

How to Democratize the US Economy

A long-term plan to renovate the American dream begins at the local level and scales up.

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A baker takes freshly-baked bread from the oven at King Arthur Flour Co., a worker-owned business in Norwich, Vt. (AP Photo/Toby Talbot)

Everyone knows the United States faces enormous challenges: unemployment, poverty, global warming, environmental decay—to say nothing of whole cities that have essentially been thrown away. We know the economic system is dominated by powerful corporate institutions. And we know the political system is dominated by those same institutions. Elections occur and major fiscal debates ensue, but most of the problems are only marginally affected (and often in ways that increase the burdens).

The issue is not simply that our situation is worrisome. It is that the nation's most pressing problems are built into the structure of the system. They are not unique to the current economic slump or the result of partisan bickering, something passing in the night that will go away when we elect forward-looking leaders and pressure them to move in a different direction.

Not only has the economy been stagnating for a long time, but for the average family, things have been bad for a very long time. Real wages for 80 percent of workers have not gone up more than a trivial amount for at least three decades. At the same time, income for the top 1 percent has jumped from roughly 10 percent of all income to more than 20 percent. A recent

estimate is that a mere 400 individuals in the United States own more wealth than the bottom 180 million Americans taken together.

Unfortunately, what we call traditional politics no longer has much capacity to alter most of the negative trends. To be clear: I think projects, organizing, demonstrations and related efforts are important. But deep down, most people sense—rightly, in my view—that unless we develop a more powerful long-term strategy, those efforts aren't going to make much of a dent.

In 2007, people got excited about federal legislation raising the minimum wage from \$5.15 to \$7.25 an hour. This was obviously good, but the long-term negative trend continued nonetheless. The minimum wage, adjusted for inflation, was more than \$2 higher in 1968. Clearly, when great victories don't even get us back to where we were more than forty years ago, we need to pay close attention. I support such efforts, but it appears unlikely that strategies aimed at reviving the politics that produced the New Deal and Great Society programs are going to alter the big trends, even if those strategies are intensified by movement building—especially given the decline of [labor](#) unions, the power base of traditional progressive politics.

There is, however, a little-noticed twist to this otherwise bleak narrative. Deepening economic and social pain are producing the kinds of conditions from which various new forms of democratization—of ownership, wealth and institutions—are beginning to emerge. The challenge is to develop a broad strategy that not only ends the downward spiral but also gives rise to something different: steadily changing who actually owns the system, beginning at the bottom and working up.

Consider the evolutionary change developing in that rustiest of Rust Belt states, Ohio. On one unhappy day in September 1977, 5,000 steelworkers lost their jobs, their livelihoods and their futures when Youngstown Sheet and Tube closed down. Such large-scale layoffs were not common in the United States up to that point. The story made the front page of newspapers and led television news across the country. The workers called it Black Monday, and I remember all too well reports of desperate men committing suicide after concluding they could no longer support their families.

A young steelworker named Gerald Dickey had a different idea: Why couldn't the workers run the facility themselves? Dickey and a group of activist friends teamed up with an ecumenical coalition in Youngstown to demand that the mill be put back to work under worker-community ownership. After a huge organizing effort, they got support from Washington—including the Carter administration, which agreed to allocate \$100 million in loan guarantees.

When the administration reneged after the midterm elections of 1978, the plan fell apart. But the story did not end there. And what happened next is of even greater significance. The inspiring example of the workers and religious leaders—and the sophisticated educational and political work they did to spread the word—had lasting impact. They knew they were up against some of the most powerful corporate (and union) players in the country. They were fully aware they might lose the battle. They also knew they had discovered an important idea with great promise. Accordingly, they made it their business to

educate the public, the press and politicians in the state and around the country about what they were trying to do, and why.

The idea took root in Ohio, and over time the practices and strategies of worker-owned businesses grew more sophisticated and innovative. Today, the state is home to half a million worker-owners, and the support system for building such businesses is one of the most advanced in the nation. The simple idea that workers can and should own their businesses is now conventional in many parts of the state, not only among workers but also businessmen, many of whom (aided by certain tax benefits) sell their businesses to their employees when they retire.

