizing a boycott of REA in late 1935 and sustaining their opposition to the program in subsequent years.

Despite this opposition, in the first five years of the program, from 1936 through 1940, there were over 1,300 borrowers of REA funds, 90% of which were cooperatives.[77] These initial utilities funded by REA served almost 1 million customers by the end of 1940.

In effect, private power utilities decided in the mid-1930s that it would not be profitable for them to serve rural America and ceded most of the field to rural electric cooperatives. Today, these cooperatives provide energy services to 42 million people in 47 states.[78]

Cooperatives of Businesses and Other Organizations

Cooperatives of businesses are not a category in the UWCC census. However, they are an important part of the cooperative landscape in the United States and deserve special attention in this essay. As mentioned in the introduction to this chapter, businesses, including co-ops, and other types of organizations such as nonprofits and government entities, can form cooperatives.

The most prevalent kind of organizational cooperative in the United States is purchasing co-ops. These cooperatives are usually composed of businesses in the same industry, such as hardware stores, groceries, and pharmacies. The National Cooperative Bank estimates that there are 250 purchasing co-ops serving 50,000 businesses in the United States.[79]

A good example of a purchasing co-op is Independent Pharmacy Cooperative. It has over 4,500 members that are able to purchase a variety of pharmaceutical supplies and other items carried in drugstores at discounted prices through the cooperative.[80] This purchasing power allows small and mid-size pharmacies to compete more effectively with Walgreens, CVS, and other large stores that carry pharmacy items. In turn, the survival of these drugstores contributes to the sustainability of main streets and small communities around the country.

Co-ops of organizations can be used to market goods and services as well as to purchase them. The best example of this in the United States is farm cooperatives, which often sell inputs to their members in addition to marketing their agricultural products. We usually don't think of farm cooperatives as co-ops of organizations, but farms are small, medium, and large businesses; thus, the co-ops that serve them are business co-ops.[81]

Aside from farm cooperatives and, to a lesser extent, arts and crafts cooperatives, there are not many examples of businesses in the United States that market products through cooperatives. There are good examples of successful business marketing cooperatives in other countries, such as textile and woodworking co-ops in Italy.[82]

Multiple types of organizations can be members of the same cooperative, and organizations can also join with individual consumers to form cooperatives. Energy and telecommunication co-ops are examples of multi-stakeholder entities with businesses, other organizations, and individuals as members.

Social Service

Social service cooperatives, as the name indicates, provide a range of services that include healthcare, childcare, assistance to people with disabilities, care of the elderly, education, and various other services. These co-ops can be organized as worker co-ops, consumer co-ops, or multi-stakeholder co-ops.

Social service co-ops are not a very visible part of the cooperative movement in the United States, and yet, the number and diversity of these co-ops are impressive. An extrapolation of the UWCC data on social service co-ops indicates that there are about 1,800 of them in the United States, with about $8 billion in revenue, 190,000 employees, and 1.5 million members.

Examples of social service co-ops:

Group Health Cooperative is headquartered in Seattle, Washington. It was founded in 1947 and now has 660,000 consumer members in the greater Seattle area and in northern Idaho. It provides healthcare in partnership with Group Health Physicians, an independent professional corporation.[83]

Cooperative Home Care Associates (CHCA) is a worker-owned home care agency based in the South Bronx. "Founded in 1985 to provide quality home care to clients by providing quality jobs for paraprofessionals, CHCA now anchors a national cooperative network generating over $60 million annually in revenue and creating quality jobs for over 1,600 individuals."[84] Cooperative Home Care specializes in providing in-home assistance to the elderly, the chronically ill, and people living with disabilities.

Childcare co-ops are spread throughout the country. The UWCC census estimates that there are about 1,100 of them in the United States, although the exact number is difficult to calculate. A small percentage of these organizations are incorporated as co-ops. Most are incorporated as non-profits. The determining factor in whether to label them "cooperative" is how the main decisions in these centers are made. They are considered to be cooperatives if the boards of directors are democratically elected by either the employees, the parents, or both.

In other countries, in particular Italy and Japan, social service cooperatives play a much more prominent role than in the US. The potential for expanding the number of social service co-ops in the United States is discussed in Chapter 3.[85]

Housing

UWCC estimates that there are about 9,500 housing cooperatives in the United States. The 2009 American Housing Survey conducted by the US Census Bureau lists about 840,000 cooperative housing units,[86] which translates into about the same number of co-op housing members, minus unoccupied units. There is no recent, detailed survey of these housing cooperatives in the US. Thus, it is not possible at this time to have a detailed understanding of the different kinds of housing co-ops in the United States or of economic data related to them.

We do know that from the 1970s on, condominiums have grown much more rapidly than cooperatives as a form of "common interest housing." Today, condos represent about 5% of housing in the United States, whereas co-ops are under 1%.[87] The American housing survey shows that there were more than 10 times as many condominium units (8.7 million) as co-op units (840,000) in 2009.[88]

A possible explanation for the rapid growth of condos versus co-ops is the similarity of condos to single-family homeownership. Condominium owners own their housing units and have shared ownership in the condo association's common spaces. In contrast, members of housing co-ops own a share of the cooperative equal to the value of their units plus a portion of the co-op's common space. This latter approach may put off prospective co-op members and lenders and may also be more difficult to deal with under some state laws.

It is important to note that condominiums have a one member, one vote decision-making structure similar to co-ops. The members of the condo association elect a board of directors to determine association membership fees and set rules governing the association and the use of common spaces.

On a historical note, the UWCC census observed that

> The first [housing] cooperative in the US was built in New York City in 1876, 75 years before the first condominiums. Most of the early cooperatives were in luxury buildings, but there were also several affordable housing cooperatives built by labor unions during the period before World War II.[89]

Today, New York City continues to be the housing co-op capital of the United States. In addition to the city's pioneering role in the development of both high-end and affordable co-op housing prior to World War II, New York State, New York City, and the union movement continued to pass legislation and in other ways support the development of housing cooperatives at least into the 1970s. By the end of the 1970s, there were an estimated 100,000 affordable co-op housing units in the state.[90]

At the federal level, cooperative housing received limited support from various pieces of legislation in the post-World War II period, but federal policymakers have not considered co-op housing as a significant part of a national homeownership policy.

It is possible to divide housing cooperatives into three main categories: market rate, limited equity, and non-equity.

Market rate co-op units are bought and sold on the market at prevailing market prices. An important qualification to this process is that the sale of a co-op unit must be approved by the board of directors of the cooperative because it is not just the unit that is changing hands, but a share in the entire cooperative.

People who live in **limited equity co-ops** received some type of subsidy in getting their housing; therefore, the amount of return they get when they sell their units is limited in some way by the cooperative bylaws. In addition to avoiding windfall profits to people selling their co-op units, this practice keeps co-op housing affordable for the next owner. The UWCC study presents a good example of a limited equity cooperative model:

> In Minnesota, 74 senior housing cooperatives with 5,600 units have been built since the 1970s... Their financial structure has been designed to limit asset appreciation and to free up cash assets for the owners by requiring a share price that is less than 100% of the cost of the unit. As the cooperatives market to seniors, they emphasize strong social networks and self-reliance to a group of people who are concerned about displacement and the loss of control that can accompany aging.[91]

Non-equity co-ops are co-op apartments or other forms of joint housing in which co-op members effectively rent rather than own their units. The most common type of non-equity co-ops in the US is student cooperatives, which are located in college and university communities.[92]

Grocery and Other Consumer Goods

There are an estimated 325 grocery cooperatives in the United States with about 14,000 employees in 2007. There are also hundreds of unincorporated buying clubs scattered around the country that operate as informal co-ops, but are not included in the UWCC census.

