

The Nation.

The New Ownership Society

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Just beneath the surface of conventional media concern, the groundwork is quietly being laid for a powerful new strategic initiative: a progressive "ownership society." Traditional liberal approaches may be blocked for the moment at the national level, but there are increasing openings for serious action at the state and local levels, with longer-term nationwide implications. What is striking is that the idea that wealth should benefit the community directly is quietly becoming a commonplace. This community-oriented concept is the polar opposite of the Bush ownership principle that wealth should be concentrated among individuals (especially those at the top).

The alternative idea--a community-benefiting ownership strategy--takes a variety of forms. At one level are enterprises largely or entirely owned by employees who live in the communities in which those enterprises are located. At another are community-building neighborhood corporations. At still another level are nonprofit efforts that undertake economic activity to support community-service missions. Beyond these are publicly owned enterprises that provide jobs and services but also make money for cash-starved local municipalities. Still other efforts include large numbers of cooperatives, community land trusts and hybrid community-oriented economic efforts. Moreover, a number of public-pension and other investment strategies either help nonprofit efforts (especially in housing) or contribute to local community finances by strengthening the local tax base. Some invest in worker-owned companies.

Virtually all these approaches differ from traditional social programs in that they do not depend primarily on taxing and spending--at a time when the ever-deepening fiscal crisis will continue to constrain traditional strategies. Many also anchor jobs firmly in local communities--at a time when globalization and runaway corporations threaten local economic stability.

The least well known of the efforts involves municipalities. The massive Bush-era cutbacks in federal funding now hitting the cities and states have dramatically increased pressures on mayors of both parties to explore new sources of revenue for public services. One of the most important involves real estate. As early as 1970 the City of Boston embarked on a joint venture with the Rouse Company to develop the Faneuil Hall Marketplace, the downtown retail complex. Boston kept the property under municipal ownership and negotiated a lease agreement through which the city secured a portion of the development's profits in lieu of property taxes. By the mid-1980s Boston was collecting some \$2.5 million per year from the Marketplace. One expert estimate is that

Boston took in 40 percent more revenue than it would have collected through conventional property-tax channels.

Entrepreneurial "participating lease" arrangements for the use of publicly owned property are now common in many parts of the country, including New York, Los Angeles and Washington, DC. Under such leases a developer pays the public landlord both a yearly base rent and an additional amount pegged to project performance. The principle at work is similar to the one private developers commonly use in shopping-center leasing: The more money the developer makes, the higher the rent.

Land development is "old economy." A fast-growing arena of new activity involves Internet and related services. In Glasgow, Kentucky, the municipally owned utility offers residents electricity, cable, telephone services and high-speed Internet access--all at costs lower than private competitors. The city also has access to an Intranet, which links local government, businesses, libraries, schools and neighbors. In 2003 the municipality offered a package of eighty digital cable channels for \$19.95 a month. More than 350 communities, including Tacoma, Washington, and Cedar Falls, Iowa, have built or are planning networks like the one in Glasgow.

Hundreds of municipalities generate revenues through landfill gas-recovery, which turns the greenhouse gas methane (a byproduct of waste storage) into energy. Riverview, Michigan, one of the largest such recovery operations, illustrates the trend: In the mid-1980s Riverview contracted with DTE Biomass to build a gas-recovery facility at its Riverview Land Preserve. Power production from the gas brings in more than 40,000 megawatt hours of electricity per year. Riverview's royalties covered the costs of the first two years of operation and now add to the city's cash flows. Other innovative and successful methane recovery operations are run by the states of Illinois and South Carolina and by Los Angeles County and the city of Portland, Oregon.

It is often held that public ownership is inherently inefficient. Studies of municipal electric utilities belie this view. One out of seven Americans--about 43 million people--relies on power from the 2,010 public utilities now operating. Although the majority of publicly owned systems are in smaller communities, they are also found in large urban areas like Los Angeles, San Antonio and Memphis. Residential customers of investor-owned utilities (IOUs) commonly pay electricity rates roughly 10 percent higher than those paid by public power customers. Commercial IOU customers pay rates 7 percent higher. Industry studies establish that most of public power's price advantage is due to the fact of public ownership itself: Locally controlled public utilities can be especially responsive to customers' needs and do not need to pay dividends to private shareholders.

