Back to (Non)Basics: Worker Cooperatives as Economic Development1

By Evan Casper-Futterman

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


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Introduction

Widespread and deep-seated problems of economic restructuring and capital flight have become scenarios of haunting familiarity to city dwellers, as well as professional urban “fixers” such as planners and Economic Development (ED) practitioners in cities across the United States. To awaken our communities from the nightmares of unemployment, poverty, and population decline, planners offer a range of solutions: reforming workforce development programs, sectoral strategies, “Creative Class” strategies, and so forth. Yet for all the fanfare that greets these solutions, the cities that implement them are often perpetuating traditional strategies for economic growth that are being mischaracterized as economic development. Typically, these strategies fall under the umbrella of an “export-base” model, as well as the assumptions inherent in the global paradigm of neoliberalism (Purcell 2009). As such, they are rooted in assumptions about the mobility of capital, the desirability and efficiency of competition, and the duty of places to compete for the affections and benefits of these footloose economic engines.

Dire economic indicators in the 21st century post-industrial United States have reinvigorated the use of some less conventional theories and

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practices in localities most desperate to find new solutions to persistent problems. For example, since 2005, the Greater University Circle (GUC) area of Cleveland, Ohio, no longer content to engage in the contemporary equivalents of smokestack chasing, has set out on a different path than the one outlined above. A collaborative team of consultants and executives from foundations, banks, universities, hospitals, and city government is attempting to challenge the export-base model and capital mobility encouraged by, and inherent to, neoliberal economic doctrine by “anchoring” investments in the area to constrain the mobility of capital and the damage this can do in the form of chronic unemployment and poverty (DeFillipis 2004; Smith 1984; Imbroscio 2010). What most differentiate the GUC initiative from traditional neighborhood revitalization strategies are local cooperatively-owned firms rooted in the supply chains of large local anchor institutions such as hospitals and universities.

I begin with a review of the export-base model of economic growth, and follow with recent debates surrounding the semantics of the Economic Development field—principally with regards to the frequently blurred distinction between “economic growth” and “economic development” (Wolman and Spitzley 1996). Then I examine the often overlooked consumption-base theory of growth and development as well as the growing literature on “Anchor Institutions” to analyze the assets deployed in one key piece of the GUC initiative: the Evergreen Cooperative network, a small but growing network of worker-owned cooperative firms in the GUC area. From the network of small and medium cooperative businesses that already exist in the United States, there is sufficient evidence to indicate that by offering living wages and wealth-building opportunities (in the form of workplace equity) in traditionally low-wage service industries such as home repair, nursing care, local grocery stores, and cleaning services, worker cooperatives can assist in the stabilization and prosperity of marginalized communities (Hoover 2010; Bendick and Egan 1995). In so doing, cooperative firms have the potential to turn jobs in “non-basic” sectors, which export-base growth models ignore, into employment that builds individual and collective wealth.

My argument coincides with recent articulations of the need for new models of cooperative economic practices that are rooted in a paradigm of Local Economic Alternative Development Strategies (LEADS) that promote community stability rather than intercity competition (Imbroscio 2010). I argue that, rather than focusing primarily on growth and competitiveness in declining or struggling urban areas, consumption-base strategies for economic development that utilize worker cooperatives can help change how cities produce and consume goods and services. When integrated into the supply chain of local anchor institutions in the GUC
area, there is a genuine and transformative opportunity to create a group of wealth-building, living wage employees and business owners with lower likelihoods of flight. By way of conclusion, I note that Cleveland’s experiment with localized supply chains, workplace democracy, worker ownership, and living wages can and should be implemented beyond the Rust Belt.

**Growth, Development, The Export/Consumption Base, and Anchor Institutions**

In this section I outline the economic paradigms that underpin the Evergreen Cooperative project: a focus on development, not just growth; on consumption, not just exports; on anchor institutions, not industrial recruitment, and on alternatives that are local and transformative, not traditional.

One of the principal challenges confronting ED practice is a lack of clarity between what strategies promote development versus what simply promote growth. Wolman and Spitzley (1999) cite Kindleberger and Herrick (1977), who note that while growth simply implies greater outputs, development refers to structural changes “in the technical and institutional arrangements” that produce and distribute economic output. I follow in the path of Wolman and Spitzley, arguing that economic development should be thought of as “an increase in the well-being of area residents,” including positive changes in the level and distribution of employment as well as per capita income (Wolman and Spitzley 1999: 226).