Almost all of the larger co-op groceries are member-owners of the National Cooperative Grocers Association. The 122 members of NCGA had gross sales of about $1.2 billion and over 550,000 consumer members in 2010.

The UWCC census provides a concise history and description of the impact of these co-ops:

> Consumer-owned food stores have emerged, grown, and declined in waves since the 1850s. The most recent growth period occurred during the mid-l960s and early 1970s when there was a nationwide resurgence of cooperative food stores. By 1979, an estimated 3,000 food stores and buying clubs operated in the United States and Canada. By the 1990s, however, the changing social and political climate resulted in a substantial decline in the number of cooperatives, accompanied by a period of consolidation and growth for the strong cooperatives. By the mid-2000s, food cooperatives once again experienced growth-driven, intense consumer interest in alternatives to a market system that might not serve their needs.
>
> Retail food cooperatives have introduced numerous consumer-oriented innovations, and have fought to retain retailing practices that provide the consumer competitive value and service. Since the 1930s, cooperatives have pioneered nutritional labeling, open dating, unit pricing, bulk sales, informative advertising, consumer education, and innovative institutional structures. They have also consistently been in

> the forefront of consumer protection through selective merchandising and boycotts, political lobbying, and ongoing consumer education.
>
> The most extensive impact food cooperatives have recently had on the grocery industry has been their pioneering introduction of natural and organic foods, which began with the "new wave" of food cooperatives in the early 1970s. Cooperatives dominated this market until the 1990s, when several independently owned natural foods markets began large-scale expansion. In 1990, the total organic food and beverage market amounted to $1B in sales, served primarily through cooperatives and other independent retailers. In 2008, that market was expected to reach $23B, with the traditional mass market grocery stores and non-traditional food stores having gained projected shares of 38% and 16%, respectively.[93]

These food co-ops provide a powerful illustration of the way in which a relatively tiny proportion of an economic sector can bring about dramatic changes in an entire industry. The leadership role of these co-ops in the food industry is especially apparent in the way that they and a relatively small number of organic farmers and food companies have dramatically increased the availability of organic foods in the marketplace during the past 40 years. Additional opportunities for "farm-to-table" cooperative growth are discussed in Chapter 3.

Food co-ops provide a good example of a point made in Chapter 1: Co-ops can have a big impact on an economic sector without having a large share of the market in that sector.

One other consumer goods co-op deserves special mention: **Recreational Equipment Incorporated (REI)**. REI was founded in 1938 by Lloyd and Mary Anderson in Seattle as a means for local outdoor enthusiasts to purchase high-quality mountaineering supplies at low prices. The co-op now sells sporting goods and outdoor gear online, through catalog sales, and through a number of retail outlets. REI is the largest consumer goods cooperative in the United States, with over 10 million members, over 9,000 employees, and about $1.7 billion in revenue in 2010.[94]

Worker Co-ops

Employee-owned or worker co-ops represent a very small portion of the US economy. The UWCC census estimates that there were about 220 of these co-ops in 2007, with gross earnings of a little over $200 million and an estimated 55,000 member-owners.

The ICA Group's website indicates that there are about 500 worker co-ops—more than twice the number estimated by UWCC.[95] Maggie Ginsberg-Schutz reported in the February 2, 2012, edition of *Isthmus* (a weekly newspaper published in Madison, Wis.)

> "You can't even organize as a worker co-op in 13 states in the country," says Rebecca Kemble, a Madison anthropologist… "We don't even have national legislation that covers worker cooperatives. The US is at the bottom of the list in worker co-op development"…
>
> According to Kemble, there are three key regions in the US when it comes to worker cooperative development. One is the Pioneer Valley in Western Massachusetts, one is the California Bay Area, and one is Madison. Kemble [who] is also board president of the US Federation of Worker Co-ops…estimates there are more than 300 worker co-ops throughout the US…generating more than $400 million in annual revenues.[96]

In contrast to these US figures, in 2010, the Mondragon Corporation, headquartered in the Basque region of Spain, had 256 federated companies, over $19 billion in earnings, and about 84,000 employees, over one-third of whom were worker-owners.[97]

As the experience of Mondragon and worker co-ops in other countries such as Italy and Argentina illustrate, worker co-ops can be effective ways to produce goods and deliver services in a market economy. We are still at an early stage in the United States in developing this type of cooperative.

There is another model of employee ownership in the United States, commonly referred to as ESOPs (Employee

Stock Ownership Plans). According to the National Center for Employee Ownership (NCEO),

> An ESOP is a kind of employee benefit plan. Governed by ERISA (Employee Retirement Income Security Act), ESOPs were given a specific statutory framework in 1974.[98]

This and other federal legislation permit employees to purchase part or all of the company in which they work. There are tax benefits to employers who establish ESOPs. ESOPs are also a means for owners to receive tax benefits when they sell their company to the employees. NCEO estimates that

> There are about 11,500 ESOPs in the US covering almost 14 million participants and controlling several hundred billion in assets. Of these, about 5% are in publicly traded companies and 95% in closely held firms. The median percentage ownership for ESOPs in public firms is about 10–15%. Most public firms maintain an ESOP along with other benefit plans. The median percentage ownership for private firms is about 30–40%, with about 3,000 companies now majority employee owned. While the typical firm has 20 to 500 employees, employees own a majority of the stock of a number of companies with thousands or tens of thousands of employees. About two-thirds of the ESOPs in private firms are used to buy out an owner; the rest are typically used as a primary

> employee benefit plan, sometimes in conjunction with borrowing money for capital acquisition.[99]

There is an important caveat about this ownership model. The stock owned by employees in ESOPs is held in trust and controlled by a trustee who is selected by company managers, not by employees. Again, to quote from NCEO:

> Voting is one of the most controversial and least understood of ESOP issues. The trustee of the ESOP actually votes the ESOP shares. The question is "who directs the trustee?" The trustee can make the decision independently, although that is very rare. Alternatively, management or the ESOP administrative committee can direct the trustee, or the trustee can follow employee directions.
>
> *In private companies, employees must be able to direct the trustee as to the voting of shares allocated to their accounts on several key issues, including closing, sale, liquidation, recapitalization, and other issues having to do with the basic structure of the company.* [emphasis added] They do not, however, have to be able to vote for the board of directors or other typical corporate governance issues, although companies can voluntarily provide these rights. Instead, the plan trustee votes the shares, usually at the direction of management. In listed corporations, employees must be able to vote on all issues… What this all means is that for almost all ESOP companies, governance is not really an issue unless they want it to be. If companies want employees to have only the most limited role in corporate

> governance, they can; if they want to go beyond this, they can as well…[100]

Thus, ESOPs represent a significant form of employee ownership in the United States but are generally not a vehicle for democratic employee control, with the very important exception of "key issues…having to do with the basic structure of the company."

Lessons from the Review of US Cooperatives

Thus far, this chapter has provided a brief review of historical and contemporary information on the major cooperative sectors in the United States. This final section of the chapter draws some lessons from the experiences of thousands of cooperatives over the past 250 years.

How do co-ops get started and proliferate? What lessons can we learn about how to develop and maintain successful co-ops—and how to avoid co-op failures?