The current goal is not simply worker ownership, but worker ownership linked to a community-building strategy. In Cleveland, a group of worker-owned companies are connected through a community-building nonprofit corporation and a revolving fund designed to help such businesses thrive. Part of the design involves getting hospitals and universities in the area (like the Cleveland Clinic, Case Western Reserve University and University Hospitals) to purchase supplies, goods and services from these companies. Everything in the network is green by design. One of the cooperatives, for example, is an industrial-scale laundry that uses two-thirds less energy and water than conventional ones.

Similar networks are developing in many other cities, and big unions are lending their support as well. Working with the Mondragon Corporation in the Basque region of Spain—an exemplary integrated model involving numerous cooperatives and more than 80,000 people—the United Steelworkers, whose national leadership once opposed the Youngstown effort, has announced a campaign to help build “union co-op” worker-owned companies here. The Service Employees International Union, the Steelworkers and Mondragon are involved with a worker-owned laundry in Pittsburgh. SEIU has also joined in a groundbreaking partnership with the largest worker cooperative in the United States: New York City’s Cooperative Home Care Associates, which provides home services to the elderly, disabled and chronically ill.

For more than three decades, Ohio has been experiencing the kind of economic pain that other parts of the country are just beginning to experience. Precisely because traditional solutions offer few answers, many other cities are exploring paths like the one that led from Youngstown to Cleveland.

As the number of institutions directly concerned with the democratization of productive wealth continues to expand, innovations are occurring left and right. More than 130 million Americans—40 percent of the population—are members of cooperatives; more than 10 million participate in other forms of worker-owned companies. Predominant among the older co-ops are credit unions—essentially democratized, “one person, one vote” banks. More than 95 million Americans are involved; total assets are approximately \$1 trillion. Activists have begun electing credit union board members and have long participated in “move your money” efforts, which shifted hundreds of millions of dollars away from Wall Street to credit unions and small banks in 2011 and 2012.

There are also thousands of “social enterprises” that use democratized ownership to make money and achieve a broader social purpose. One of the most impressive is Pioneer

Human Services, an organization based in Seattle that provides employment, job training, counseling, education and housing to people with criminal histories and issues of substance abuse. PHS now employs over 1,000 people and uses its \$76 million in revenues from the businesses it created to fund social programs across the state. Among other things, PHS runs a full-service precision sheet-metal fabrication shop and produces millions of aerospace parts for companies like Boeing. Its kitchen prepares more than 1,500 meals a day for its work-release facilities and residential treatment centers.

At the other end of the continent is Greyston Bakery in Yonkers, New York. Founded in 1982 by a Buddhist teacher with the modest goal of employing his students, the organization expanded its mission to provide jobs for inner-city residents. An early contract with Ben & Jerry's opened the way to much larger development. Greyston now inhabits a modern 23,000-square-foot facility and operates several businesses and services, including a daycare center, a housing development for low-income residents with HIV/AIDS, six community gardens, counseling and support services, and a computer literacy program.

By far the most common social enterprise is the traditional community development corporation. There are nearly 5,000 CDCs operating around the country. For the most part, they serve as low-income housing developers and incubators for small business. One of the most ambitious is the New Community Corporation, based in Newark, New Jersey. This large-scale neighborhood nonprofit employs roughly 600 residents and manages more than 2,000 housing units and a shopping center anchored by a major supermarket. It has \$200 million in assets and an operating budget of approximately \$70 million. Proceeds help support early learning centers and after-school programs, job training, a 180-bed nursing home with an adult medical daycare program and on-site delivery of medical care in several of its eight senior buildings.

I could go on, but you get the idea. In a profound sense, the struggle is about changing the dominant ideological patterns. New forms of ownership are important not only on their own, but because they offer ideas about democratization that can help form the basis of a different political-economic system consistent with American ideals and experience.

How far the process of "evolutionary reconstruction" will proceed—and whether it can extend to higher levels—will likely depend on the degree to which problems and pain continue to deepen, on whether folks embrace a broad institution-building strategic approach, and on whether those who do embrace it make it part of a more comprehensive new politics.

