Democratising Ownership to Address Wealth Inequality

The Institute for Public Policy Research (IPPR), the United Kingdom’s leading progressive think tank, is heading-up the Commission on Economic Justice, a two year initiative to examine the current state of the British economy and present a new vision for a more sustainable post-Brexit Britain, grounded in justice and broadly-shared prosperity.

In the fall of 2017, they reached out to The Democracy Collaborative requesting evidence from the United States on broad-based ownership strategies and recommendations for how wealth can be generated and shared more equally across nations and regions, as well as gender, ethnic, and socioeconomic groups.

In response, we submitted the below testimony on the best practices and innovative models that we have studied and supported across the country over nearly two decades. These efforts present real solutions and viable alternatives to the trenchant challenges of ever-worsening wealth inequality both here and abroad.

They have used this testimony as support in their just released report: Capital Gains: Broadening Company Ownership in the UK Economy, available online at: https://ippr.org/research/publications/CEJ-capital-gains

The Democracy Collaborative, a nonprofit founded in 2000, is a national leader in equitable, inclusive, and sustainable development. Our work in community wealth building encompasses a range of advisory, research, policy development, and field-building activities aiding on-the-ground practitioners. Our mission is to help shift the prevailing paradigm of economic development, and of the economy as a whole, toward a new system that is place-based, inclusive, collaborative, and ecologically sustainable.

Learn more at: https://democracycollaborative.org
This commentary was submitted as evidence to the Institute for Public Policy Research, for its Commission on Economic Justice
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Dear Commissioners and IPPR Colleagues:

I am the President and Co-Founder of The Democracy Collaborative, a non-profit organisation based in the United States working to bring about a thoroughgoing democratisation of our political economy. I applaud the IPPR Commission on Economic Justice’s important work to explore the root causes of wealth inequality and to present a vision for a more sustainable economy grounded in shared wealth for all Britons.

To contribute to the Commission’s development of innovative but practical solutions to the economic problems facing the United Kingdom I would like to take this opportunity to submit evidence around new democratic ownership models and initiatives to build broadly-held community wealth already being implemented in communities across the United States. These efforts demonstrate that real, pragmatic solutions exist that offer genuine alternatives to our failing economic system and are capable of creating shared wealth and true prosperity for all.

The Democracy Collaborative (TDC) is an action-oriented U.S. think-do tank working to bring about a more democratic economy in the United States and, increasingly, in Europe. We develop new models and pathways from theory to action that engage institutions and catalyse networks to build community wealth and drive systemic change. Our flagship initiative, the Evergreen Cooperatives in Cleveland, Ohio—known as “the Cleveland Model,” a path-breaking new approach to bottom-up inclusive economic development consisting of large-scale worker-owned community-benefiting businesses connected to the purchasing power of local institutions and tied together by a central non-profit and revolving loan fund—increasingly serves as a global model for the creation of more equitable and sustainable regional economies. In fact, our work in Cleveland catalysed a similar model in Preston in Lancashire, England which has attracted the attention of both The Guardian and The Economist, among others, and is being held up by the Labour Party as a best practice in economic development.
ian and The Economist, among others, and is being held up by the Labour Party as a best practice in economic development.

In its request for evidence, the Commission emphasised how the highly unequal distribution of wealth in the UK and the inefficient and uneven way that wealth is invested has led to extreme wealth inequality throughout the country and left many people feeling increasingly isolated from the current system. This is perhaps even more the case in the United States, where just 400 individuals own as much wealth as approximately 185 million people combined, and where white median net wealth is 13 times greater than that of African-Americans and 10 times greater than Latino net wealth. At the same time, the percentage of American children living in poverty has remained the same as it was in the 1960s, and the number of people living in concentrated poverty has doubled from 7 to 14 million since 2000.

All told, nearly 50 million people in the U.S. live below the government-established poverty line. Health inequality is on the rise, with the life expectancy gap between rich and poor people born in 1950 up significantly over those born in 1920. The labor force participation rate has fallen steadily for two decades—and is projected to decrease still further. In a recent report we co-published with the Institute for Policy Studies, author Chuck Collins examines these trends in depth—you can find out more here: thenextsystem.org/inequality.

The terrible effects of these trends are being felt in cities and states across the country, and are only being exacerbated by traditional approaches to economic development that are often based on major concessions to “locational blackmail” strategies pursued by footloose corporations seeking tax breaks or profits from a race to the bottom on environmental and labor standards. The use of more than $80 billion annually in public subsidies, tax breaks, and corporate incentives has resulted in a situation in which cities are at war as they try to entice corporations (some would say “bribe” them) to relocate from one community to another. This zero-sum game produces local economic instability and rewards companies with no real loyalty to the community. The general approach has been to pursue regional economic growth, on the assumption that some of the benefits would “trickle down” to those most in need of decent work, family-supporting wages, and the fulfillment of basic needs. Demonstrably, though, “trickle down” is not working.