The development of successful cooperatives has a number of common themes:

- Adequate demand for a set of goods or services—often a demand that has been ignored or downplayed by for-profit businesses;
- Champions who fervently believe in the potential of a co-op idea;

- The feasibility of the co-op as a business—that is, in the realistic potential of a co-op to provide a set of goods or services at a profit;
- Adequate capitalization—sources of equity and debt capital to launch and maintain the co-op until it can turn a profit;
- Competent management that both understands how to run a business and is committed to co-op principles; and
- Members who are committed to buying and/or selling through the cooperative not merely for their own short-term benefits but for the long-term good of the co-op.

These themes can be seen as a common foundation for most successful cooperatives. However, there are significant variations, in particular, as they relate to co-op development in different sectors. Some co-ops started up and grew rapidly at a national level because of strong, widespread demand for previously unmet needs. Other co-ops faced greater impediments to formation and growth such as high capitalization costs or a market dominated by large competitors. They needed government regulatory or financial support to gain traction. Other co-op sectors continue to serve relatively small numbers of members but, at the same time, have had a disproportionately large impact on the economic sectors in which they operate.

Mutual insurance companies and credit unions are two classic examples of cooperatives that began in the United States primarily based on strong demand by consumers, visionary leadership, and the adaptation of models developed in Europe. In both of these cases, it is true that enabling legislation at the state level was a key ingredient to the rapid expansion of these two co-op sectors. But, the impetus for these two kinds of cooperatives to become broadly distributed across the country was far more a function of strong demand, good leadership, and an effective cooperative model.

Agricultural cooperatives and rural utilities, particularly electric utilities, were formed based on a different development model. They resulted from partnerships between advocacy organizations, consumers or producers, and the federal government, which provided necessary legal and financial support. In the case of farm co-ops, both antitrust protection and access to affordable capital were prerequisites to long-term success. In the case of rural electric cooperatives, the Rural Electrification Act was critical to providing affordable financing for a capital-intensive industry.

Other cooperatives were affected differently by this private/public distinction. Housing cooperatives are a good example of a kind of co-op that received strong support in New York City and the state of New York, in significant part because of strong advocacy from labor unions. There are a scattering of other cities and states that have been supportive of housing cooperatives, but they have never had broad-based popularity among state governments in general or at the federal level. Thus, housing co-ops have had a limited impact nationally as a home ownership option.

The "new wave" food co-op movement that began in the late 1960s provides an unusual example of a grassroots development approach that has had virtually no government support at any level. At the same time, however, these co-ops and their members played a strong leadership role in the passage of the Organic Food Production Act of 1990. This act created certification standards for organic foods that affected the entire food industry.[101] In other words, these co-ops have thrived in many communities without significant government support, and they have strongly influenced public policy toward organic foods.

Worker co-ops are an example of a kind of cooperative that has generally developed with little or no governmental assistance and, thus far, has had only a minor presence in the United States. It is interesting to contrast these co-ops with ESOPs. The latter type of employee ownership now comprises about 10% of the US workforce, thanks in large part to 1974 federal legislation that provided tax incentives for their creation.

Social service co-ops in the United States have generally operated with little governmental support, although there is a provision in the Affordable Care Act for development assistance grants to healthcare cooperatives. In contrast to the US approach, Italy has a national law legitimating a role for social service cooperatives. Many local units of government contract with these cooperatives for services. For example, the city of Bologna is reported to provide 87% of its social services, such as assistance to the elderly and people with disabilities, through contracts with co-ops.[102]

Learning from History

Chapter 1 ended with an anecdote about economic and political reforms that took place in the second decade of the 20th century. These reforms followed a period in US history in which the country was dominated by "trusts," which controlled major sectors of the economy and strongly influenced the political policies of the day. The moral of this story was that economic and social inequities can be turned around quickly if there is a popular will to do so.

A similar historical precedent can be found in the cooperative movement in the United States. As this chapter has illustrated, co-ops existed in the United States before the country was formed. However, with the exception of mutual insurance, they did not take off as an economically significant business form until the 1920s. Both agricultural cooperatives and credit unions experienced rapid growth beginning at that time. Rural electric and telephone co-ops experienced their own periods of rapid expansion beginning in the mid-1930s.

As discussed above, different dynamics contributed to the expansion of different cooperative sectors. Federal legislation was very important in the growth of agricultural and rural electric cooperatives. Credit unions proliferated as part of a nonprofit movement with the support of state legislation. In all cases, however, there was a groundswell of popular support at the local level, which made the expansion of all of these cooperatives possible.

The moral of this story of cooperative growth in the early 20th century is similar to the moral that can be derived from the anti-trust and pro-democracy initiatives that occurred in the second decade of the 20th century.

In the first quarter of the 21st century, we may experience another wave of regulatory and tax reform that reduces the power of large corporations and the wealthy. We may also see another dramatic expansion of cooperatives as they shift the US economy toward more democratic decision-making in the decades ahead.

The lessons from history indicate that major changes can occur in short periods of time, whether they involve busting trusts, increasing political democracy, or expanding economic democracy.

This chapter has presented information on the role that cooperatives play in the contemporary US economy and on the different development paths that these co-ops have taken to get to where they are today.

As noted above, co-ops constitute a relatively small part of total employment and Gross Domestic Product in the United States. However, it would be misleading to look only at these numbers in evaluating their impact on our economy and society. There are more co-op memberships in the US than there are people. This means that many of us are members of more than one cooperative. Although the survey data have not been collected on this issue, it would be reasonable estimate that half or more of the adults in the United States are already members of at least one cooperative.

US co-ops may be able to build on their existing membership and credibility and have a major impact on our economy and society in the decades ahead that could help transform our country into one that has less severe recessions, less concentration of wealth, and a more sustainable environment.

Chapter 3 identifies ways to build on the historical and contemporary role of cooperatives in the United States in order to achieve these three objectives. The chapter makes use of the lessons learned from the different development paths that these cooperatives have taken in order to develop strategies for future cooperative growth. For all of their differences and variations, the co-ops that are successful share a single underlying characteristic: they evolved out of and provide effective solutions to the social and economic needs of their members.

In short, the United States has a long-standing and demonstrated tradition of cooperation and cooperative endeavors as a means of picking up where the for-profit economy falls short. Across the entire spectrum of the economy, as demonstrated in this chapter, cooperatives have brought meaningful improvements not only to the lives of their individual and business members *but to the economy as a whole.* This potential for cooperatives to help shape the American economy for the better—making it more viable over the long term and more democratic—is the premise of Chapter 3.

CHAPTER 3

Growth Opportunities for Cooperatives in 2012 and Beyond

The US economy, dominated by large, investor-owned corporations, has produced almost 250 years of booms and busts and income and wealth inequality that has fluctuated between bad and worse. At the same time, economic democracy—in the form of cooperatives, mutual insurance companies, and credit unions—has been a part of our society since colonial times. These member-owned organizations are a relatively small part of our overall economy—less than 1% of Gross Domestic Product (GDP)—but most Americans are probably member-owners of at least one of these democratically run businesses.[103]

This chapter explores the potential for these cooperative businesses to play an even more important role in the United States in the years ahead. Economists note that businesses at the margins of an economic sector—those representing a relatively small percentage of the overall sector or occupying a specific niche—often have substantial influence on the behaviors of related businesses as well as individuals, including politicians.[104] For example, if one business in a market sector raises or lowers its prices by a percentage or two, that change can ripple through the economy, either causing other businesses to raise or lower their prices in a similar manner or, if the reaction among consumers is negative, causing the business to retract its price change.

