An emerging solidarity: Worker cooperatives, unions, and the new union cooperative model in the United States

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If we were to reimagine what work and the workplace should look like, what businesses should look like, what would that be? We might think of small businesses and people who are self-employed. We might think of work as something we are proud of and enjoy doing. We might think of compensation for work as reflecting our efforts, our talents, and our ability. We might think of work as providing us with a comfortable standard of living, with food on the table and time off to enjoy with our friends and families. If we multiply those ideas throughout our communities, what might our economy look like? Would it be more stable? More sustainable?

In October 2009, the United Steelworkers (USW) and Mondragon announced their collaboration in developing unionized, worker-owned cooperative businesses in the United States and Canada. Although progress in bringing these union cooperatives into existence has been understandably slow since "we build the road as we travel",[2] the fruits of this collaboration have begun to emerge.

Initial interest in this collaboration was intense, as people wondered: what, exactly, could labour unions and cooperatives have in common? As it turns out, quite a lot. One might go as far as describing unions and worker-owned cooperatives as both being part of a broad-based labour movement with common roots in the industrial revolution of the 19th century. Core values and beliefs such as solidarity, dignity and fairness are not exclusive to one or the other, but have been shared principles all along.

Workers engaging in collective bargaining with their employer may appear to be drastically different from and incompatible with workers cooperating as owners, but the underlying approach is the same: workers supporting each other to improve their livelihood. The mechanisms to implement that goal may differ, but sharing that common purpose means that unions and worker-owned cooperatives could truly function as complementary elements within the same labour movement.

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[1] In March 2012, the United Steelworkers, Mondragon International USA, and the Ohio Employee Ownership Center published a white paper detailing our union cooperative model, written by myself, Chris Cooper (OEOC), and Michael Peck (Mondragon International USA). This article seeks to expand on the need and potential for that model, with many thanks to Chris Cooper and Michael Peck for providing their insights and advice along the way.

[2] Quoted from Father José María Arizmendiarrieta (Morrison, 1991).

Separately, unions and cooperatives face enormous challenges. For unions, the ability to secure good contracts has diminished as membership continues to shrink and employers' power continues to grow. For worker-owned cooperatives, challenges include access to the investments and loans needed to grow their businesses or to start up new cooperatives, especially in capital-intensive sectors such as manufacturing, and access to broader support networks.

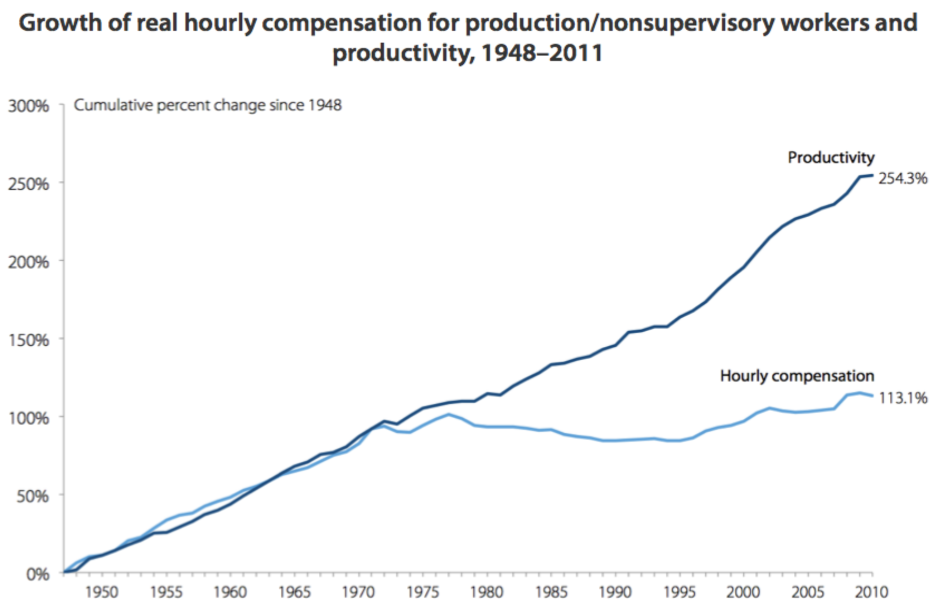
Together, union and cooperatives have the potential to create sustainable jobs that support sustainable communities, the potential to organize workers and workplaces in whole new ways, and even the potential to fundamentally transform our economy and our society for the better.

Current challenges for unions

As of January 2013, only 11.3 per cent of all wage and salary workers (6.6 per cent in the private sector) in the United States are members of a union, down from over 30 per cent in the 1940s, 50s, and 60s (BLS; Mayer, 2004). The reasons for this decline are varied, from an expanding workforce to the loss of manufacturing, to changes in technology, to the rise of productivity and efficiency, to employers emboldened by weakened labour laws.