Fortunately, these same trends have been driving a tremendous amount of experimentation and innovation around new direct ownership models in community after community across the country. Tired of failing “after-the-fact” regulatory fixes and stalled reform strategies, communities are taking matters into their own hands, implementing democratic and participatory new approaches that are capable of delivering improved local outcomes directly. Taken together, these practical new strategies and institutional design solutions offer the outlines of new community-building solutions that over time could transform local economies and provide the basis for a new, more just and democratic economics rooted in place and community.

We call these collective efforts “community wealth building”—a progressive strategy to democratise the economy by broadening ownership over capital through, for instance, cooperatives, employee ownership, credit unions, and land trusts.
through, for instance, cooperatives, employee ownership, credit unions, and land trusts. These models and approaches prevent financial resources from leaking out of the community through targeted “buy local” initiatives, social procurement, and public banking, thus achieving a multiplier effect in the local economy, and leveraging the economic power of existing assets—such as large public and nonprofit institutions, or “anchors”—to benefit the local community. The fundamental goal is to rebuild the basis of a strong local economy, from the ground up, on principles of equity, inclusion, democracy, and resilience.

The Democracy Collaborative has been tracking and promoting the growth of these innovations across the United States for almost two decades—you can find information and material on all of the below on our open access website, community-wealth.org, consisting of hundreds of thousands of documents on the rise of this new economy. In this time, community wealth building strategies have expanded and diversified and the approach has gained considerable traction in communities across the country. Take the example of community development finance institutions, which provide credit and financial services to people and communities underserved by mainstream commercial banks and lenders. In the early 1990s, for the most part, community finance was more a concept than a reality, with fewer than $2 billion in assets. Now the industry includes over 1,000 federally certified community development financial institutions whose combined total assets are an estimated $121.6 billion (as of 2015)—a 60-fold increase in the space of just over two decades.4

Cooperative ownership in many forms—from producer to purchasing and financial cooperatives—is also in the ascendant. Over 100 million Americans belong to various cooperatives, including credit unions and utility cooperatives, which have around 111 million memberships and manage $1.3 trillion in assets—more than Wall Street giant Goldman Sachs. Various employee-owned enterprises have become more common and offer increased job security and profit sharing as well as the possibility of engaging with the governance of the enterprise. Employee stock ownership plans (ESOPs)—a uniquely American form of employee ownership whereby workers, through their pension plans, collectively own all or part of the company through a trust—have over $1 trillion in assets and encompass over ten million U.S. workers.

As of 2014, there were 256 worker-owned cooperatives (where employees have direct control of the business and operate on the same principles as a cooperative – one member, one vote) operating across the country with a total of 6,311 workers and an estimated $367 million in revenues.5 Roughly 80 percent of worker co-ops were found to be in the following eight fields: manufacturing, retail, food service, waste management/recycling, professional services, health care, construction, and transportation.6 Although these numbers are small, the data do suggest rapid recent growth; just five years earlier a survey estimated there were 2,340 workers in 223 worker cooperatives with $219 million in revenues,7 while today practitioners estimate there could be over 300 democratic workplaces, employing over 7,000 people at over $400 million in revenues.8

A decade ago, no city in the United States was supporting worker co-ops as a community economic development strategy. Today, examples abound: including Cleveland, Ohio; Madison, Wisconsin; New York City; Rochester, New York; Richmond, Virginia; Minneapolis, Minnesota; Austin, Texas; and a growing number of cities in California.
Another variation on the theme has seen a number of trade unions begin to explore new directions involving worker cooperatives. Leveraging America’s labour history and the effective strategies of the Mondragón Social Committee (of the Mondragón Cooperative Corporation in the Basque region of Spain), which protects the interests of Mondragón’s employee-owners, union cooperatives positively integrate and adapt both traditions. In Cincinnati, Ohio starting in 2009, the United Steelworkers (USW) signed an agreement with Mondragón, and are now actively supporting the creation of new worker-union co-ops in the form of the Cincinnati Union Co-op Initiative (CUCI). Currently, the largest co-op in the network is Our Harvest, a local food aggregator founded in April 2012; by the fall of 2016, it had 15 owners. The initiative also launched SustainEnergy, a small renewable energy co-op in 2015 with three employee-owners. Later this year they plan to launch Apple Street Market, a multi-stakeholder co-op with both worker and consumer co-op members that expects to employ 25 employee-owners.