Co-ops have often wielded this kind of influence as businesses at the margins affecting the practices of an entire economic sector. This happened in agriculture in the early 20th century, as detailed in Chapter 2. It happened with credit unions throughout the 20th century and, in fact, is happening right now with free checking accounts and the free use of debit cards and ATMs by most credit unions, forcing for-profit banks to consider their own fee structures. It has also happened with food co-ops, whose championing of organic foods has changed the entire grocery industry. And it has happened in many other sectors of the economy as a result of cooperative action.

There are plenty of additional opportunities for co-ops to transform the US economy in positive ways even though they account for a relatively small proportion of the GDP. By strategically making use of cooperative businesses to effect positive economic and social change, we have the potential to shift US society toward greater economic democracy, environmental stewardship, more equitable distribution of wealth and income, improved social services, and better jobs. Co-ops don't have to take over the economy to do this. They can set the examples at the margins.

This chapter presents three primary examples and several secondary examples in which cooperatives are well positioned to take on a much bigger role in meeting our country's economic and social needs. These examples are a sampling of future co-op opportunities; there are many others with the potential for equal or greater social, environmental, and economic impact.

Realizing the Financial Power of Credit Unions

This section explores how cooperative financial institutions can play a major role in creating an economy in the United States that is more resistant to the concentration of wealth, more receptive to regulation, and less prone to the dramatic cycles of boom and bust that have characterized the US economy since 1776.

Together, the more than 7,000 credit unions in the United States are just beginning to flex their muscles as an important part of the country's financial sector. This may seem surprising given that these financial institutions have been around in large numbers since the 1930s and now have over 93 million members nationwide.[105] In spite of this substantial presence, however, over the last several decades, credit unions have dramatically increased their memberships and the sophistication of their information technology systems and financial service options. In addition, a number of their major competitors in the financial industry have been shuttered or lost their luster as a result of self-inflicted wounds in the last three decades. Many savings and loans associations went out of business or were weakened in the late 1980s and early 1990s as a result of irresponsible real estate lending.[106] And, as reviewed in Chapter 1, a number of large and mid-size banks that precipitated, or were casualties of, the Great Recession of 2007-2009 have gone out of business, suffered huge financial losses, and/or lost their credibility.

Thus, there is a major gap in the financial marketplace that credit unions can and should fill. The focus here is on four areas in which there is excellent potential for growth.

Expanded membership of consumers and small businesses—The number of credit union members has grown by about 12 million since 2000, bringing the total to over 93 million in 2011. The pace of growth appears to have accelerated in 2011, in part due to the mounting distrust of, and anger at, large banks as a result of the subprime mortgage crisis and increased fees charged by some of these banks for various services, such as debit cards, checking accounts, and ATM transactions.[107]

This disaffection with large banks has created an incentive for more individuals, families, and small businesses to move their accounts to credit unions in the years ahead. This reaction against large banks is a factor pushing consumers and small businesses away from large banks. But there are also attractive features of credit unions that are pulling new customers their way. Credit unions often have a variety of "no fee" services, pay higher interest rates than banks on savings accounts and CDs, and charge lower interest on loans and credit cards. What's more, many credit unions are increasingly emphasizing the fact that they are owned by their members and committed to their communities. Thus, with effective marketing of the credit union difference[108] and high-quality services, there is excellent potential for the continued migration of people and small businesses from banks to these democratically controlled financial institutions.

Expanded small business lending—Contrary to common assumptions, credit unions do lend money to small businesses. One of the constraints, however, is that credit unions are limited by a 1998 federal law that restricts their small business lending to 12.25% of their assets. The US credit union movement, led by the Credit Union National Association, is supporting federal legislation that would increase to 25% the amount available for small business loans.[109]

Small businesses have had a great deal of trouble accessing loan capital during the last four years. It makes no sense in an economy that continues to struggle to recover and create jobs to have an arbitrarily low business-lending cap for credit unions. Because most credit unions serve local communities, they are in an excellent position to evaluate and make loans that not only benefit small businesses but also the communities in which they are located. There should be wide support for this additional lending capability by credit unions within the cooperative community, by local community leaders, and by small businesses.

Taking on the payday lending industry—The usurious rates that payday lenders charge their borrowers—often adding up to several hundred percent per year—have come under increasing scrutiny in the past year by the Federal Trade Commission and the recently created Consumer Financial Protection Bureau.[110]

Increased federal regulation of this rapacious industry is an important action, but better regulation is not enough. The people who are prone to payday borrowing, many of whom struggle to make ends meet on a weekly or monthly basis, need alternative sources of borrowing, especially sources accompanied by clear agreements and by appropriate financial education. Credit unions are ideally suited to be lenders to the kinds of clients that the payday industry currently "serves." After all, credit unions have their roots in providing savings and borrowing opportunities to low- and middle-income people dating back to the beginning of the 20th century in the United States.[111]

Credit unions taking on payday lenders will not be an easy or risk-free activity, but because credit unions are ultimately service organizations for financial consumers, it is a natural fit for them to help people break away from payday borrowing. Credit Union Service Organizations (CUSOs) are a kind of legal entity that can be formed by an individual credit union or by a group of credit unions to carry out a variety of different functions. For example, a group of credit unions in a community could form a CUSO designed to serve high-risk borrowers such as those who currently make use of payday lenders. In this way, credit unions could spread the risk and concentrate expertise in a CUSO in order to meet the borrowing, savings, and financial transfer needs of former victims of payday lenders.

Letting the world know that credit unions are full-service financial institutions—Many credit unions are full-service financial institutions, not only providing savings and lending options but also insurance, mutual fund and other investment services, and financial counseling. But it is often challenging to find this array of services on a typical credit union website because many credit unions do not actively promote the diversity of their services.

Desjardins, the parent organization of credit unions in Québec and Ontario, takes a much different approach from that used by most US credit unions in the messages it conveys on its website:

> We are the largest financial cooperative group in Canada. We offer complete financial cooperative services

> to nearly 6 million members and clients. We use the strength of cooperation not only to provide our members and clients with a wide range of financial cooperative services, but also to contribute to the economic and social development of their communities.[112]

The website lists four major categories of services under the following headings: loans, lines of credit, and credit cards; savings and investment; accounts and related services; and insurance.

In comparison to Desjardins, US credit unions, the state credit union leagues, the Credit Union National Association (CUNA), and the CUNA Mutual Group, which provides insurance and other financial services to credit unions and their members, are very low key about the breadth of their financial services. As noted in Chapter 2, the credit union movement in the United States began in New England following the model of the Desjardins credit unions in Canada.[113]

It is time to look to the north again as a guide to the next phase of financial cooperation in the United States. Desjardins is effectively a hybrid composed of locally based credit unions and a more centralized organization that carries out a range of functions on behalf of its members. These functions include the ownership of a bank in Florida, where many Canadians visit in the winter; insurance and mutual fund investment services, including a 50% ownership of a socially responsible mutual fund; and wealth management and other services. In 2011, Desjardins bought the Western Financial Group, which, for the first time, gives the organization a large presence in the western provinces. Western is a provider of a variety of financial services including insurance, investment instruments, and ownership of a bank.

There may be regulatory obstacles—and intense lobbying by banks—that would inhibit CUNA and its member credit unions from developing a structure and full-service promotional approach similar to that of Desjardins. However, the credit union movement and its cooperative allies have shown the ability to overcome obstacles that block them from carrying out their service mission. Credit unions should take on the challenge of expanding their ability to promote and provide a full range of financial services in a manner similar to Desjardins.