Differentiating between growth and development does not, however, answer the question of how to achieve either one. While the practice of economic development was based on several contested concepts throughout the 20th century, perhaps none reigned so supreme as the export-base theory of growth. Export-base theory, write Malizia and Feser, “dominates the thinking about local economic development in the United States. Its underlying premise—the external demand for a region’s products as the primary determinant of regional prosperity—is widely accepted” (1999: 51). As Peterson (1981) argues, “it is only a modest oversimplification to equate the interests of cities with the interests of their export activities” (1981: 22-3).

Because of the hegemony of export-base modes of thought, there is a general lack of awareness that alternatives exist, and these strategies have taken on an aura of monolithic inevitability. This monopoly in the marketplace of ideas has hindered the potential of economic development practice (Markusen and Shrock 2009). However, in addition to competing to bring new firms and jobs to their regions, cities, just like nations, have a
consumer base on which to build wealth. As Markusen notes, “unwarranted focus on exports produces lopsided strategies that fail to consider other sources of growth” (2007: 11). This neglect is also documented in Cortright (2002), which details the ways in which consumption-base strategies have the tendency to grow from initially locally serving entrepreneurial ventures. Markusen also critiques the export-base theory as being neither “theoretically nor empirically as powerful as practitioners generally believe” (2007: 10). Citing research over several decades, she notes that some studies have found a questionable link between the cause and effect of export increases. She reiterates that it is possible that “exports may be a consequence rather than a cause of economic growth. In a number of carefully constructed empirical tests, scholars find mixed evidence on both the existence of a relationship and the direction of causality” (ibid). Thus, from advocates of the consumption base, as well as from critiques of the export-base model and traditional ED practice, one can see how the consumption base offers benefits that are not being maximized under the broad supremacy of programs that focus too specifically on the export base as the engine of growth.

As with export-base theories, there must be institutional or other engines that can promote the consumption base if it is to rise to the level of effectiveness that its advocates assert it possesses. In 2001, the Aspen Institute and the Annie E. Casey foundation convened a roundtable on community involvement with typical local institutions such as public utilities, educational institutions, and healthcare centers. Out of their dialogues, they emerged with a definition of a class of “Anchor Institutions,” which collectively “have a significant infrastructure investment in a specific community and are therefore unlikely to move out of that community” (Anderson, et al 2001: 1). The Aspen Institute also found that “community partnerships with Anchor Institutions have been able to promote economic development through the support of small businesses in the neighborhood” (ibid: 14).

A small body of literature on Anchor Institutions has emerged because of what they offer to municipalities (Adams, 2003; Bostic, Lewis, & Sloane, 2007; Harkavy & Zuckerman, 1999). Chief among these investments are targeted expenditures, employment, and real estate development. In addition to these benefits, there is the implication, as the Aspen Institute noted, that these institutions are not as likely as other forms of capital to extort municipalities with threats of departure. Furthermore, because of the flight of industrial employment, Anchor Institutions gain a greater share of the jobs that remain in struggling core cities. Because of this, even relatively small changes in the quantity and/or quality of employment can have significant impacts on local economies. (Harkavy & Zuckerman, 1999; Nelson and Wolf-Powers, 2010).
Anchor Institutions can thus be a part of the engine of economic growth by targeting their capital investments and employment to local neighborhoods. Also, a focus on the consumption base can help unleash some economic potential that export-base strategies tend to overlook. Yet, if these forces are to be more than just a slight improvement on traditional strategies, they must transcend the typically low-wage, high turnover problems of the service sector and become part of a more transformative solution.

How then can we know what makes a strategy or project transformative, as opposed to just old tools in new packaging? Here, Imbroscio (2010) provides some necessary guideposts on the potential of Local Economic Alternative Development Strategies (LEADS). Imbroscio notes that LEADS promote “Place-Community Attentiveness” that encourages “the uplift of the broader place...rather than a few select individuals within it” (2010: 165). LEADS also promote decentralized scales, which he argues “militates against the elite political control that bigness can foster...” (ibid). The commercial orientation of LEADS, he argues, departs from traditional approaches to enhanced consumption that rely on “an expanded welfare state and an increase in wages within the corporate-controlled economy.” In this orientation, he argues that LEADS are “productionist” in nature, with a key focus on direct ownership and control that “affords the citizenry a higher degree of independence from large bureaucratic institutions...” (2010: 166). Finally, he emphasizes equity, rather than the traditionally liberal focus on “equality of economic opportunity—essentially the equal right to become unequal” (ibid).

With these frameworks established, I now turn to the case of the Evergreen Cooperative model as an example of one such LEADS that attempts to unlock the transformative potential of community wealth-building and workplace democracy.