One effect of this decline is that overall wages have stagnated, even while improvements in productivity have accelerated. Variations of figure 1 have shown that productivity and real wages (adjusted for inflation) in the United States kept pace from 1948 through 1973, when union density was at its highest, but diverges from about 1973 forward, with productivity continuing to improve at a steady or even accelerated pace while real wages stagnated.

Figure 1. Growth in real hourly compensation for production/non-supervisory workers, and in productivity, United States, 1948–2011 (%)



Note: Hourly compensation is of production/nonsupervisory workers in the private sector and productivity is for the total economy.

Source: Author's analysis of unpublished total economy data from Bureau of Labor Statistics, Labor Productivity and Costs program and Bureau of Economic Analysis, National Income and Product Accounts public data series

Source: Mishel, 2012.

(Typesetter: This is a picture so I cannot access it. However, since it's been copied from Mishel, 2012, the source in the picture needs to be deleted and replaced with 'Mishel, 2012' as shown. In addition, the title has been revised, please delete the one in the picture. The Note can stay! Finally, please delete the % in the vertical axis, as it now appears in the title, and change 'percent' in the legend at the top to 'percentage'.)

We have all too often encountered employers who lay people off simply to boost their stock price, shut down manufacturing plants, and move production elsewhere to save a few pennies, and who threaten layoffs and shutdowns if workers don't accept steep concessions. When new jobs have been created, they usually do not come close to replacing the income and benefits of the jobs lost. Minimum wage jobs at a large box retailer such as Wal-Mart do not replace the millions of well-paid manufacturing jobs lost. The combination of stagnating compensation with these layoffs and shutdowns has had a devastating effect on workers, their families and their communities.

Given these trends, the challenges for US unions are immense. Broadly categorized, they include: how to improve bargaining power for existing members, how to better safeguard existing jobs from layoffs and shutdowns, how to make unions more relevant for more people, and how to help more workers join unions as a means of improving bargaining power for all. Making these challenges even more difficult is a well-organized and well-funded opposition that has recently been able to successfully attack and undermine unions at the state level, for example through revocation of collective bargaining rights in Wisconsin and passing "right to work" laws in Indiana and Michigan.

Although union members now only account for a small percentage of the workforce according the figures from the Bureau of Labor Statistics given above, polling in recent years has shown that a majority of workers would join a union if they could (Eisenbrey, 2007). Why the disparity? For workers without a union in the United States, the process of joining is an almost insurmountable challenge. Labour laws are weak and the penalties for employers who break the law are even weaker. To level the playing field at least a little, the Employee Free Choice Act (EFCA) was introduced in 2007, which would have allowed for "card check" recognition of unions, increased penalties for employers who break the law, and binding arbitration of any unresolved disputes during the first contract negotiations. Although passed by a Democratic majority in the House of Representatives in 2007, the bill was unable to overcome a filibuster in the Senate in both 2007 and 2009, despite gaining a majority of support in both years. After the defeat of EFCA in 2009, the potential for a legislative solution to remove some of barriers to joining a union appears slim any time in the near future.

How then can unions hope to grow or even to sustain their bargaining power? In addition to stepping up efforts in organizing and political action, another approach taken by the USW has been to seek out allies and build coalitions, and to explore new ways to support workers, inside and outside of the union. The impact has been positive, but the core challenges remain.

Current challenges for cooperatives

Worker-owned cooperatives have been growing in the United States, albeit slowly, but they also face significant challenges such as access to investment, access to resources, perception, and the small size of most existing businesses.

I recall a life-long worker cooperative activist making the point that "small is beautiful" and that just because worker-owned cooperatives are small, this does not mean they are not successful. While that appears to be mostly true, it also depends on how you define success. A small cooperative business may be able to do well enough to sustain itself and maybe even be able to slowly grow over time, but it still faces all the challenges of any small business, such as the ability to invest or borrow, the ability to provide good health care and retirement benefits, and the ability to withstand downturns in the business or the broader economy. Cooperative principles such as helping the community, helping others to form cooperatives, and cooperating with other cooperatives are aimed at growing the cooperative movement.

At this point, worker-owned cooperatives, although increasing in number, remain an infinitely small part of the US economy. And because they have such a marginal presence, there is a challenge of negative perception and misunderstanding to overcome. Some might think of cooperatives as some type of odd commune (or worse), or as some type of utopian ideal that will never really be viable or competitive. Few will know worker-owned cooperatives as the competitive, sustainable, effective businesses they are and can be. These negative perceptions and misunderstandings are part of the barrier to being able to get loans or investment at reasonable rates, part of the barrier of not being considered a serious alternative when people look to start up a business, and part of the barrier to bringing people into cooperatives.