Cooperatives and Climate Change

The United States and many other countries have been slow to develop effective policies to take action against what is potentially the greatest environmental disaster that the world has faced since humans emerged as a species. Scientists are almost unanimous in concluding that greenhouse gas emissions are reaching a tipping point that is already causing increasing world temperatures and deadly weather-related events, including droughts, desertification, floods, rising sea levels, tornadoes, forest and grass fires, and other effects.[114]

Because of their unique values, principles, and organizational structure, cooperatives can play a lead role in mitigating the harmful impacts of global warming in the United States and in other countries. Cooperatives are service organizations, committed to sustainable development, and have the ability to mobilize large numbers of people to act on their own behalf and that of their neighbors. The rapid growth of the mutual insurance industry, credit unions, and agricultural and rural electric cooperatives illustrates the power and speed of cooperation as an organizing activity.

This mobilizing ability can be applied to reducing the harmful effects of global warming. Two primary examples of applying the power of cooperation to problems related to climate change are presented in this section along with a couple of secondary examples. The primary examples are mobilizing rural energy cooperatives to develop comprehensive green energy plans and mobilizing family farm owners and family forest owners to manage their natural resources more sustainably. The secondary examples focus on the ability of consumer and business purchasing cooperatives to use their buying power as a means to conserve energy and increase the use of renewable fuels.

Mobilizing rural energy cooperatives—As discussed in Chapter 2, there are almost 1,000 rural electric cooperatives in the United States. These co-ops serve 42 million people in rural, suburban, and urban communities. Many of these co-ops refer to themselves as energy co-ops rather than as electric co-ops, communicating a broader mission than electrical generation, transmission, and distribution. Some of these co-ops have done an excellent job of supporting energy conservation and renewable energy development.

For example, Great River Energy, based in Minnesota, received a platinum LEED certification from the US Green Building Council for the design and construction of its headquarters. The co-op also generates more than 15% of its electrical energy from renewable resources.[115] Dairyland Power Cooperative, based in Wisconsin, has been a national leader in promoting the use of methane gas derived from cow manure as an energy resource.[116] Kauai Island Utility Cooperative, the youngest generation and transmission cooperative in the United States, "is aggressively pursuing diversification of its energy portfolio to include a growing percentage of hydropower, photovoltaic, bio-fuel, and biomass."[117]

Energy co-ops are well situated to speed up the rate of energy conservation and the shift to renewable energy in the US because they are member-based, grass-roots organizations. One initiative with great potential would be for the National Rural Electric Cooperative Association to promote among its members the development and implementation of local, comprehensive green energy plans. In this type of planning, co-op staff and members would identify locally appropriate, practical, and measurable approaches to reducing energy consumption and increasing the use of renewable fuels. Because of the active involvement of local citizens in the planning and implementation process, this type of initiative could be a powerful means of addressing climate change at the community level.

Sustainable family farm and family forest management—Carbon sequestration is the storing of carbon that offsets the emission of carbon dioxide into the atmosphere—the primary culprit in global warming. The oceans are by far the biggest repository of stored carbon in the world, but there are very limited ways in which we can increase the carbon stored in the oceans. Where we can make a difference is on land, especially in the earth's forest cover, where most of terrestrial carbon is stored. There is excellent potential to reduce the loss of carbon from the world's forests and, in fact, to bring about a huge net increase in the amount of carbon stored in forests by planting more trees and through improved forest management.[118] "The Role of Forestry Cooperatives in Climate Change Mitigation"[119] describes how two kinds of forestry cooperatives—co-ops of forest owners, primarily in developed countries, and co-ops of forest users, primarily in developing countries—together could play the lead role in planting trees and sustainably managing forests on hundreds of millions of acres of land throughout the world.

Over the next three decades, some experts have concluded that the quickest and most cost-effective way to reduce the net amount of carbon dioxide emissions entering the atmosphere is through major decreases in the rate of deforestation, massive reforestation efforts, and sustainable forest management.[120] In both forest co-op models, the people who are closest to the forestland, landowners and land users, would enter into agreements to plant trees and manage forests sustainably and would be paid by the countries and companies that are major sources of carbon dioxide emissions based on the carbon that they successfully sequester. This process would be rigorously monitored and evaluated, and only legitimate net increases in stored carbon would be paid for.[121]

Increasing energy efficiency—Reducing fossil fuel consumption is one of the most effective approaches for reducing the rate of carbon dioxide entering the atmosphere. This can be accomplished through the use of more energy-efficient transportation, by heating and cooling our homes and other buildings more efficiently, and by reducing the distance over which food and other goods are transported from their site of manufacture to their site of consumption, among other energy conservation actions.

Co-ops can play a role in achieving greater energy efficiency. For example, the heating and cooling of buildings can be improved by groups of homeowners, apartment building owners, and the proprietors and managers of other buildings joining together cooperatively to purchase more energy-efficient furnaces, air conditioners, light bulbs, appliances, windows and doors, insulation, and other materials. By aggregating their purchases of these energy conservation items, building owners can buy them at a lower cost. This principle of cooperative purchasing power applies to other goods and services as well, such as the purchase of energy-efficient vehicles. In addition, the construction and rehabilitation of energy-efficient buildings can be organized as community-wide campaigns, thereby increasing the number of retrofitted and newly constructed buildings that are designed to conserve energy. Federal, state, and local governments can be a part of these initiatives by offering financial incentives and by assisting in the coordination of energy conservation paigns. Thus, working together, building owners can rapidly increase energy conservation on a broad scale.

Carpooling is an example of a cooperative approach to transportation energy efficiency. In many cases, this is already being done informally among small groups of drivers, for example, sharing rides to and from work, school, and other destinations. Cooperative carpooling can also be organized on a more comprehensive basis, in which dozens or hundreds of people are part of car-sharing networks that can be coordinated online.

The cost of providing electricity to a home, building, or manufacturing facility varies with the time of day, the temperature, and other factors. More and more, businesses and consumers are adjusting their use of electrical energy so that they use more energy during low-demand periods and less during high-demand periods. This type of activity could be organized cooperatively, such as in a subdivision in which a group of homeowners agree to install monitors in their heating and cooling systems that adjust usage in ways that allow the utilities to provide that energy more efficiently. This kind of coordinated usage pattern could be organized as a formal cooperative or through a less formal mutual agreement.

Renewable energy—The major forms of renewable energy are wood, solar, wind, hydroelectric, and geothermal. People are usually surprised when they learn that the major source of renewable energy in the United States is wood, which accounts for about 40% of renewable energy.[122]

There are immense opportunities in the US for aggregating wood (and, to a lesser extent, non-woody biomass such as prairie grasses, corn stover, and other plant materials) cooperatively for use in the heating and cooling of buildings and for electricity generation. There are about 750 million acres of forestland in the United States, more than half of which is owned by about 10 million private landowners.[123] These forest owners can form regionally based cooperatives to provide wood for energy and other uses in a similar manner to the use of agricultural cooperatives by farmers. In fact, agricultural cooperatives are also in a good position to aggregate both woody and nonwoody biomass. A key requirement for aggregating wood for energy and other purposes is that it be harvested sustainably so that the forest is left in good condition after the harvest and that the net amount of biomass in our nation's forests continues to increase over time.

Solar panels can be purchased and installed cooperatively. By aggregating the buying of panels, homeowners and other building owners can benefit from lower prices and negotiated installation costs.

Wind farms, hydroelectric facilities, and large-scale solar projects can benefit from cooperative approaches as well. In these cases, energy consumers can band together to pre-purchase energy from these renewable sources. The funds generated from this kind of pre-purchase agreement can provide the capital necessary to construct the renewable energy facilities. If there is a price differential between renewable and fossil fuels, consumers can contract to pay a premium for the use of renewables. Again, the more of us who are willing to purchase renewables cooperatively, the more quickly we will shift to a renewable energy economy.