**From Theory to Practice: Evergreen Cooperatives in the GUC Area**

In the previous section, I outlined how consumption-base theory and anchor institutions can help guide new economic growth and development practices for struggling cities. Here, I argue that the Evergreen cooperative network model in Cleveland demonstrates that the principle of the consumption base can be extended to include wealth-building employment in existing sectors and industries, rather than focusing on attracting new sectors or industries. Through these approaches to wealth building and workplace democracy, inner cities can build wealth and reap tangible benefits by changing how they produce for and serve local institutions.
The international division of labor and the flight of manufacturing from the United States have turned Cleveland, once an iconic symbol of American industrial prowess, into an impoverished and shrinking shell of its former self (see Bennett and Giloth 2007: 216-224). From a population of over 900,000 in 1950, Cleveland’s population shrank to 439,000 in 2009, out of a Metropolitan Statistical Area of 2.1 million (Howard, Dubb, Alperovitz, 2009: 44; US Census ACS 2005-2009). The workforce of the Cleveland-Elyria-Mentor MSA shows a predictable employment pattern by sector. Between 2001 and 2008, educational and healthcare sectors grew from 13.3 percent of total MSA employment to 15.7 percent, while manufacturing shrank from 13.9 percent to 10.9 percent over the same period (BEA 2001-2008 CA25N, calculations by author). In Cleveland proper, median household income in 2009 was $27,601, compared with a U.S. average of $51,425, and over 25 percent of families in Cleveland live in poverty, compared with the U.S. average of 9.9 percent (US Census ACS 2005-2009). Under these circumstances, what is needed is not only more low-wage jobs for inner-city residents, but employment that can reduce poverty and help grow wealth for families and communities.

Since cooperatives have never grown to be a major part of the American industrial or housing sectors, there remains a great deal of mystery about what they are to the general public. Cooperatives are a form of ownership that go beyond individual employees sharing in small portions of company stock (commonly known as ESOPs). Cooperatives can be organized in housing, among employees of a firm, among producers of a commodity such as milk or juice, or among providers of a service such as home-based health care. The overriding principle of the organizational formation is “one person, one vote.” This democratic governance structure is the backbone of the cooperative venture, and attempts to reconfigure typical owner-worker, landlord-tenant, or management-labor relationships. This structure has grown to larger scales in firms such as Florida’s Natural, a national orange growers cooperative, as well as Cabot, a cooperative of dairy farmers and cheese producers. Despite this, most worker cooperatives are small businesses with fewer than fifty employees. Much of the reason for this is a result of the difficulties of democratic governance in larger firms (Hoover 2010: 2).

In these enterprises, rather than being distributed to external shareholders, the dividends of the profits from the firm typically return to the workers/ producers/ owners, who then participate democratically in the ownership and management of the organization. Internationally, many worker cooperatives at the small and medium-size scale are based
on the Mondragon enterprise in the Basque region of Spain. Mondragon is a multi-sectoral conglomerate with over $30 billion in assets that employs nearly 100,000 people, many of whom are vested as worker-owners (Schwartz 2009).3

Given the lack of cooperative infrastructure in the United States, attempting to build capacity for any cooperative endeavor can be challenging. The perception of cooperatives as either impractical, or worse, as tools of a creeping socialist agenda, contributes to their marginalization and prevents their introduction into mainstream economic development programs (Hoover 2010: 6). Furthermore, the multiple layers of technical assistance that are required to assist any successful small business are already a challenge for governments and nonprofits nationwide, and employee ownership can add an extra layer of complication to this already complex process (Bendick and Egan 1995: 63).

Despite these economic and demographic challenges, there is also a rationale that demonstrates a “close fit between the goals of community economic development and the realities of employee-owned business…” (ibid: 62). Furthermore, Bendick and Egan conclude that

[N]either complexity nor lack of legal forms and financing explains the limited implementation of worker ownership and participation in economic development efforts throughout the United States. Instead, the major barriers seem to be lack of familiarity with this approach among community development practitioners and a shortage of evidence about its benefits (1995: 81).

To address some of these issues, a group of institutions in Cleveland has formed a functioning coalition to demonstrate the utility of worker cooperatives as an economic development and unemployment reduction tool in one of the nation’s most affected post-industrial urban centers. The Cleveland Community Foundation (CFF), the nation’s second oldest community foundation, has put a special emphasis on bringing together local anchor institutions to develop locally serving, cooperatively run businesses for the GUC area, including Cleveland’s largest employers: its healthcare centers and universities (Kuri and Lee 2010; Alperovitz and Williamson, et al 2010). These Anchor Institutions include the Cleveland Clinic, a nationally renowned healthcare center, Case Western University, and the local Veterans Administration (VA) Hospital (see Figure 1).