As mostly small businesses, worker-owned cooperatives also struggle to provide benefits such as reasonably priced health insurance, disability insurance or life insurance or to offer any type of retirement plan other than their ownership accounts. Because those benefits are all available at lower costs to larger groups, they are a prime example of the very tangible gains in building up the size of a cooperative or in developing a stronger network of connections with other cooperatives.

The challenges of size and perception also affect a cooperative's ability to attract investment or to secure low-cost loans, which in turn greatly affects its ability to grow. Although not quite a Catch-22 from which there is no escape, the ability to break through that cycle is probably the most difficult barrier to overcome.

Learning from the Mondragon example

For worker-owned cooperatives in the United States, there is hope in the example of the Mondragon cooperatives based in the Basque region of Spain. Founded in 1956 as a small cooperative of five people to build paraffin stoves, the Mondragon cooperatives have grown to employ over 85,000 people, almost all of them owners, with combined annual revenues in excess of US$24 billion. Keys to the early success of the Mondragon cooperatives were the cooperative principles developed by Father José María Arizmendiarrieta, based upon the earlier work of Robert Owen and the Rochdale Pioneers in the 19th century: putting people before profits, gaining significant support from the community, and developing a network of supporting institutions.

After arriving in Mondragon in 1941, Father Arizmendiarrieta initially developed a technical school, Escuela Profesional, in 1943, which became an important training ground for future cooperative workers. After helping five of his former students to form the first Mondragon cooperative, Ulgor, in 1956, he had the idea of creating a bank to channel public savings into cooperative investment and formed Caja Laboral in 1959. Because of the goodwill already created in the community, people quickly responded and funded Caja Laboral, which has become the engine of growth for Mondragon cooperatives ever since. Largely because of the investments that Caja Laboral was able to provide, the total number of worker owners in Mondragon cooperatives grew from a total of 479 in 1960 to 4,711 in 1965 and to 8,743 in 1970 (Mondragon Cooperative Corporation, 2006). When the Spanish Government denied them social security benefits as owners, not workers, Mondragon workers created their own social insurance plan with the founding of Lagun-Aro in 1959.

As intriguing as the founding business principles such as solidarity and the sovereignty of labour may be, what truly sets Mondragon apart is its network of support, from not only other cooperatives but also the financial engine of Caja Laboral, the benefit fund of Lagun-Aro, and the education and training of Escuela Profesional (now Mondragon University). For the most part, these are the elements currently missing for worker-owned cooperatives in the United States. This network of support has also allowed Mondragon to keep layoffs to a minimum in a severe economic recession, while unemployment has now reached 26 per cent in Spain overall.

The potential for union cooperatives: Combining the Mondragon model with collective bargaining

If the challenges faced by cooperatives could be matched by the strengths of labour unions, and the challenges faced by labour unions by the strengths of worker-owned cooperatives, the result would be a potent combination. A union cooperative model is just such a creation: a worker-owned cooperative business with an integrated collective bargaining function.

Even if a cooperative is wildly successful, success creates a whole new set of challenges. Where a worker-owned cooperative becomes increasing large, such as the experience with Mondragon, the potential exists for workers to become increasingly disenfranchised as owners as the gap widens between those who manage the business and those who do the hands-on work on the shop floor. As a way of maintaining involvement and accountability by the shop-floor workers in the cooperatives, social councils were developed by Father Arizmendiarrieta, originally in 1958 during an era when unions were banned by Franco. Members to the social council would be elected by each work area, to provide wide representation across the cooperative.

The union cooperative model adapts the Mondragon model to the United States by turning the social council into a union bargaining committee (union committee), combining the ownership of a cooperative with the accountability of collective bargaining. Although a small cooperative may be able to maintain a high level of accountability and ownership without a collective bargaining structure, the union cooperative model is most effective as the size of the cooperative increases. Within the Mondragon cooperatives, the adoption of the social council structure is strongly recommended for cooperatives with more than 50 people. As to whether these social councils have been effective or not, they are perhaps – like their union bargaining committee counterparts – most effective when they have active members with strong leadership.

By affiliating with large established labour unions, the union cooperative model also opens the door to building the type of strong support networks that worker-owned cooperatives need. Unions are by nature a broad support network of workers to share resources, such as pooling together a larger group for affordable benefits, pensions, research, education, advocacy and legal expertise, and organizing new members. Connecting cooperative workers to the larger universe of union members provides opportunities to access and share in those benefits. With thousands of employers and contracts, unions also have the potential to provide a sort of informal business-to-business network through the relationships developed by union leaders and staff across a multitude of employers.

A union cooperative model also provides opportunities for new ways of organizing workers. For example, workers who are self-employed or "freelance" could affiliate together in a cooperative without sacrificing ownership, while gaining access to group benefits and services.