Increasingly, city governments are supporting employee ownership and seeing it as an important element of community development strategies. A decade ago, no city in the United States was supporting worker co-ops as a community economic development strategy. Today, examples abound: including Cleveland, Ohio; Madison, Wisconsin; New York City; Rochester, New York; Richmond, Virginia; Minneapolis, Minnesota; Austin, Texas; and a growing number of cities in California. In New York City, for example, a coalition of grassroots community organizers and cooperative advocates secured multi-year funding from the city to support the development of worker-owned businesses in low-income communities. One of the driving forces behind the New York City legislation was Cooperative Home Care Associates, the largest worker co-op in the United States, with 2,000 unionized workers (most of whom are women of colour) who enjoy above average pay and benefits as a result of their cooperative business model.

Similarly, in Madison, Wisconsin, the city council passed a measure earmarking $3 million for cooperative development. Half the funds will be used to capitalize a loan fund that will facilitate the conversion of existing businesses to worker cooperatives, help form worker-union cooperatives, and provide general startup capital for all forms of cooperative enterprises, while the other half goes to build technical assistance capacity. The measure was supported by Mayor Paul Soglin and backed by a diverse coalition that included the University of Wisconsin Center for Cooperatives, the South Central Federation of Labor, and various other community organizations, unions, and economic development groups. In other examples, cities are leading comprehensive initiatives to advance community wealth building: the city of Rochester, New York has launched the “Market Driven Community Corporation” and Richmond, Virginia has created an Office of Community Wealth Building within the city government structure, the first of its kind in the nation. You can learn more about what cities are doing to support community wealth efforts in our recent report Cities Building Community Wealth (available at community-wealth.org/cities).

Beyond this, many city and local governments are investing in and managing programs and policies that develop and protect community assets. Municipally

Publicly owned utilities, together with co-ops, currently provide a quarter of America’s electricity—including in Nebraska, an all-public-power state in which every resident and business gets electricity from one of 166 community-owned entities.
owned enterprises build infrastructure and provide services that raise revenue and create employment while diversifying the base of locally controlled capital. Publicly owned utilities, together with co-ops, currently provide a quarter of America’s electricity—including in Nebraska, an all-public-power state in which every resident and business gets electricity from one of 166 community-owned entities. From California to Alabama, public pension assets are being channeled into job creation and community development. Many states and a growing number of cities (from Santa Fe, New Mexico to Philadelphia, Oakland, and Los Angeles) are looking to the creation of public banking systems like North Dakota’s state bank, widely credited with ensuring that the state had no bank failures and a low unemployment rate during the financial crisis and Great Recession.

Giant public trusts that capitalize on public ownership and management of natural resources essentially act as sovereign wealth funds, provide revenue streams and directly funding public services in places like Alaska, Texas, and Wyoming. For example, the Louisiana Education Quality Trust Fund (LEQTF) started in 1986 from a $541 million settlement with the federal government over gas and oil revenues and is used for educational enrichment. In FY2014, LEQTF total income was $113.35 million. Many of these state funds derive their income from fossil fuel initiatives, such as the Alaska Permanent Fund, begun in 1976 with money from oil revenues whose fund balance in FY2015 was $52.8 billion and is paid directly to all eligible Alaska residents in annual dividends. However, the Regional Greenhouse Gas Initiative (RGGI) is an example of a group of states instituting their own caps on carbon emissions and using the investments to build a clean energy economy. To-date, proceeds have financed $1.37 billion in investment in clean energy in New England and the Mid-Atlantic states, while saving 76.1 million MMBtu of fossil fuel energy and 20.6 million MWh of electricity and avoiding the release of approximately 15.4 million short tons of carbon pollution.

Local government is just one type of “anchor institution”—institutions that are rooted in place and cannot easily move location, both because of sunk capital and because of ownership status (typically publicly owned or nonprofit)—that has an important role to play in community wealth building. These institutions, most notably hospitals and universities, are key economic actors in most communities, purchasing millions of dollars of goods and services every year and hiring thousands of people. In the United States, hospitals and health systems nationwide collectively spend more than $782 billion annually, employ more than 5.6 million people, and hold investment portfolios of $400 billion. Think of the huge impact these institutions can have when they adopt what we call an anchor mission to “consciously and strategically apply the institution’s long-term, place-based economic power, in combination with its human and intellectual resources, to better the welfare of the community in which it resides.”

