THE DEMOCRACY COLLABORATIVE AT THE UNIVERSITY OF MARYLAND

BUILDING WEALTH:

The New Asset-Based Approach to Solving Social and Economic Problems

THE ASPEN INSTITUTE
Nonprofit Sector Research Fund

Nonprofit Sector Research Fund
Working Paper Series

Building Wealth:

The New Asset-Based Approach to Solving Social and Economic Problems

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May 22, 2005

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05-14

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Preface

Across the United States new forms of community wealth-building institutions have expanded dramatically in recent decades. Community development corporations have grown from a mere handful in the late 1960s to around 4,000 at present. Today more than eight million workers participate in employee-owned firms. Cooperatively-owned businesses involve more than 100 million members nationwide. Non-profit organizations have increasingly turned to income-generating enterprises to support their public service missions. And a host of local municipal programs and enterprises that anchor jobs and contribute to the tax base have gained the support of Republican and Democratic mayors alike. As of 2004 the total assets of the various sectors exceeded $1.5 trillion.

These seemingly diverse institutional strategies share important principles and values. First, they change the nature of asset and wealth ownership in a way that benefits the community. Second, they offer new ways to provide and anchor local jobs, as well as to help finance community services. In so doing, they provide critical resources to solve social and economic problems by making communities more stable and economically viable, providing greater security, furthering equality, and strengthening democratic practice and participation. Taken together the various efforts suggest the possibility of a new, more democratic vision of community building as we enter the first decades of the 21st century.

Few Americans are aware of the steady and continuing build-up of new and alternative forms of economic enterprise. The range of practical activity - and the implications for the future - has rarely been appreciated even by practitioners and experts working on such matters. Specialists in one sector (community development corporations, for instance) often have little knowledge of other sectors (such as employee-ownership or municipal enterprise). This "silo" effect prevents the transfer of experience and knowledge between sectors and works against collaboration. It also has made it difficult for participants in the growing movement to understand the principles they share in common.

The primary aim of Building Wealth is to help illuminate and bring attention to the vast range of efforts currently under way. We hope that this report may facilitate conversation, connection, and collaboration among those working within the field, and encourage the support and participation of new constituencies which previously have not been involved in democratic, wealth-building programs. We would be pleased if this study were to suggest new ways for policymakers, political leaders, practitioners, and communities to work together to solve the many new and difficult challenges facing America's communities.

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Executive Summary and Introduction

Building Wealth: The New Asset-Based Approach to Solving Social and Economic Problems

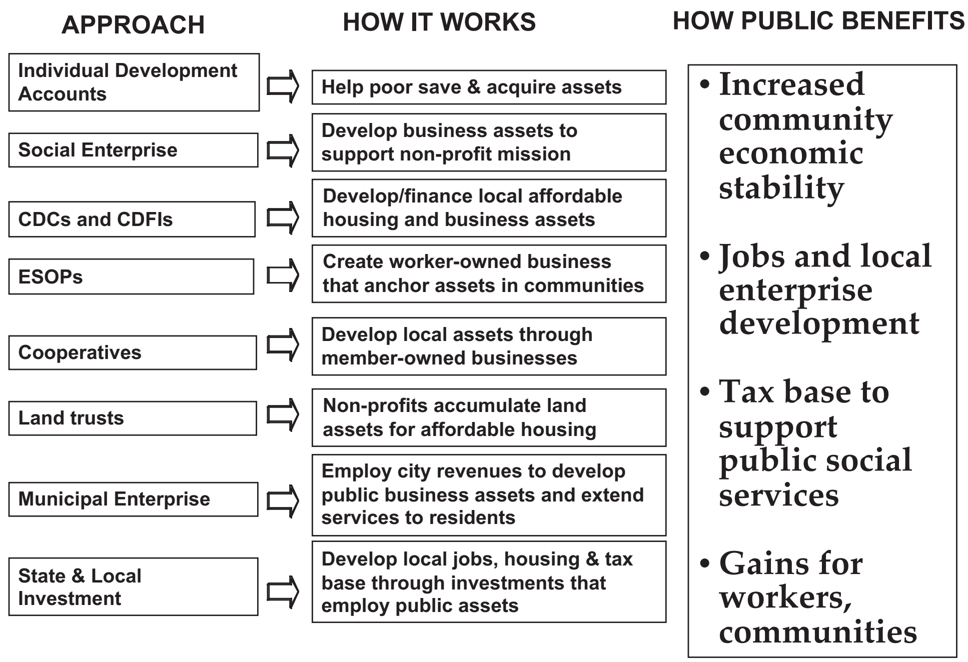
When government and non-governmental groups use "asset-based approaches" to advance social purposes, they use strategies and institutions to improve the ability of communities and ordinary people to acquire and accumulate wealth. Asset-based strategies often supply surprisingly effective responses to social and economic need by directly providing income or savings, by facilitating the development of locally based jobs and enterprises, by building up and stabilizing local assets and wealth, and by enabling local governments to apply existing resources more efficiently to better serve more citizens. Many asset-based approaches move beyond strictly economic activity to include cultural, educational, and other efforts that cross and blur conventional lines that mark the different sectors.