Worker ownership opens the door for unions to save jobs, create a better workplace, and help members earn a better living that is not so dependent on the whims of Wall Street. Worker-owners are probably not going to eliminate and outsource their jobs just because they can save a penny by making their product in China. Worker-owners have little incentive to force wage or benefit concessions on themselves to increase operating profit margins from 15 to 16 per cent, because they own the profits. Worker-owners are unlikely to force themselves to work in unsafe conditions. Worker-owners are not going to starve themselves of needed capital investment just to tweak the stock price.

One way of looking at the advantages of the union cooperative model for workers may be to contrast it with what union cooperatives are not.

ESOPs as the vehicle, not the destination

In the late 1980s and early 1990s, the USW was active in using Employee Stock Ownership Plans (ESOPs) as a means of trying to save jobs and provide relief for employers that were struggling financially. Some succeeded, but many more failed. Why? Partly because those businesses continued to have the same problems that got them into trouble in the first place, because employee ownership only meant the value of those ESOP shares – while the culture of the workplace did not change at all. Workers may have been shareholders, but too often they were not "owners". When those businesses continued to have problems, when the culture did not change, when workers were still treated only as workers, then ESOPs became seen as just another way for the company to exact concessions from its workforce.

The ESOPs that succeeded, such as Market Forge Industries in Everett, Massachusetts, and the Maryland Brush Company in Baltimore, Maryland, were able to succeed because the culture changed as well as the ownership. From that experience we have learned that ESOPs can be an important vehicle to move towards worker ownership, but that a culture and practice of real ownership with one worker, one vote is the ultimate destination. That destination is the union cooperative model.

Worker ownership is not "employee involvement"

Over the past 70 years and more in the United States, the role and function of a union has primarily been in reaction to the actions of an employer. The employer makes all the major business decisions. When the business does well, union members demand their fair share. When the business does poorly, unions attempt to shield their members from the damage. Even with a good labour-management relationship in place, that dividing line tends to endure. Perhaps rightly so, each has a role – one as an advocate of the interests of the business, one as an advocate of the interests of the workers.

One of the often-cited examples of employee involvement in the United States is Saturn, a General Motors (GM) factory in Spring Hill, Tennessee. In developing the business plan for Saturn, GM and the United Automobile Workers (UAW) agreed to essentially co-management of the factory operations. After several years, however, the co-management arrangement came to end when the UAW members there voted out those local union leaders and replaced them with co-workers who wanted a more traditional labour-management arrangement. Why would they do that? Because the line between management and union had become so blurred under the co-management model that workers could hardly distinguish between the two. Workers wanted local union leaders who were going to be advocates for them, not management.

Even so, we should not confuse co-management with co-ownership. Even in the hey-day of Saturn's co-management structure, GM controlled all high-level decision-making, including investment and product development. The decisions made by GM, not the plant management, are what eventually led to its demise. If co-ownership had been the model, rather than just co-management, perhaps things would have turned out differently. And perhaps those UAW members would have felt differently about their role in management if they had actually owned a significant part of the business.

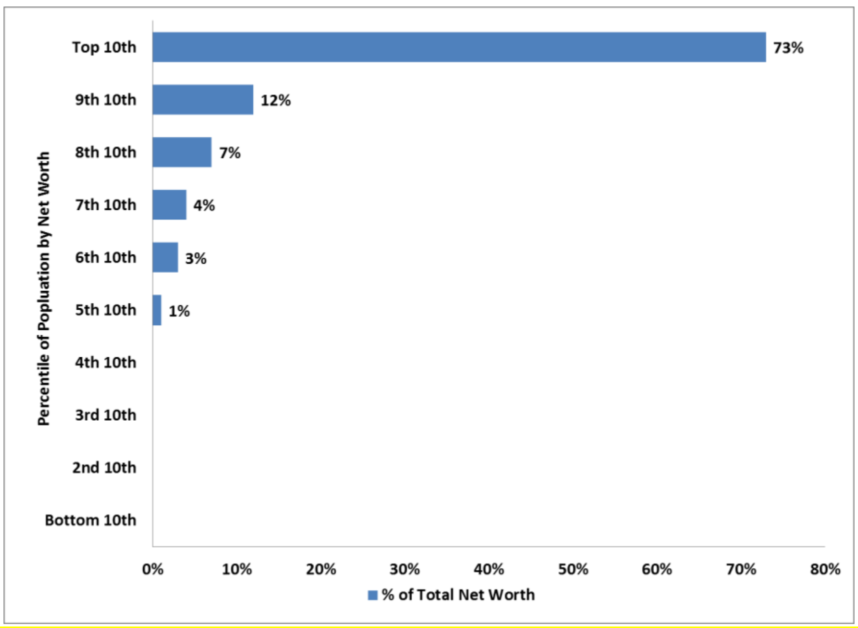
Because of the huge cultural shift in transitioning from employees to owners, a key component of conversions from more traditional businesses into worker-owned cooperatives is the training of workers to become comfortable with the culture and practice of working cooperatively. Without ownership and without a real cultural shift to ownership roles, it is no wonder that even the co-management model of Saturn could not overcome the suspicions of "us vs. them".