Notably, the University of Pennsylvania shifted over 10 percent of its annual expenditures to purchasing locally, injecting an estimated $115 million into the West Philadelphia economy in 2015–2016. Dignity Health, a large non-profit hospital based in San Francisco, created the Community Investment Program in 1992 (then Catholic Healthcare West) to provide low interest rate loans to nonprofit organisations and businesses. By 2016, Dignity had lent over $180 million. Currently, 1 per cent of investable assets are dedicated to community assets, with 5 per cent being the long-
term goal. In Cleveland, our work with the Evergreen Cooperatives is part of a broader effort known as the Greater University Circle Initiative, convened by the Cleveland Foundation to better connect the economic resources of the city’s preeminent institutions such as Case Western Reserve University and the Cleveland Clinic to the struggling, disinvested and largely low income communities of colour surrounding these institutions. As part of this initiative, University Hospitals’ Step Up to UH program has helped 200 community residents obtain living wage jobs at the health system, with over 80 per cent retaining their jobs a year after placement. Meanwhile, the three Evergreen Cooperatives provide goods and services to these institutions and employ 120 people from the low-income University Circle area with the average employee earning $12.56 per hour—well above the Ohio minimum wage of $8.15. In 2016, they generated a combined revenue of $6.3 million.

These kinds of multi-anchor partnerships are emerging in other communities across the country. In Chicago, the University of Chicago helped spawn the development of a city-wide effort called CASE (Chicago Anchors for a Strong Economy), engaging 15 of the city’s largest institutions to collectively leverage their purchasing and hiring power to strengthen communities. In Rochester, New York, the Mayor’s Office created the Market Driven Community Corporation (MDCC), with representatives from Rochester Regional Health, University of Rochester, Rochester Institute of Technology, and St. John Fisher College all on its board, to spur the development of worker cooperatives that employ residents and provide services to the institutions.

Integral to all of these efforts are community organisations, activists, and leaders. Community Development Corporations (CDCs) grew out of the Civil Rights movement of the 1960s and use ownership of land to support community-controlled residential and commercial property development, ranging from affordable housing to developing shopping centers and businesses. CDCs often safeguard and develop crucial economic resources in communities that are frequently excluded from traditional economic development. Take the example of the Thunder Valley CDC on the Pine Ridge Indian Reservation in South Dakota, one of the poorest places in the Western Hemisphere. Founded by young members of the Oglala Lakota Tribe of Indians, Thunder Valley purchased over 30 acres of land on the reservation and is building a Regenerative Community rooted in sustainability principles and indigenous ways of living. Economic activity that this development generates will create employee-owned and community-rooted enterprises to build wealth, develop skills, and service the needs of this new community.

CDCs have long been innovating community-rooted solutions. In the 1980s, the Dudley Street Neighborhood Initiative (DSNI), a local CDC in Boston, used eminent domain powers granted by the City to reclaim a neglected sixty-acre portion of land. DSNI subsequently established a community land trust to ensure permanently affordable housing and developed more than half of the neighborhood’s 1,300 previously vacant lots. Community land trusts or CLTs enable non-profit community-based organisations to take land off the market and place it in a trust, thereby preserving housing affordability. Today there are over 300 community land trusts across the United States, wherein more than 15,000 families own homes. During the Great Recession, while serious delinquencies for the population at large ranged from 6.3 per cent in 2008 to 9.67 per cent in 2009, CLT borrowers’ delinquency rates ranged from only 1.98 per cent in 2008 to 1.3 per cent in 2010. In a number of instances anchor institutions have helped seed the development of local CLTs, as is the case with Duke University in Durham, North Carolina and the Mayo Clinic in Rochester, Minnesota.

Other means of collective management of land are popping up as well. Land banking—a mechanism that increases local government capacity to own and manage vacant properties and plan for their productive reuse, rather than having property go to individuals or
speculators—has also expanded. In fact, land banking only existed in a handful of cities and counties a decade ago. Also, influenced by the Great Recession, U.S. programs such as the Hardest Hit Fund and the National Stabilization Program have allocated billions of dollars to state and local governments for addressing foreclosed and tax delinquent properties, leading to a sharp increase in the number of land banks. Today, land banking public authorities operate in approximately 170 communities across 20 states.20 Meanwhile, resident-owned communities (ROC) are another cooperative model, establishing community land ownership of manufactured housing communities (also known as “mobile home parks” or, more pejoratively, “trailer parks”—often the only affordable option in many communities) that has taken off in recent years. The largest organisation supporting the development of these resident owned communities is ROC USA, which has assisted 170 parks to become resident-owned properties.21 As of 2015, 10,000 manufactured homes in 14 states are part of ROC USA (double the number since 2008)22 and they operate a CDFI that reported $41 million dollars in assets as of June 2015.23