This study examines the development of a wide range of innovative, asset-based social and economic strategies that are being employed with great public benefit across the United States. This is the first across-the-board attempt to survey the development of these approaches—and their strategic interaction—in a comprehensive fashion.

Several factors account for the expanding use of asset-building strategies. Among the most important is increasing political resistance to raising taxes, which has pushed governments to seek alternative revenues and has led governments and others to promote indirect service provision. In addition, the rise of a global economy that is subject to economic fluctuation puts a premium on investment strategies that keep capital anchored more firmly at home.

Asset-based approaches include an impressive range of activities. Three principal modes of asset building can be identified. First and most well known are individual asset accumulation programs that help low-income individuals develop savings so they can gain greater access to wealth-generating resources such as home ownership, educational advancement, or self-employment through proprietor-owned business or microenterprise. In a second kind of asset building, small, local "publics" employ a variety of for-profit and non-profit forms to build assets in neighborhoods, workplaces, and communities throughout the United States. In a third asset-building form, government acts in an entrepreneurial fashion to help create jobs and spur locally based capital formation. In all the approaches, individuals and various public groups gain direct or indirect benefits by building asset ownership.

Figure 1: Asset Approaches by Type



Individual Asset-Based Programs

A critical wealth-building principle can be usefully illustrated by considering one of its most straightforward and well-known applications: **the individual development account** (IDA). While traditional strategies to alleviate poverty hinge on social services and/or income support, the IDA approach focuses instead on changing structural aspects of poverty: it helps low-income people build wealth by matching their savings with government or philanthropic funds. The matching funds are typically restricted to helping low-income people develop wealth through education (human capital), home ownership, and small business development.

IDAs and similar efforts to promote individual assets offer promising possibilities for creating at least a modicum of savings among the poor, but these efforts remain in their infancy.

Community-Based Approaches That Build Wealth

A much more fully developed approach is that of economic organizations that promote social purposes by accumulating community assets. Many of these efforts blend the small business' commitment to local community with elements of the public corporation's broader dispersion of ownership. Most also provide critical tools for anchoring otherwise footloose capital in communities.

The kinds of businesses involved range from community development corporations, community development financial institutions, and “social enterprises,” to community land trusts, employee-owned enterprises, and cooperatives. All form part of a growing category of institutions that promote local asset accumulation by pooling locally based capital in ways that create new jobs, anchor existing jobs in communities, generate taxes to support social services, promote democratic practice, and benefit the public in other ways. Over the past thirty years, many have matured to the point where they now have considerable experience, expertise, support groups, and political backing. They also involve what are sometimes termed “cross-sectoral” organizational forms that advance social purposes and build locally based assets. The range and expanding number of enterprises are suggested by the data listed in Figure 2.

Figure 2: Community Asset-Based Approaches Key Features & Statistics

SECTOR	KEY FEATURES
Social Enterprise	• Non-profit in operation. Number at least several hundred. • Employ thousands; over $500 million in annual turnover. • 480 businesses listed on industry database. • Median business volume is $300,000.
Community Development Corporations (CDCs)	• Non-profit in operation. Number over 4,000. • Employ over 20,000; at least $1 billion in annual turnover. • Develop over 37,500 units of affordable housing and 12 million square feet of commercial space a year.
Community Development Financial Institutions (CDFIs)	• Both non-profit and for-profit. Number over 700. • In 2002, employed 4,000. Assets of $14 billion. • Loans helped create or maintain 34,000 jobs in 2002.
Cooperatives	• Member-owned businesses; both for profit and non-profit. • Top 100 co-ops’ asset base is $263 billion. • Credit unions have 84 million members, assets of $629 billion.
Community land trusts	• Non-profit in operation. Number over 100. • In 2002, provided housing for over 6,000 households and nearly 12,000 residents.
Employee Stock Ownership Plan companies (ESOPs)	• For-profit, worker-owned business. • Financed by pensions, may own part or all of company. • Asset base is $297 billion. Over 10,000 ESOPs with over 8 million members. • Productivity 4-5% higher than comparable non-ESOP firms.