Challenges for union cooperatives

Despite the advantages of a combined approach, there are still plenty of challenges in developing union cooperatives. The first is money: money for education about cooperatives; money for feasibility studies and business plans; money for training; money for start-up investments; money for continued growth. Where might this money come from?

In the United States, 73 per cent of the total wealth (defined as net worth) is owned by only 10 per cent of the population (see figure 2). Another 12 per cent of the wealth is owned by a further 10 per cent of the population, leaving 80 per cent of the population with only 15 per cent of the wealth. The poorest 40 per cent of the population owns 0.2 per cent of the wealth (Wolff, 2010). At a macro level, the challenge is to finance worker ownership for that 80 per cent with comparatively few financial resources, and worker ownership for the poorest 40 per cent with almost no resources.

Figure 2. Wealth ownership in the United States (%, by decile)



(Please change the legend in the vertical axis to "Population decile" and remove the capital letters in the horizontal axis legend: "% of total net worth". Then please delete the word "10th" in the vertical axis (x 10) and all the "%", both within the figure and along the horizontal axis: 0, 10, 20, 30 etc.)

Since there have been few wealthy investors pouring millions of dollars into investments in worker ownership, the success of this model will depend on creative solutions in financing these enterprises. A starting point in developing such alternatives could be to consider the needs, the possible partnerships, and what resources are already available.

Paths towards worker ownership

One path to worker ownership is the conversion of an existing business. This has distinct advantages and disadvantages. An established product or service, with an established customer base, an established supply chain, and an established workforce can be advantageous if they each fit well in a successful business plan. An existing business also holds assets that can be borrowed against (collateralized) to help finance the buyout. In contrast to many examples of leveraged buyouts (LBOs) in which the acquired company is bled dry of cash, then discarded in bankruptcy, the potential for LBOs to actually be used to create worker ownership, and to save jobs rather than destroy them, would be a fascinating counterpoint. However, the opportunity to buy out an existing business often arises because the business is not doing well, and if the problems behind it are not quickly addressed any chance of success as a worker-owned cooperative is doomed.

A common situation for conversion of an existing business into worker ownership is when it is a family-owned business without a succession plan. When an owner of a family business is considering retirement and looking seriously at selling, the idea of selling it to the employees who helped them build it becomes an attractive option if a reasonable price can be worked out. Selling a business to the workers can also provide attractive tax advantages for the seller, by using an ESOP or by selling to a cooperative. In Spain, the path to conversion for Mondragon has generally involved a combination of share purchases by the workers, investment from existing Mondragon cooperatives, and loans from Caja Laboral. In the United States, conversion to worker ownership usually takes place through the use of an ESOP, where shares are sold to employees in lieu of some level of pay and/or benefits. Although either path may eventually lead to similar results, the support network and financial resources of the Mondragon cooperatives quicken the conversion process and are likely to be a highly valuable asset for the business's future success and growth.

Another opportunity for converting an existing business could arise because of financial troubles, possibly including bankruptcy. In evaluating the potential for worker buyout of such businesses, one has to be careful what one wishes for. Just because workers could buy it doesn't mean they should. The problems that have led the business into distress are often not easily overcome. Major capital investments may be required over and above the capital required to acquire the business, such as for the replacement of outdated and/or inefficient equipment, the need to investing in research and development, and the need for improved and/or expanded facilities, to name a few. Any business plan to acquire and run such a business should take such issues into account, and for worker-owned cooperatives this includes a means to raise the additional capital. In other words, before you jump in the lake, make sure you can swim.

In bankruptcy cases, the patience required for and the cost of navigating the bankruptcy court can be difficult, especially the need to come up with the money quickly – even with a sound business plan in hand. Without huge amounts of venture capital or other deep-pocketed investors readily at hand, time becomes an added obstacle to worker ownership.

What about developing new businesses? Starting from scratch can provide a lot more flexibility and time, although there are probably even more obstacles and risks than starting a more traditional form of business. The major obstacles are the same challenges facing worker-owned cooperatives overall: the ability to attract investors, the ability to secure reasonably priced loans, a lack of knowledge and understanding of what a cooperative is and what makes it effective. The positive aspect of creating a union cooperative as a new business is probably that Rome does not have to be built in a day: there is room to explore opportunities, find allies and refine business plans.

In Cleveland, the Cleveland Foundation brought anchor institutions in the area together with the city government to launch the Greater University Circle Initiative. Through this initiative, the Evergreen Cooperative Corporation and the Evergreen Cooperative Development Fund were launched to help seed for-profit worker-owned coopeatives in the area, such as the Evergreen Cooperative Laundry, Ohio Cooperative Solar, and the Green City Growers Cooperative. By partnering with non-profit organizations, the initiative was able to secure grant money to develop the groundwork for starting these new for-profit cooperatives and to continue to provide a support structure as they began operations.