The basic principle at work in municipally owned real estate development is that appreciation of land should be turned to public advantage. Community land trusts help produce stable and affordable housing for low- and moderate-income residents. One of the earliest and most influential is the Burlington (Vermont) Community Land Trust, organized with bipartisan support when an early-1980s economic boom caused housing costs to spiral out of reach for many long-term residents. Land is owned by BCLT and

leased to homeowners. Member-residents devote no more than 30 percent of their income to rents or mortgages. Those benefiting from the resulting low costs sign contracts agreeing that future housing resale prices will not increase beyond a certain percentage, thereby allowing other low- and moderate-income families to benefit from BCLT's efforts.

If municipal ownership is the least well known of the various strategies, perhaps the most widely understood involves the neighborhood-benefiting corporation. There are now anywhere from 4,000 to 6,000 community development corporations (CDCs), up from a mere handful three to four decades ago.

In its first ten years of operation the Bedford Stuyvesant Restoration Corporation (BSRC), founded in 1967 in Brooklyn, New York, provided start-up capital and other assistance to 116 new businesses, helped create 3,300 jobs, arranged training programs or new jobs for 7,000 local residents and renovated or built some 650 new housing units. Another large effort is New Community Corporation in Newark, New Jersey, a CDC established after the 1967 riot left twenty-three dead and more than 1,000 injured. NCC now owns about \$500 million in real estate and other ventures, including a shopping center and more than 3,000 housing units. NCC enterprises employ 2,300 neighborhood residents and create \$50 million to \$75 million in economic activity each year. Profits help operate daycare and after-school programs, a nursing home and four daycare centers for seniors. Proceeds from business activities support job training, educational, health and other programs.

Most CDCs are much smaller; the asset-building efforts they concentrate on primarily involve affordable housing and small-business development. What is striking is that CDCs have received broad bipartisan backing and new alliances of support at both the national and local levels. Louis Winnick of the Institute for Public Administration offers this explanation of the appeal: "The anti-statist Right saluted community development as a proxy for government.... On the opposite end of the ideological spectrum, radical activists envisioned community-based organizations as weapons of political empowerment, instruments to liberate the poor from chronic neglect."

A closely related community-benefiting ownership strategy involves nonprofit organizations that in part support public services through business efforts. A 2001 *Chronicle of Philanthropy* study estimated that more than \$60 billion was earned from business activities by the 14,000 largest nonprofits in 1998. Income from fees, charges and related business activities is estimated in other studies to have grown from 13 percent of nonprofit social-service-organization revenues in 1977 to 28 percent in 1997 [see Michael H. Shuman and Merrian Fuller, "[Profits for Justice](#)," January 24].

A case in point is Esperanza Unida (EU) in Milwaukee, an organization that initially focused on helping Latino workers deal with workplace issues and file unemployment and workers' compensation claims. In the early 1980s EU began running businesses with a dual mission: training and generating funds for other operations. With what came to be called the "Training Business Model," EU now employs local citizens in enterprises

involved in auto repair, construction, printing, childcare, customer service skills and welding. It also runs a coffeehouse/bookstore, ¿Que Pasa?, that hosts community events and offers books and periodicals in Spanish and English. Roughly 50-70 percent of EU's annual revenue comes from its business activities.

Still another strategy is exemplified by W.L. Gore, the maker of Gore-Tex apparel, one of the most impressive of the modern employee-owned enterprises. The company, owned since 1974 by worker-owners (currently 6,000) in forty-five locations around the world, has no "bosses" or formal titles. To insure communication and innovation, those working at any one site number no more than 200. Depending on their skills, workers may lead one task one week and follow other leaders the next week; teams disband after projects are completed, with team members moving on to other teams. W.L. Gore revenues totaled \$1.35 billion in the last fiscal year; the firm regularly ranks on the *Fortune* "Best Companies to Work For" list (it was number two on the list this January).

Employee ownership can come about in different ways. Appleton Company in Appleton, Wisconsin (specialty paper production), became employee-owned when the company was put up for sale by the multinational corporation that owned it--and the 2,600 employees decided they had just as much right to buy it as anyone else. Reflexite, an optics company based in New Avon, Connecticut, became employee-owned in 1985 after 3M made a bid for it and the founding owners, loyal to their workers and the town, preferred to sell to the employees instead.