Revolutionizing Social Services Through Co-ops

The concept of social service co-ops is not well known in the United States, but it is widely recognized in several other developed countries, especially Italy and Japan. Social service co-ops are a way of both doing business and providing social services. In his book. *Humanizing the Economy,* John Restakis provides an analysis of these co-ops and makes a case for expanding their use.

> In the city of Bologna, Italy, "87% of the city's social services are provided through municipal contracts with social co-ops…
>
> The rise of social cooperatives represents a new frontier in the shifting boundaries between public, private and commercial spheres…. These co-ops are inventing models of care that embody the strengths and values of civil society as an alternative both to state and market systems. In the process, they are forging new roles for civil society and government…[124]

Restakis cites 2005 Italian census figures that identify 7,000 social cooperatives with 280,000 employees, representing 23% of the nonprofit sector's labor force. [125]

Research has shown that this approach to social service care has produced better results and more satisfied clients at a lower cost than other social service approaches in Italy.[126]

There is a wide array of social services that can be provided through cooperatives, including healthcare, home care for the elderly or people with disabilities, rehabilitation programs for people recovering from drug or alcohol addiction, parole and probation programs for people who have committed crimes, child care services, programs to assist people in the transition from welfare to work, and many others.

Why provide these services through cooperatives? Many communities in Italy and Japan have found that co-ops provide an effective, reasonably priced, and accountable means of providing these services. The reason for this is that the primary members of these co-ops are the people providing the services. These member-providers are specially trained and committed to the co-op, and their livelihood depends on providing the services well. Cooperatives have the advantage of not getting caught up in government bureaucracies and the expenses and inefficiencies that often go with them. Unlike for-profit organizations, co-ops don't need to compromise their level of service to make a profit for investors. However, as businesses, co-ops have the potential to be more efficient service providers than many nonprofits. In fact, contracts for services with the co-op can often be written in such a way as to create incentives for measurable levels of performance. In addition, co-ops can be structured so that there are multiple groups represented on their boards of directors, including the co-op employees providing services, the recipients of the services (or family members of the recipients), and other people in the community who have a stake in the delivery of the co-op's services. This type of organization is sometimes referred to as a multi-stakeholder cooperative.

Social service co-ops can be targeted to provide specific services. They can provide services more cost-effectively than other alternatives. They can be accountable to the public and to the people whom they serve. They can be agile because those providing the services and representatives of those receiving the services are the decision-makers and can adapt what they're doing in response to performance needs and a changing environment. Because the co-op is theirs, its stakeholders tend to be personally and financially committed to doing a good job.

Two examples of social service cooperatives:

Healthcare Cooperatives—Healthcare co-ops, such as Group Health Cooperative based in Seattle, Wash., reviewed in Chapter 2, are a good example of a social service co-op in the United States. As the Affordable Care Act continues to be phased in over the next several years, we may very well see an upsurge in the number of health co-ops and people using their services.

Homecare for Seniors and People with Disabilities—There has been successful experimentation with cooperatively organized home care in the United States over the past couple of decades, such as Cooperative Home Care Associates described in Chapter 2. This program has been operating for 18 years and has earned a positive national reputation because of its high quality of services, reasonable costs, and the fact that it has employed many formerly low-income caretakers who are now owners of the business.

Cooperating from Farm to Table

The United States has an extensive system of agricultural supply, processing, and marketing cooperatives, accounting for about one third of all farm inputs and sales in the country. There are also hundreds of consumer-owned food cooperatives, most of which specialize in natural and organic foods, that serve almost all major cities and many smaller communities. For the most part, however, these components of the cooperative food system act independently of one another—and sometimes work at cross-purposes. Thus, there is potential for improved integration of cooperative food production and consumption systems at the local, regional, and national levels.

A movement has been growing over the last 40 years in which consumers in the United States are motivated to buy healthy, local, fresh, natural, and organic vegetables, fruits, meats, and other foods. As illustrated in Chapter 2, food cooperatives have had an important impact on this trend.

So have several agricultural co-ops, most notably Organic Valley Cooperative. The co-op is headquartered in Viroqua, Wis., and has a membership of about 1,700 farmers in 35 states. It produces organic dairy, meat, juices, and other products. Started in 1988, Organic Valley has grown rapidly to become the largest organic co-op in the US, with sales of over $700 million in 2011. What's more, Organic Valley has a strong environmental ethic, with a goal of achieving a zerocarbon footprint through energy efficiency and investment in renewable energy resources, including solar, wind, and biomass.[127]

Organic Valley should become a model for other farm co-ops because of its "quadruple bottom line": economic stability, healthy products, commitment to community, and environmental stewardship.

Community-supported agriculture programs are arrangements in which local farmers enter into agreements with groups of consumers to provide them with assortments of local, seasonally appropriate foods. There has also been an increase in urban gardening in many cities across the country and in farmers' markets, where once or twice a week, local farmers sell agricultural products directly to local consumers.

However, the cumulative impact of this local buying and selling constitutes only a small fraction of all the food produced and consumed in the country. As demonstrated by Organic Valley, co-ops can play an important role in increasing this interaction between farmers and consumers in ways that result in economically healthy local farms and physically healthy local consumers.

For example, most of the 325 food cooperatives spread throughout the country already emphasize products grown and produced in their local "foodsheds." The food co-ops are often in close contact with both local growers and local consumers, serving as a critical link between these groups. In addition, the National Cooperative Grocers' Association (NCGA) serves as an alliance of many of these food co-ops at the national level.

The importance of buying locally produced food to sustain the health of both local economies and the environment has become increasingly popular over the last several years; Michael Pollan's book on this subject, *In Defense of Food*, was number one on the *New York Times* Non-Fiction Best-Seller List for six weeks in 2008.[128] Thus, both the infrastructure and interest are in place for farms and grocery cooperatives to work together to market healthy, locally produced foods.

A recent article in the *New York Times* documented a trend of large food-related corporations increasingly dominating the processed organic and natural food markets. Many brands that sound small and local are, in fact, owned by the big guys:

> Bear Naked, Wholesome & Hearty, Kashi: all three and more actually belong to the cereals giant Kellogg. Naked Juice? That would be PepsiCo of Pepsi and Fritos fame. And behind the pastoral-sounding Walnut Acres, Health Valley and Spectrum Organics is none other than Hain Celestial, once affiliated with Heinz, the grand old name in ketchup.[129]

So, to a significant extent, organic and natural foods, which grocery co-ops and small farmers played a major role in popularizing, have been coopted by large corporations.

Can food co-ops and co-ops of small and medium-size farmers regain market share in these products? That's not an easy question to answer, but there appear to be some opportunities. The idea of "organics plus" and "sustainable plus" production, processing, and marketing could be the key to a cooperative resurgence in this market. The "plus" could refer to a variety of added qualities. These additional elements of sustainability could include businesses that are democratically organized, local, community-based, and engaged in local-to-local commerce (which, in this context would mean grown by farmer-based producer co-ops—in the US or other countries—and marketed in consumer co-ops). Large companies can't claim these pluses because they are not democratically run, community-based or local. If these characteristics can be "branded" by food and farm co-ops, they would represent a bullet-proof niche for growth because many consumers report that they value these attributes.

Building on this solid cooperative farm-to-table base has excellent potential to expand over the next two decades.