Most of the current union cooperative efforts in the United States have so far focused on developing new businesses and have followed a similar path. The Cincinnati Union Cooperative Initiative (CUCI) began as a study group of local people interested in the idea and has developed into a partnership of area unions and community organizations. They helped launch their first union cooperative in 2012, Our Harvest, which intends to develop into a local food hub that combines farming, processing, wholesale and retail.[3] In Pittsburgh, unions and community organizations have been working on developing a green laundry cooperative similar to the Evergreen Laundry Cooperative in Cleveland. With the help of a grant from a local foundation and administered through the non-profit Steel Valley Authority, the feasibility study and business plan have been completed. Although this group is still organizing customer commitments and finalizing plans for its location, the cooperative intends to launch by the end of 2013. All around the country, others are coming up with even more ideas and more opportunities to start up union cooperatives as a way of creating good sustainable jobs.

Piecing together solutions to the financial puzzle

Funding worker ownership has been and is going to continue to be a puzzle that requires creative solutions. Whatever savings workers might have and whatever amount of pay or benefits workers might be able to forgo to invest in ownership is just not going to be enough to capitalize most businesses, outside of small service-oriented enterprises with little capital outlay. That means few cooperatives are going to be able to start out as 100 per cent worker-owned. Instead, hybrid solutions need to be developed that are compatible with the goal of 100 per cent worker ownership and that pull together a variety of other pieces of the financial puzzle.

As with the USW's past experience with ESOPs, one piece might be concessions by workers in exchange for an ownership stake. Especially with their tax advantages in the United States, ESOPs do actually provide an attractive path towards worker ownership, if ownership is understood as being a lot more than just an account balance. To be clear, ESOPs and cooperatives are not mutually exclusive. Rather, these concepts can be highly complementary when ESOPs are considered as providing the vehicle to get from here to there, with the destination being the type of fully engaged ownership structure that a cooperative provides. Funding ESOPs through concessions can take time if done through future earnings. For example, redirecting US$1.00 per hour in wages would only result in a little over US$2,000 per year per

[3] For further information, see www.cincinnatiunioncoop.org .

worker towards their ownership stake. Building up enough equity through that path alone could take years.

One example of exchanging concessions for ownership is Market Forge Industries in Everett, Massachusetts. In 1993, as the existing owner looked to leave, Market Forge workers were able to buy 100 per cent of the business with the help of the USW, in exchange for eliminating the previous owner's obligations to provide health care to retirees. While the existence of such accrued benefit obligations has become rare, there may still be opportunities. For Market Forge workers, the tradeoff has allowed them to keep their plant open for 20 years without having to permanently lay off anyone. However, the challenge of generating enough capital to invest in research and development, in upgrading their equipment and facilities, and in extending their distribution and market efforts has inhibited their ability to grow.. As a counterpoint, this is also an example of how Mondragon's development of Caja Laboral has made a huge impact on their ability to grow.

As an increasing number of. workers rely on individual retirement accounts such as 401(k) plans,[4] it is worth exploring if those financial resources can or should be used. Enron employees famously had invested huge amounts of their 401(k) money into Enron stock (primarily due to only Enron stock being used for the company matching contribution), so when the company collapsed, so too did the retirement plans of a lot of people. In the context of real worker ownership though, it might be worth taking another look. Although the mechanics would need to be worked out, 401(k) accounts could provide a valuable investment source as part of an overall ESOP strategy.

Since initial worker equity is going to be limited, what other investors and/or lenders might be willing to get involved? Even if initial worker equity amounts to a 50 per cent share, how can the remaining 50 per cent be pieced together? Understanding that investors may want to diversify any potential risk and exposure, it is probably necessary to seek out several investors to invest 10 or 20 per cent each, rather than one to invest 50 per cent. Who are these investors? They may be philanthropists, foundations, non-profit or other organizations that might be willing to make a long-term investment with possibly few, if any, short-term returns. Another possibility, using debt to help capitalize the business is a challenge similar to finding lenders willing to make long-term investments of "patient capital". One model already used by cooperatives is to raise money from friendly lenders/investors in the form of subordinated debt (sub debt), which can then be collateralized to obtain traditional loans at reasonable rates.

Developing financial capacity

While current sources of financing for worker-owned cooperatives do exist in the United States, their capacity is limited. The National Cooperative Bank (NCB) manages over US$1.6 billion in assets, but serves many different types of cooperatives, not just worker-owned cooperatives. Funds such as the Northcountry Cooperative Development Fund (NCDF) with total assets of about US$7.7 million, and the Cooperative Fund of New England (CFNE) with total assets of about US$16 million, are more focused on serving worker-owned cooperatives but lack the

[4] A tax-deferred defined contribution pension scheme qualified under subsection 401(k) of the US Internal Revenue Taxation Code.

capitalization to make large loans. In fact, only about 8 per cent of the loans made by NCDF and CFNE go to worker-owned cooperatives[5] and the percentage for the NCB would be much less.