There are now an estimated 11,500 companies in the United States substantially or totally owned by the people who work for them, up from a mere handful thirty-five years ago. Indeed, more workers--roughly 10 million--are now involved in such efforts than are members of unions in the private sector! Most companies are organized through employee stock ownership plans (ESOPs), a legal arrangement that enjoys special tax benefits encouraging employee ownership. Most important, enterprises owned by employees are powerfully anchored in their communities. They are far less likely to move, a fact of increasing importance as the United States moves deeper into the era of globalization. Anchored firms help maintain local jobs and the local tax base, and thus finances for local public services.

Various federal and state programs backing such companies have also already received broad bipartisan support. Jeff Gates, a former Senate aide who helped write much of modern ESOP legislation, recalls, "The political potential in this area became obvious to me when, over the span of a two-week period...I was asked to provide speech material for both Republican Senator Jesse Helms and Democratic presidential candidate Jesse Jackson."

The most far-reaching of the community-benefiting wealth- and asset-oriented strategies are those operating at the state level. Public pension funds of the kind recently reported on in depth in these pages by William Greider now regularly seek ways to enhance local economic health [see "The New Colossus," February 28]. More than half the states have

also established economically targeted investment (ETI) programs to focus a portion of investment in ways that help local communities.

CalPERS, the California Public Employees' Retirement System, oversees more than \$186 billion in pension funds for 1.4 million employees, retirees and survivors. In addition to investing part of its funds to help local communities, CalPERS maintains a domestic portfolio "focus list," which singles out poorly performing companies and companies with poor governance practices. The results are illuminating: Companies that have been singled out in a particular year have outperformed the Standard & Poor's 500 by roughly 14 percent in the five years after CalPERS has drawn attention to their failings.

Alabama--a conservative state where fiscal pressures are intense and traditional tax proposals are commonly blocked--is also pursuing wealth-related strategies. Retirement Systems of Alabama has invested in numerous state industries, ranging from aerospace to tourism development to state-backed Ginnie Mae mortgages. RSA, which has \$23 billion under management, has also helped form two media conglomerates involving hundreds of local newspapers and thirty-six television and radio stations. Stock in these is jointly owned by RSA and the employees of the companies.

We may add two further strategies to this listing: First, more than half the states now have venture capital programs in which the state invests in promising companies, commonly taking back public ownership of stock. Second is the traditional co-op, an institution far more prevalent than many realize. There are more than 48,000 in the United States, with 115 million members. Ten thousand credit unions (total assets: more than \$600 billion) supply financial services to 84 million members; 37 million Americans purchase their electricity from rural electric cooperatives; and approximately 30 percent of farm products are marketed through cooperatives.

The emerging direction is not without challenges. Those seeking more far-reaching change rightly continue to urge much greater democratization of CDCs, worker-owned firms and other wealth-related institutions, and nonprofits must continue to struggle with the conflict between service goals and economic support activity. On the other hand, most of the strategies have enjoyed unusual support that transcends traditional left-right divisions--above all because at the local level, practical solutions to problems matter far more than ideological rhetoric, even to conservative Republicans. Mayors of both parties have abandoned free-market slogans to embrace strategies offering concrete answers to growing fiscal problems.

The stage, in fact, is now set for significant advances in policy development and progressive strategy. Two factors suggest that a major breakthrough is possible over the coming decade: the expanding fiscal crisis at all levels of government, and the steadily increasing insecurities of the global economic era. The former is already forcing consideration of alternatives that promise new ways to earn service-supporting revenues, directly or indirectly. The latter increasingly highlights the need for strategies that anchor jobs, especially those that improve the local tax base. It remains for progressives (and progressive candidates) to put forward a comprehensive approach that unites the key

elements, resting their claim for support on democratic ownership and community-serving principles.

Beyond this lies an additional, longer-term possibility: Many of the programs that became the basis of the New Deal were refined at the state and local levels in earlier years, especially during the 1920s. The progressive ownership society efforts that are bubbling up around the country could well provide the new ideas and content we will need for the next major national push forward when the right moment arrives again.

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