3. The process of becoming vested as a worker-owner varies from firm to firm, but for smaller organizations can take as little as a few months of employment before being invited to become an owner with invested equity. This accounts for why less than 100% of the employees are worker-owners.
The initiative currently has two functioning cooperative firms under the Evergreen Cooperative umbrella: a laundry service and a solar panel installation and weatherization firm. Three additional firms are slated to be developed in the next two years: a commercial-grade urban gardening greenhouse for local businesses, a local newspaper for the GUC area, and Evergreen Business Services, which will provide office services to the network and eventually to other firms (Jokisch 2010).

When Ted Howard, co-founder of the Democracy Collaborative, began reaching out to large institutions about their vendors and purchasing policies, he would ask procurement officials about their local purchasing. “They would say, ‘we do a great deal’ ... but they meant Northeast Ohio,” he recalls. “Sometimes they meant from the city, but never from the neighborhoods. When I said, ‘I mean locally, like right across the street,’ it was like I’d asked them if they purchased from Mars” (Axel-Lute 2010: 2).

Healthcare institutions in the GUC area produce an estimated 250 million pounds of healthcare-related laundry per year (“Evergreen” 2010). As the
ECL grows over time, it expects to serve larger and larger shares of this local need, while also being the most environmentally friendly laundry service in the state of Ohio (Axel-Lute 2010: 2). The flagship firm of Evergreen, Evergreen Cooperative Laundry (ECL) inserts itself directly into the significant purchasing power (estimated at over $3 billion in goods and services annually) of local employers (“Evergreen” 2010).

Like any small business proposal, the Evergreen initiative faced critical financial impediments to its viability. After banks turned down applications for conventional small business financing, the CCF provided a grant for initial operations and assisted with the acquisition of New Market Tax Credits for the startup (Jokisch 2010; Howard and Williamson, et al 2010). In 2009, the Mayor’s Office of Economic Development also seeded the project with $1.5 million in low-interest loans.

The CCF has also capitalized a $3 million revolving loan fund for the Evergreen initiative, instead of repeatedly providing direct operating subsidies annually. The Evergreen umbrella was seeded with a total of $5 million in grants, and an additional ten percent from pre-tax revenues (now that the firms are operating) flow into the revolving loan fund for the development of new cooperatives within the Evergreen network. Referring to the capitalization of the loan fund, Lillian Kuri, Director of Special Programs for the CCF, notes, “They’re not coming back year after year for grants. Is that not a better risk to take? It’s a much more sustainable use of precious resources” (quoted in Axel-Lute 2010: 2). This will ultimately lead to a more dynamic cooperative sector that is not dependent on the size of a subsidy budget—whether public or private—for operations. Once the firms have been operating for about a decade, the CCF estimates that an employee-owner in one of the participating firms will have built approximately $60,000 in equity—in an area where the median income is just under $20,000 (Howard and Williamson, et al 2010). As the Evergreen slogan states: “Poverty cannot be eradicated by merely creating jobs but by creating wealth” (“Evergreen” 2010).

In addition to securing financial capital, which is always a primary concern for small business startups of all varieties, the CCF and project consultants from the Democracy Collaborative, a community-wealth think-tank based in Maryland, spent many months gathering political and institutional support among local politicians and the anchor institutions that would serve as the primary markets for these new cooperatives (Kuri and Lee 2010). The anchor institutions and the CCF had the opportunity to establish working relationships and trust through their experience in helping draft the GUC revitalization plan, including transportation, education, and housing improvements (“Cleveland Foundation” 2010).
The kind of political support for experimental community development activities that the CCF and the Democracy Collaborative have been able to generate is difficult without the influence that the large anchor institutions hold as employers in struggling inner cities. This initial support and interest served as another form of “startup” capital for Evergreen, and helped gain the support of local government as well.

The wealth-building component of the Evergreen initiative is a key aspect that differentiates it from other inner-city economic development programs, and is also what enhances the potential of the consumption-base model. Rather than exerting disproportionate energy to attract outside firms, Evergreen is building on relationships that already exist and are relatively easy to facilitate to reduce poverty, increase local consumption, and boost local tax revenues simultaneously. Beyond these benefits, the clear difference between cooperatives and other business models is about ownership and wealth creation as tools for poverty reduction. As the project consultants note, the economic principles at work in the model are at once simple and novel: Evergreen companies will hire from the neighborhoods immediately surrounding the educational and healthcare institutions with the goal of multiplying their local impact in both the inner city and specifically the University Circle neighborhood (Howard, Dubb, Alperovitz, 2009: 45).