One might then wonder why these funds are not lending more to worker cooperatives. The main reason is probably that the demand at this point is not as great as might be hoped. On one hand, existing worker-owned cooperatives have been cautious about using debt for growth, and on the other, the financing available may be too small or too expensive. The same problems exist in developing new worker-owned cooperatives, but more magnified as an unproven business usually presents a higher risk to the lender. This perceived lack of demand is borne out by the experience of a socially responsible investment fund that recently began to explore the feasibility of a cooperative capital investment fund and found one of the challenges to be finding investment opportunities. Matching the need for financing with the availability of financing should therefore be another issue to consider.

With nearly US$7 trillion in assets in the United States (Towers Watson, 2012), defined benefit pension funds are another source of investment often sought after. Who makes the investment decisions, however, depends on the type of pension fund. Historically, for the USW the most common pension was a single employer pension, where an individual employer creates its own pension fund into which it allocates money and which is invested by a fund manager who is selected by the employer and answers solely to the employer. There are also two types of multi-employer pensions: those created prior to the Taft-Hartley Act of 1947 and those created after that. Post-1947 multi-employer pensions are therefore sometimes referred to as Taft-Hartley pensions, which the Act requires to be administered by a joint Board of Trustees, comprised equally of management and union representatives. The Steelworkers Pension Trust (SPT) is one of these Taft-Hartley multi-employer pension plans, with 524 participating employers, over 100,000 covered participants and over US$2.8 billion in assets.[6] The SPT, like every other Taft-Hartley plan, tends to be conservative in its investments to ensure that it meets its financial obligations, so investing in specific projects is a rarity. On the other hand, there are multi-employer pension plans that pre-date Taft-Hartley, primarily affiliated with building trades unions, which are managed solely by union trustees. With more freedom to invest in union-friendly projects, these funds have been able to obtain a good investment return for their participants in two ways: one by generating a return on their investments, the other by investing in construction projects that create jobs for their union members. An intriguing example is the construction of an mixed use residential and retail tower in downtown New Haven, Connecticut that was funded and owned by the Multi-Employer Property Trust (MEPT), which is comprised of a variety of pension funds with over US$5.6 billion in assets and builds with only union construction workers, creating over 67 million job hours of work. MEPT not only created many o construction jobs through its investment; it also helped to fund the development of one of its tenants, a new food cooperative called the Elm City Market Community Co-op.[7]

Other sources of finance might include foundations, community development financial institutions (CDFIs), impact investment funds and possibly even credit unions, which are

[5] See the NCDF 2011 Annual Report at ncdf.coop; for CFNE see www.cooperativefund.org/cfne-borrowers.
[6] For further information see the SPT website, available at: http://www.steelworkerspension.com/index.php/about-the-trust.
[7] See Bronin (2011) and the MEPT website, available at: mept.com.

actually member-owned cooperatives. Unfortunately, even these sources are likely to be reluctant to invest the amount of long-term patient capital needed for any significant development of worker-owned cooperatives, as they all have interests in funding so many other types of project as well. Strangely, credit unions are also limited by law (the Credit Union Membership Access Act of 1998) to making business loans totaling no more of 12.25 per cent of the credit union's assets, a limitation probably imposed because of their tax-exempt non-profit status. Some have suggested that changing that law alone would free up a significant amount of money for cooperative investment, as US credit unions hold nearly a trillion dollars in assets (US$963,300,000,000 at the end of 2011).[8]

Organizing the money

The need to develop broad investment vehicles that target worker ownership seems clear. Senator Bernie Sanders of Vermont has proposed legislation in 2009 and again in 2012 that would have created a US Employee Ownership Bank within the Department of Treasury with an initial budgetary allocation of US$500 million. Although the bill has not yet received much support in Congress, the creation of such a bank could go a long way in advancing employee ownership generally and worker-owned cooperatives specifically. Rather than waiting on Congress to pass legislation however, there are also potential paths to creating larger investment funds that can be taken by cooperatives themselves.

Although 80 per cent of the US population may own only 15 per cent of the wealth, that is not necessarily an insignificant amount. The key is to organize the money.

Organizing and aggregating small amounts of money into a large amount of money is not a new idea. In 1938 the March of Dimes raised US$1.8 million to fight polio, including 2,680,000 dimes that were mailed to the White House. In 1945, US$19 million was raised, including US$8 million from movie theatre collections alone (Wilson, 2009). A more modern example might be the collection of dues by unions. Just by collecting a few dollars a week in dues from members, the USW has over US$400 million in annual revenues. For all union members in the United States, this probably aggregates to around US$4 or $5 billion a year in revenues to advocate for and protect workers' rights and to fight for fair wages and benefits.