Stressing the Mutual in Mutual Insurance Companies

Mutual insurance companies are the oldest cooperative sector in the United States, dating back to 1752. They are also the largest sector, both financially and in terms of the number of members—140 billion in gross revenue in 2007 and 233 million members, as reported in Chapter 2.

In the 1980s and 1990s a number of mutuals chose to become stock-owned companies, often with the rationale that this would give them greater access to capital for expansion and diversification. Another motive was probably at play as well—windfall financial gains to managers, board members, and knowledgeable outsiders as a result of demutualization.[130] However, the mutual insurance companies that chose to remain mutually owned are among the strongest and most stable insurance companies in the United States. One reason for this is that they have kept their focus on their primary purpose—the provision of insurance—rather than pursuing other activities, such as banking and speculative investment. Some of these mutuals are also among the best corporate citizens in the country. Thrivent Financial, for example, consistently donates a large part of its profits to charitable causes.[131]

These mutuals, however, could do more to champion mutual and cooperative principles, especially those related to member education and involvement in decision-making. A few suggested improvements are listed below:

- Encourage more direct participation in decision-making by members/policyholders rather than relying so heavily on proxy voting;
- Advertise the fact that they are owned by their policyholders, using the theme of "marketing the mutual alternative";
- Promote the democratic economic model of which they are a part by investing in, and donating to, promising cooperative initiatives, especially those with a strong social and community mission;
- Do a better job of adhering to the principle of "co-operation among cooperatives" by working with other cooperatives and mutuals at the local, state and, national levels to promote common economic and social goals.

As many credit unions and other co-ops have discovered, the more people recognize that they are member-owned and controlled, the more they use their services. Thus, by acting more cooperatively in terms of their internal decision-making and external promotion, mutual insurance companies could also increase the number of their policyholders and improve their bottom lines.

Expanding and Diversifying Cooperative Housing

Homeownership, both single-family and condominium, suffered a major blow in the recent recession, which left over 11 million homes in foreclosure or with “underwater” mortgages (meaning that the homeowner owes more on the house or condominium than its current market value).[132] Housing cooperatives can provide a more secure and affordable type of homeownership to a range of different demographic groups in the next two decades.

Both condo and co-op residents have democratically elected boards who set policy regarding common spaces and general rules. Thus, it makes sense to emphasize the common attributes of condos and housing co-ops rather than their legal differences. Condos should be considered a form of cooperative, and the extensive common ground between them and housing co-ops should form the basis of more joint action to improve the wellbeing of residents of both kinds of housing.

There are numerous kinds of housing cooperatives, ranging from expensive, market-rate housing in Manhattan to low-cost student cooperatives in which members provide sweat equity as part of their membership fee. In between these extremes are a variety of “limited equity” co-ops that are designed for the elderly, people with disabilities, people of limited financial means, and others. Thus, housing co-ops should not be perceived as one “thing” but as solutions to a variety of different housing needs. And their use should be strategically applied recognizing these different needs.

As we saw in Chapter 2, Minnesota has become a national leader in limited equity co-ops for seniors, with an estimated 74 co-ops with 5,600 housing units. Most of these co-ops have been formed in the past 15 years. One of the limitations of the model has been that it works best in states with low property taxes. For example, it has been far more difficult to form these co-ops in Wisconsin than in Minnesota because of Wisconsin's higher property taxes. However, there is the potential for establishing hybrid housing models in high-property-tax states, which combine nonprofit status with co-op decision-making that would allow for reduced property tax payments and yet maintain member control.

There are a variety of ways for people to have democratic decision-making control over their housing, and there is a great deal of room for creativity in helping as many people as possible to achieve this kind of control through various types of housing cooperatives and condominiums.

Making Employee Ownership a Significant Part of the US Economy

As described in Chapter 2, employee-owned cooperatives are a very small part of the US economy, with between 225 and 500 of them dotted across the country. Another type of employee-owned business in the United States is Employee

Stock Ownership Plans (ESOPs). Also reported in Chapter 2, there are an estimated 11,000 of these companies, about half of which are majority owned by the employees. In the vast majority of ESOPs, the shares of ownership are controlled by a trustee rather than by the employees themselves, but employees can vote on fundamental issues such as closure and relocation. In the future, changes in the federal laws regarding ESOPS could expand the extent to which they are governed democratically by their workers. In fact, federal legislation could specifically include worker co-ops in ESOP-related and other programs designed to create and retain jobs.

As noted in Chapter 2, a successful, long-lasting example of employee ownership is the Mondragon Corporation in the Basque region of Spain. Mondragon is a federation of more than 250 primarily worker-owned cooperatives, employing over 80,000 people in 19 countries.[133] Several factors have contributed to Mondragon's success, including enlightened and committed leadership, a highly effective cooperative development planning system, a financing system that generates capital investment from people living in the Basque region, and flexibility in its long-term growth plans that has allowed it to adapt to internal and external changes.

There are a few locations in the United States where clusters of worker cooperatives have developed. In the San Francisco area in particular, there has been an attempt to adapt the Mondragon model to create a dynamic for the growth of interrelated cooperatively owned businesses. However, thus far, the US Federation of Worker Cooperatives and its members have not yet developed the synergy and dynamism of Mondragon and other European worker co-ops.

Keeping Small Businesses Competitive Through Cooperation

One of the important themes of this essay is that small businesses as well as individuals and families can benefit from cooperatives. Small businesses, including farms, can join together and purchase goods and services to save money and meet their quality requirements. Small businesses can also market products and services cooperatively. Any set of products or services that is bought or sold by multiple businesses can be the basis for forming a cooperative.

In the US, small businesses generally use co-ops to purchase goods and services rather than to market them. Farm co-ops, of course, are the big exception to this rule, because farmers often sell grain, dairy, fruit and nut products, livestock, and other products through their co-ops. Even though such co-ops are a well-established part of the US economy already, there is tremendous potential for further growth of small business co-ops.

Small businesses can benefit from co-ops in a variety of other ways in addition to joining together to buy or sell goods and services. For example, many small businesses are members of credit unions and, as such, are eligible to borrow from them. With the passage of legislation expanding their lending ability, as discussed above, credit unions could become an even bigger source of loans to small businesses. Also, when consumers create buying clubs, especially ones that are geared toward purchasing in local communities, the small businesses in those communities can benefit.

Concluding Comments for Chapter 3

Two themes stand out in this chapter. One is that just about anything can be done cooperatively if there is a shared interest in doing so. A second theme is that some activities are particularly well suited to being carried out cooperatively—those activities that meet the common needs of groups of people, especially when those needs are not being adequately met by other businesses or by the public sector.

People in cooperatives often use the word "aggregation" as a defining activity of co-ops. Aggregation is a useful shorthand word that means "the collecting of units or parts into a mass or whole." Co-ops aggregate all sorts of things, above all, people, but also consumer goods and services, farm inputs and agricultural products, and jobs. As this chapter has shown, there are innovative kinds of aggregation that co-ops can carry out in the future, such as groups of landowners and land users storing vast amounts of carbon in their forests, fields and soils; groups of social service providers and recipients of social services working together to cooperatively provide healthcare, childcare, and services to the elderly and those with disabilities; and people coming together to increase their economic power as consumers and small businesses and by strengthening the role of credit unions and other financial cooperatives in the United States.

The potential for future cooperative growth is immense. It is also a necessity if we are to move beyond the periodic economic breakdowns, the glaring economic inequality, and the wanton disregard for the safeguarding of our environment that currently plague the United States.