Like many other inner-city employment programs, the Evergreen initiative focuses on the difficult task of building an employee base among those who have faced long-term unemployment, underemployment, and incarceration. What sets the model apart, however, is what it offers: rather than a low-wage job, opportunities within the Evergreen system offer wages of at least $10.50 an hour plus health benefits, and the opportunity to build wealth through ownership equity in the firm (Axel-Lute 2010). Furthermore, as Melissa Hoover, Executive Director of the US Federation of Worker Cooperatives states, these principles of wealth creation, trust-building, poverty reduction, and social justice are inextricably linked to the cooperative model:

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

The discussion above appears to validate the transformative potential of the Evergreen network of cooperatives. Although seeded with funds from elite institutions, the revolving loan fund that Evergreen established will serve to increase its independence from city government and foundation assistance over time, rather than keep it beholden to these groups.
Evergreen operates on a decentralized base, growing in a networked fashion, rather than hierarchically as a conglomerate. Intertwined with this is an obvious commercial nature to the venture, demonstrating the “productionist” nature that Imbrosco outlines (2010: 165). Finally, as noted above, the project clearly emphasizes equity in its operations, both for its workers, its city, and the natural environment.

Despite the transformative potential of the Evergreen model, the challenges cannot be underestimated or overlooked. As indicated from the Cleveland experience described above, the amount of “soft” infrastructure that is required to support even a small cooperative sector is indeed quite significant. There are social dynamics of worker cooperatives that present challenges to their success as well, and those within the cooperative development community have willingly admitted this. In the words of Medrick Addison, a worker-owner at the Evergreen Cooperative Laundry in Cleveland, “If you’re not interested in giving it everything you have, then this isn’t the place you should be” (in Howard and Williamson, et al 2010). This admission, coming from within the realm of cooperative practitioners and developers, is important to take into account when marketing cooperatives to the public at large.

Another note of caution on cooperatives that cannot be overlooked is the incredibly minuscule impact that Evergreen enterprises have had in terms of their sheer numbers and economic activity (Hill 2010). The charts in Figures 2a and 2b, from a study commissioned by the National Cooperative Business Association, indicate the general lack of penetration of the model nationally in the 21st century.
Locally, the Cleveland Foundation’s Director of Special Programs, Lillian Kuri, estimated recently that various Evergreen firms in Cleveland could employ as many as 500 people overall in the next two or three years, but admits that even that projection is “woefully insufficient” as a tool for economic revitalization for the Greater University Circle area, much less the entire Cleveland area (Kuri and Lee 2010). This falls in line with Harrison’s (1994) classic argument against romanticizing the impact and effectiveness of small businesses in the U.S. economy, as well as some of Imbroscio’s (2010) concerns over the limited effects that LEADS can have. This size issue thus has implications for interpreting the success of the model longitudinally. Some cooperatives have attempted to address this by “growing small,” such as the Arizmendi bakery cooperatives in California. Such issues of growth and scale among LEADS will be an important area of study for planners and economic development practitioners moving forward.

Conclusions: Beyond the Rustbelt

One particularly strong benefit of the Evergreen model in Cleveland is that it addresses structural conditions and resulting social issues of the post-industrial economy that exist not just in traditional Rust Belt cities like Cleveland. The strength of the model’s applicability rests on the existence of network of institutions in cities of various sizes, economic bases, and diverse demographic conditions both inside and outside the Rust Belt in the United States.

Amidst the context of shrinking federal support for state and municipal functions, and despite its still-formative existence, the Evergreen venture in Cleveland possesses a trinity of support uncommon to LEADS: local institutional support, political support, and dedicated sources of capital. These provide a solid base for its potential growth and success in the coming years. While Evergreen uses established principles of ED practice such as the consumption base and Anchor Institutions, it puts these economic engines to work in the service of a decidedly transformative vision of economic development.

It is still too early to measure the successes and failures of the Evergreen model, or to know whether the comprehensive Greater University Circle revitalization program will displace working-class residents, a common result of traditional strategies for the “revitalization” of amenity-rich inner city neighborhoods. Planners have already begun posing these and other critical questions about the future of the economic democracy and equitable development movements (Iuviene 2010). Yet Evergreen’s innovative contribution to the field of economic development deserves consideration by struggling metropolitan areas, and this solid and
replicable foundation should lead community leaders and economic
development practitioners to contemplate the applicability of the model
in their own cities and communities.4 The Evergreen experiment in
economic development and wealth creation in Cleveland is precisely the
kind of innovative model that the crises of the 21st century demand of us.

4. In particular, Nick Iuviene’s work on the Bronx in New York (unpublished
Master’s thesis) provides an excellent and rigorous framework for potential
replicability in a very different setting from Cleveland.
References


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