A prime example of organizing money into a responsible investment fund is Fonds de solidarité FTQ (Solidarity Fund), founded by the Quebec Labor Federation in 1983 to invest in small to mid-size socially responsible businesses in the province. As an incentive for individuals to invest in the fund, the federal and the provincial government both offer tax credits of 15 per cent of the amount invested that year, up to a maximum investment of CAD 5,000 per year. By investing in the Solidarity Fund through a Registered Retirement Savings Plan (RRSP), which is similar to a 401(k) plan in the United States, individuals can increase their tax savings even further. Since 1983, the Solidarity Fund has grown to over CAD 7 billion in assets and has a historical rate of return of about 7 per cent (Croft, 2009). Other Labor Sponsored Investment Plans have been developed throughout Canada, modelled on Quebec's Solidarity Fund, but none have been able to match its success.

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[8] See the California Credit Union League website, available at: http://www.ccul.org/02media/custats.cfm.

So how can the Solidarity Fund idea be replicated or adapted to develop successful investment funds elsewhere? In the United States, tax incentives may currently be lacking, but 401(k) plans do offer tax-deferred benefits. As employers have moved away from defined benefit pensions, worker participation in 401(k) plans has become widespread, with over US$3 trillion invested by 74 million participants in 536,000 plans as of the end of 2010, according to the Society of Professional Asset-Managers and Record Keepers (SPARK). However, with investment options set by an employer or plan manager, workers actually have very little impact on how their savings are invested. Too often the result is a "set it and forget it" investment plan where money is continually pumped into Wall Street with little knowledge of how it is being used, other than occasionally checking the rate of return on the options selected. Would it not be better for workers to be able to choose more rewarding options?

In 2011, I gave a presentation at a National Cooperative Business Association (NCBA) meeting on the idea of a union managed investment fund, funded through a 401(k) investment option. A union could negotiate with an employer to provide such an option, then ask its members to allocate a small portion of their 401(k) deferral to that option. Specifically, the hypothesis was that if 100,000 USW members (about 12 per cent of total membership) allocated 5 per cent of their 401(k) balance into a USW fund, that fund would have about US$200 million in assets – an ambitious goal, but not out of reach. The biggest hurdle would be the upfront costs of about US$250,000 to $500,000 to establish the fund and register it in each state, in addition to the costs of managing the fund on an ongoing basis.

A popular new way of organizing money is crowd funding. Funding portals, such as Kickstarter.com, allow people to donate a small amount of money to get a project started, usually receiving some type of gift in return if the project is fully funded. In most cases, if the fundraising goal is not met, the money pledged by donors is not taken. Although there are many instances where this type of fundraising has been widely successful (so far 20 projects have been funded at more than US$1 million each according to Kickstarter.com), successful crowd funding still requires plenty of work and creativity. Its main limitation, though, is its inability to provide a financial return. To remedy that barrier, the United States passed the Jumpstart Our Business Startups Act (JOBS Act) in April 2012, which allows individual investments of up to US$10,000 (depending on net worth and income) and allows businesses to raise up to a total of US$1 million annually without the reporting and regulation of traditional investment funds. The US Security and Exchange Commission (SEC) is still developing rules to implement the law as of July 2013 (Barnett, 2013). With nearly as much potential for financial scams as for generating innovative investments, it is difficult to predict the impact this new investment vehicle might have, but it is one worth exploring.

Concluding thoughts

Despite all the challenges facing unions and worker-owned cooperatives today, the potential for increased collaboration and hybrid models could create opportunities for both. These challenges and opportunities are also not unique to the United States; around the world there are different cultures, different laws and different unions, so clearly a one-size approach will not fit all. We need to be flexible and adaptive in our thinking. By doing so, we might find that there is far more that unites us than divides us. Similarly, if we think of unions and worker ownership as complementary parts of the same broad labour movement, then surely we have a greater chance of success of building that movement by working together and reaching for those common goals.

Achieving those goals will require creativity, determination and patience. We must adapt current tools and invent new ones. We must have the patience and perseverance to keep pursuing our goals even when hit with short-term setbacks. Not only do we need to organize the investment money, we need to organize the hearts and minds of our communities. Innovation, necessity, and a strong base of community support propelled Mondragon towards success – a success measured not just in terms of money, but in creating good and sustainable jobs that bring life to their communities. A success built upon putting people first and rooted in solidarity.

Solidarity may sound like an old, foreign word to many in the United States, conjuring up images of old black-and-white photographs during the Great Depression of the 1930s. But solidarity means supporting each other, helping each other. It may be an ancient idea, but it is one that is critical to achieving a better future.

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