Conclusion

The United States has a tradition of economic democracy that goes back as far as its political democracy. For 250 years, cooperatives—businesses that are owned and controlled by their members and serve the needs defined by those members—have demonstrated their ability to operate effectively within the US economy, showing that economic success and democracy are highly compatible. In fact, as this essay argues, the economic democracy exemplified by cooperatives is a powerful framework on which to base a future economy that is adaptable and responsive to the needs of society and is sustainable over the long term.

Economic success measured by maximizing profits or short-term gains for the well-to-do is a very limited vision and one that is, over the long term, detrimental to the wellbeing of the majority of participants in the economy and to the natural environment on which we all depend. Co-ops represent a more comprehensive vision of success that is based on the economic wellbeing of the people who own and control them. As democratically organized and managed businesses, cooperatives are a fundamental expression of the American dream, providing a means by which self-determination—that basic American principle—is enacted through the mutually beneficial practice of working together.

So, what are the next steps in realizing this vision?

The biggest one is to take back control of our political democracy. This essay has argued throughout that too much decision-making is concentrated in the hands of large corporations and the wealthy. This manifests itself in too little regulation, which paves the way for self-serving economic abuses that negatively affect the large majority of us. It is built into an electoral and lobbying process that allows those with money to have undue influence on the political system, tilting it to meet their needs and effectively subverting the democratic process. It skews our tax system, so that income and wealth become more concentrated, which besides unfairly taxing the rest of us now is leading toward a less and less tractable deficit crisis in the years ahead.

These are the society-wide, political problems that we as citizens need to address.

But there are also many problems that we can solve in our local communities and in our everyday lives. We can actively participate in the cooperatives that are all around us, whether they are mutual insurance companies, credit unions, grocery co-ops, or other forms of co-op activity. We can work with others to form new ones, such as the energy and social service co-ops discussed in Chapter 3.

Perhaps most important of all, we can think and act cooperatively. Just as there has been an awakening of political democracy in some Middle Eastern, Asian, and other countries in 2011 and 2012, we can have an awakening of economic democracy in the United States. We can finally recognize and put into practice the other half of the democratic revolution that brought our country into being two and a half centuries ago, the recognition that we are not fully democratic until economic decision making, as well as political decision making, is democratic.

Endnotes

1 "International Year of Cooperatives." 2012. United Nations. http://social.un.org/coopsyear

2 International Cooperative Alliance, http://www.ica.coop/coop/principles.html [Note that ICA uses English (United Kingdom) spellings.]

3 In this essay, we refer to all three of these kinds of organizations as cooperatives because they all are owned and democratically controlled by the people they serve.

4 Many Americans are members of more than one cooperative, which explains the large size of this number.

5 However, presidential elections in the US are not quite direct but, rather, are mediated through the Electoral College.

6 As with political democracy, there are exceptions to the general rule, especially in cooperatives that have other organizations as members.

7 Not all for-profit businesses are incorporated as stock-based companies. But the same principle generally applies to both stock and non-stock companies—control of decision-making is usually based on the percentage of ownership.

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[14] The term "Robber Baron" was coined to characterize some of the most powerful industrialists of this period. Standard Oil, controlled by John D. Rockefeller, was broken up by the US government in 1911 because of its monopoly control of the oil industry "Robber baron." 2012. Wikipedia. http://en.wikipedia.org/wiki/Robber_baron_(industrialist)

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invested heavily in these financial instruments, which included subprime and other high-risk mortgages.

[18] The formal definition of recession is a period of economic decline, usually measured by a decline in the gross domestic product.

[19] "The Budget and Economic Outlook: Fiscal Years 2010 to 2020." January 26, 2010, Congressional Budget Office. http://www.cbo.gov/ftpdocs/108xx/doc10871/01-26-Outlook.pdf

[20] It should be noted that cooperatives are not totally free of the sins committed by for-profit corporations. For example, Farmland Industries was one of the largest cooperatives in the United States in 2000. Its corporate leadership decided to invest heavily in chemical fertilizers at that time in the expectation of future increased prices. They miscalculated fertilizer demand and, as a result, bankrupted the cooperative in 2001. "Farmland Industries." 2012. Wikipedia. http://en.wikipedia.org/wiki/Farmland_Industries

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[41] Note that this number of memberships is a little larger than the entire population of the United States. Obviously, not every man, woman, and child in the US is a member of a cooperative. This number is so large because many of us are members of more than one cooperative.

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50 REIC. op. cit.

51 REIC, op. cit., provides details on how estimates of combined revenue were calculated.

52 Most of the data presented in this chapter are from 2007 and are reported in *REIC*, cited above. In general, the numbers are rounded in order to make the table easier to read. Note that gathering data on approximately 30,000 cooperatives was a challenging and, in some cases, ambiguous task. The methodology for the census is described in detail in *REIC*. Where there were missing data or where revised numbers were available from other sources, these were substituted for the UWCC data. The following modifications to the *REIC* data were in this table:

- Data from REIC's farm supply and marketing, bio-fuels, and farm credit subsectors were combined to create the agriculture sector category.
- The credit union category was updated using the following source: "US CU Profile." December, 2011. CUNA: http://cuna.org/research/download/uscu_profile_4q11.pdf
- The rural electric category was updated using the following data source: "2011 Annual Report." NRECA: http://www.nreca.coop/about/Documents/NRECA_Annual_Report.pdf

- These numbers are extrapolated from the REIC census' category "social and public cooperatives," except that "housing" is treated as a separate co-op sector.
- The number of housing co-op members was estimated from: "American Housing Survey." 2009. Total number of cooperative housing units. US Census Bureau. http://www.census.gov/housing/ahs
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- Note that the co-op sector numbers do not equal the *REIC* totals because of the changes described above.

53 Most mutual insurance companies don't refer to themselves as cooperatives. However, in REIC and in this essay, they are defined as cooperatives because they are "owned and democratically controlled" by their members/policyholders.

54 Note that many mutuals own subsidiary insurance companies, whose policyholders do not have voting rights. An effort was made in the UWCC data-gathering process to exclude these policyholders from the category of "members." However, it is possible that some of these non-voting policyholders were inadvertently included in the membership total in REIC.

55 Knapp. 1969. Chapter 4.

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59 Knapp. 1973. 120.

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61 "Corporate Credit Union." 2012. Wikipedia. http://en.wikipedia.org/wiki/Corporate_credit_union

62 See for example: "NCUA Dissolving U.S. Central FCU." June 8, 2011. Credit Union Journal Daily Briefing. http://www.cujournal.com/dailybriefing/13_619/-1008914-1.html

63 FHLB was created in 1932, at the height of the Great Depression, in order to increase stability and confidence in the mortgage and small business lending markets. The system operates profitably without governmental financial support. Federal Home Loan Banks. 2012. http://www.fhlbanks.com

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co-ops in 2007 with about $1.5 billion in revenue, 13,000 employees, and 1 million members. There were also about 3,400 water co-ops and associations with about $600 million in revenue, over 8,000 employees, and over 2 million members. For more information on these co-ops, refer to the UWCC census of co-ops.

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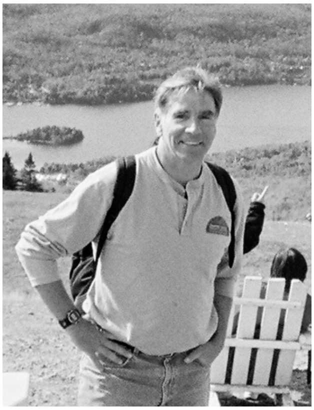

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