



## Workplace Democracy as a Strategy for Inclusive Economic Development

Laura Hanson Schlachter, University of Wisconsin-Madison

The 2016 election dramatized the need for America to build an inclusive economy that creates opportunities for workers who feel left behind by closing factories, automation, and the movement of people to cities. Prosperity must be more widely shared across geographic and educational divides. Local leadership is needed more than ever, because states and localities must take center stage in developing socially responsible strategies to multiply jobs that empower workers, distribute wealth more equitably, and promote a transition to clean energy.

What economic models might work? One strategy involves local efforts to support cooperatives – businesses owned and democratically controlled by members according to the principle of one member, one vote. Worker cooperatives can marry social responsibility with community development, and several promising initiatives around the country indicate the potential for workplace democracy to serve as an antidote to economic despair.

### Cooperatives in the United States

According to the Center for Cooperatives at the University of Wisconsin, Americans currently hold more than 350 million memberships in approximately 30,000 cooperative firms. Credit unions, rural electric co-ops, and farm cooperatives represent the vast majority of the members of consumer and producer cooperatives. These members purchase equity shares in their collective enterprise, elect the governing board, and share the profits. In addition, the Democracy at Work Institute estimates that about 6,030 Americans are part of cooperative enterprises that are owned and democratically governed by workers.

Historically, cooperatives have emerged to meet needs poorly served by conventional ownership structures. The business model blossomed in the 20th century United States as a strategy to increase farmers' bargaining power, electrify rural communities, and address market failure in the banking and insurance industries. The federal government was instrumental in these efforts through legislation like the Federal Credit Union Act of 1934 and the Rural Electrification Act of 1936. As businesses that now generate almost \$75 billion in wages and redistribute \$79 billion in profits to members who live in almost every U.S. Congressional district, cooperatives continue to enjoy strong bipartisan support. Today, there is extraordinary diversity within the cooperative universe. The average American may be unfamiliar with the cooperative business model as an overall idea, but they've likely encountered national cooperative brands like REI and Ocean Spray. Or they may patronize their local food co-op or credit union.

Interest in workplace democracy has grown dramatically in the wake of the Great Recession. The worker cooperative sector has expanded by almost 50 percent since 2010. Calls for new models to boost worker voice and distribute wealth more broadly often cite studies like the 2010 book *Shared Capitalism at Work* by Joseph Blasi, Douglas Kruse, and Richard Freeman, which found that, compared to conventional firms, workers in employee-owned firms have better-quality jobs and are more productive, loyal, and involved in management decisions. Worker co-op advocates argue that such benefits are even more pronounced in firms that combine employee ownership with involvement in governance.

### Worker Cooperatives and Socially Responsible Job Creation

Community developers across the country are now experimenting with worker cooperatives as a job creation strategy. Such projects often champion socially responsible goals such as empowering people of color, promoting the transition to clean energy in the Rust Belt, and keeping small, rural businesses rooted in their local communities.

- Black communities in the U.S. have a strong tradition of cooperative organizing to counter exclusion from white institutions, as Jessica Gordon Nembhart's research shows. Recently, nonprofits like the Paraprofessional Healthcare Institute have utilized the cooperative model to empower women, immigrants, and people of color in the home health care sector. Its flagship business, Cooperative Home Care Associates in the Bronx, employs approximately 2,000 unionized workers and has pushed to raise the industry wage floor.
- Confronted with significant declines in membership, unions are now exploring democratic worker ownership as a compliment to more traditional organizing. More than a dozen union co-ops have been launched since 2009 – several of them located in Rust Belt cities like Cincinnati and Dayton where they have focused on retraining unionized workers for clean energy jobs.
- Some democratic worker co-ops take shape as private founders retire. Small business succession is a particular challenge in rural communities where children of owners often relocate to cities and have little interest in returning home to run the family shop. Efforts like the Workers to Owners Initiative of the Democracy at Work Institute encourage owner families to consider selling the business to their employees, to preserve jobs and economic vitality in rural areas.

## A Strategy for Local Economic Development

In 2017, Madison, Wisconsin launched a new Cooperative Enterprise Development Program that provides three million dollars for worker cooperative education, technical assistance, and low-interest loans over the following five years. A key impetus for the program was the recognition that Dane County has extreme racial disparities in incarceration, education, and economic opportunity. Local Black Lives Matter leaders actively engaged in the program design, so that cooperative development resources can be directed to communities of color. In addition, the South Central Federation of Labor has lobbied for the program, and local unions will help to recruit workers, adapt apprenticeship training, and provide technical assistance. The program will also educate small business owners about converting to cooperative ownership.

Although this program remains in the early stages, Madison offers a useful model for exploring economic democracy as a job creation strategy at the local level. Such emerging, small-scale efforts are not easy to accomplish, and they cannot fully address the challenges facing America's workers. But cooperative ownership models represent an innovative approach at a time when it is more urgent than ever for cities and states to experiment with new ways of promoting socially responsible and inclusive economic growth.