Increasingly, nonprofit organisations are operating businesses both to raise revenue and to further their social missions. These “social enterprises” employ market mechanisms to meet organisational goals, such as providing jobs to “clients” in the businesses they operate, while the revenue these businesses generate provide independent sources of earned income (which, unlike much grant revenue, is typically unrestricted) that can help support operations and improve long-term sustainability. DC Central Kitchen based in Washington, D.C. runs a business that focuses on catering food for schools and nonprofits. Its culinary job training and placement program, combined with its linked social enterprise business, has succeeded in reducing prison recidivism by an estimated 90 per cent. In 2016, the organisation reported a job placement rate of 88 percent for its 91 graduates, while business revenues totaled nearly $8 million. In terms of social expenditure savings, DC Central Kitchen estimates that in 2016 alone its social enterprises and training programs saved taxpayers over $2 million in reduced prison expenses.24 This model is now being replicated in Los Angeles in partnership with a number of local anchor institutions.

A myriad of other new innovations to democratise ownership of enterprise to grow community wealth at many levels continue to emerge. Community-owned and community-responsive forms of business ownership such as benefit corporations and L3Cs have grown in a decade from zero to being accepted forms of business, with thousands of businesses now incorporated under benefit corporation and low-profit limited liability corporation statutes. Public benefit corporation legislation, which creates a form of business that “has a corporate purpose broader than maximizing shareholder value and that consciously undertakes a responsibility to maximize the benefits of its operations for all stakeholders, not just shareholders”25 has been enshrined in law in 32 states and the District of Columbia, with over 5,000 companies incorporated so far under its provisions. Low-profit limited liability corporations, or L3Cs, have slightly more stringent rules, requiring business owners to subordinate profit maximisation to some charitable purpose. Laws are currently on the books in eight states, with over 1,400 companies incorporated under these laws.26
Additional enterprise and policy models that support the triple bottom line stem from “localist” movements that are becoming more and more popular with “buy local” and “eat local” and even “bank local” campaigns common in an increasing number of cities across America. This emphasis on locality brings with it a need to re-build local infrastructure. Systems like food hubs, which aggregate products from multiple local farmers for distribution at scale to multiple buyers, are developing rapidly. From 2007 to 2014, food hubs have increased by 300 per cent, with an estimated combined revenue of $500 million.27 Similarly, local politics and policies are shifting to support this return to localism, as seen not just in the efforts to create city-run banks, but also in the growth of community-based public planning. Known as participatory budgeting, from a baseline of zero in the United States a decade before, by 2016 at least 16 U.S. cities used this process to make at least some capital decisions.28

More resources can be directed to local communities through impact investing. The term “impact investing” means investments that provide a mix of financial, social, and environmental returns, and did not even exist before 2007. A survey by the Global Impact Investment Taskforce (GIIT) put impact investing at $46 billion in 2014 and $60 billion in 2015.29 Foundations, in particular, have moved in the direction of investing portions of their endowments into mission-oriented investments.

So what do all these efforts and innovations add up to? While some may seem highly particular or unrelated, they all work to broaden access to and ownership of wealth and the means of wealth creation. They stand as real and significant ongoing efforts to democratise the control of wealth in order to ensure more sustainable and resilient communities. These community wealth building efforts demonstrate the shift in the ownership of economic institutions—including ownership of land, housing, business and finance—that is necessary to reverse decaying long-running trends of growing wealth inequality and attendant difficulties.

Taken together, these efforts suggest a pathway to a more democratic economy, one that is rooted in place and can deliver local development, jobs, environmental sustainability, and new public revenues without requiring drastic cuts to social services or massive burdens on local taxpayers. They indicate the likely future preconditions of genuine regional, national, and international cooperation built on mutual benefit and solidarity in a world faced with global challenges such as climate change and war. They embody the social architecture of a new economy—a quiet ownership revolution that is slowly gathering pace, offering a powerfully appealing alternative vision to set against the current downward trajectory of deepening inequality and ongoing crisis and decay.

The above evidence is culled from our ongoing survey of the changing landscape of place-based community economies over nearly two decades in support of community wealth building alternatives. Further details will be laid out in a forthcoming report from Democracy Collaborative Senior Fellow Steve Dubb and Senior Program Associate Emily Sladek. We hope this evidence will help contribute ideas about the institutional design and architecture of genuine solutions to the Commission’s explorations of policies and practices to generate greater shared wealth and economic justice in the United Kingdom. Together with my team at The Democracy Collaborative, I stand ready to provide additional resources or information that can be of value to the Commission in its critically important work.

Sincerely,

Ted Howard
President and Co-Founder
The Democracy Collaborative