The political game is beginning to resemble a checkerboard strategy: some of the squares on the board are clearly blocked, but others are open. The goal, of course, is to expand the number of squares that are receptive to democratization efforts—not just to restore economic health and sustainability in struggling communities, but to demonstrate viable alternatives to strategies that are faltering elsewhere. A key goal is to overtake the opposition by surrounding the decaying, failing states in a long-term pincer movement.

The strategy must take up the challenge of rebuilding the basic institutional substructure of the local economy in ways that are efficient, effective, stable, redistributive and ongoing. This will include:

§ Expanded use of city, school, hospital, university and other purchasing power to help stabilize jobs in a manner that democratizes ownership and benefits for both low-income communities and small- and midsize businesses;

§ Expanded use of public and quasi-public land trusts (both for housing and commercial use) to capture development profits for the community and to prevent gentrification;

§ An all-out attack on the absurdly wasteful giveaways corporations extract from local governments;

§ Coordination with labor unions and community activists to build and sustain momentum.

A strategic plan that emerges from such efforts can also help to increase the tax base, partly offsetting taxpayer pressures and weakening the opposing coalition. Perhaps most important, it can help forge an alliance of public service workers, teachers, hospital workers and blue-collar laborers; community groups and local activists; small-business groups that benefit from a revival of local economic health; and local government officials.

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Obviously, none of this is easy, especially when you look at the current makeup of national politics. On the other hand, the local economic situation in many parts of the country is getting worse. It is only a matter of time before another community's square on the checkerboard becomes receptive to a democratizing flip.

Systemic change will require decades, not weeks or months, of work—and a long-term focus on the larger scale. What happens when the next financial crisis hits and we again face the impossibility of regulating banks too big to fail? Even if we break the big ones up, history suggests they will simply regroup and reconcentrate, as AT&T and elements of the old Standard Oil did in earlier eras. Ultimately, the big banks will have to be taken over. In the meantime, we should familiarize ourselves with—and develop local capacity for—public banks. The idea is already gaining ground: at this writing, twenty states have introduced legislation to establish state-owned banks modeled after the enormously successful Bank of North Dakota.

A similar strategy can help tackle the national healthcare crisis. As costs keep rising and burdens increase (despite Obamacare), we can expect mounting frustration and anger, followed by increasing demands for a real alternative. Most likely, the first breakthroughs will come at the state level. More than fifteen states have already seen legislation proposing some form of a single-payer public system. Vermont is likely to establish one in 2014; California passed such legislation twice, only to have it vetoed by Arnold Schwarzenegger. The move to a national single-payer system will be long and difficult, but it is possible—and with it will come the democratization of a sector that currently represents almost a fifth of the US economy.

Any ecologically serious strategy will confront the basic truth that large corporations must grow or die. This imperative undermines solutions to many national (and increasingly global) challenges. In addition to the overriding problem of global warming, countless

studies show that limits to growth are fast approaching in such areas as energy, minerals, water and arable land, among others. The United States, with less than 5 percent of the global population, accounts for 21 percent of the world's consumption of oil, 12 percent of coal and 20.5 percent of natural gas—and the projections heading toward 2050 are not promising.

At some point we will have to say, Enough is enough. Former presidential adviser James Gustave Speth puts it bluntly: “For the most part, we have worked within this current system of political economy, but working within the system will not succeed in the end when what is needed is transformative change.” The large-scale institutions we build to support a more democratic and sustainable future must transcend the Wall Street–driven growth imperative. Ultimately, they must be public.

History has a way of surprising us, especially in times when serious change seems impossible. The civil rights movement, the feminist movement, the gay rights movement—even the Arab Spring revolutions—all emerged without the benefit of pundit prediction. How many people anticipated in 1989 that the Berlin Wall would fall, or that within two years the Soviet Union would dissolve, or that within five years apartheid would finally end in South Africa?

I am no utopian; I am a historian and political economist. I am cautious about predictions of inevitability—including the assumed inevitability, dictated from on high, that nothing fundamental about the American social fabric can ever change. It is possible that the decay will simply continue. It is also possible, however, that the pain, anger and loss of confidence in Washington will lead to something far more explosive than business-as-usual politics or even a modest renewal of liberal reform. It is our responsibility to consider how a distinctly American system based on democratized ownership might be organized. Like a picture slowly developing in a photographer's darkroom, the elements of that “next system” are beginning to emerge.