Non-profit “social enterprises,” the newest of the emerging efforts, are non-profit organizations that develop businesses both to make money and to further their mission. Responding creatively to fiscal constraints, many non-profits (especially in the social services) have found that by developing their own subsidiary businesses they can generate more revenue internally and also complement job and life skills training programs by directly providing entry-level jobs for the clients they serve. In San Francisco, a group of over a dozen non-profit owned, social-enterprise businesses have provided employment for more than 2,200 people drawn from high-risk populations with high percentages of people who have been homeless, had criminal histories, and/or had experienced mental health problems. Two years after their hire, 77 percent were still employed either by one of the city's social enterprises or another employer, with the average wage earned roughly equal to the city's living wage of $10.25 an hour.

While the rise of social enterprise is a relatively recent development, the idea of the **community development corporation** (CDC) can be traced to the 1960s. Forged initially in a crucible of urban riots and rural neglect, CDCs were devised as a revitalization strategy that would employ non-profit, community-based firms to develop locally controlled assets. Roughly 4,000 CDCs produce more than 37,500 units of affordable housing and 12 million square feet of commercial and industrial space each year. CDCs also own more than 280 businesses, with equity stakes in another 250 businesses, and they own supermarket-anchored shopping centers in over a dozen U.S. cities. From 1993 to 1997 alone, the number of CDCs increased by more than 50 percent. Growth has continued since then: Local Initiatives Support Corporation (LISC) and The Enterprise Foundation, two leading support organizations for CDCs, have seen their loan and grant activity to fund CDC projects more than double over the last decade.

Community development financial institutions (CDFIs) have developed more recently than CDCs. CDFI is a general term that refers to a range of community-based financial institutions including community development banks, credit unions, loan funds, venture capital funds, and microenterprise loan funds. CDFIs aim to fill capital needs that are not served by conventional sources of finance, a problem that historically has been particularly severe in minority communities where bank industry "redlining" has made raising local capital difficult. The number of CDFIs in the United States doubled from roughly 300 to 700 between 1994 and 2001—assets under management tripled during this period. From 2001 to 2003 assets under management increased an additional 84 percent—to $14 billion. In 2002 the CDFI industry employed over 4,000 people nationwide, providing financing for the renovation or new construction of more than 30,000 affordable homes and for local micro-enterprises that create or maintain 34,000 jobs.

Community land trusts (CLTs) provide another promising asset-based strategy. CLTs enable non-profit community-based organizations to take land off the market and place it in a trust, thereby preserving housing affordability. Typically, a majority of the equity gain accrues to the trust (only a minority accrues to the resident), allowing the trust to offer housing to a subsequent low-income owner at an affordable price. From 1991 to 2002 the number of U.S. households leasing land from land trusts tripled to over 6,000; the number of residents in land trust households now exceeds 11,000. Although the sector remains small, community land trusts are increasingly seen as an important way to preserve affordable housing in gentrifying neighborhoods.

The growth of **employee ownership** has different roots than some of the other asset-based approaches. While all of the community asset accumulation approaches described thus far are dominated by non-profits, employee ownership is a for-profit form of business that provides an important tool for local asset accumulation. In these enterprises workers own either all or part of the company. The most common involves financing by workers' pension contributions in the form of an **employee stock ownership plan** (ESOP). As a business, the ESOP's primary responsibility is to make a profit. Yet the ownership structure of the ESOP itself promotes critical social purposes. In particular, the ESOP mechanism has enabled several hundred, if not thousands, of family business owners to sell their companies to their employees, thereby both expanding employee assets and helping preserve the long-term economic (and tax) base of their communities. Three decades ago, there were only about 200 ESOP companies in the United States. Aided by favorable tax legislation, U.S. employee ownership has grown rapidly. Estimates of the number of ESOPs vary, but today there are somewhere between 9,000 and 11,000 ESOPs with over eight million employee-owners.

Not all community asset-based strategies have emerged in recent decades. The **cooperative** principle is older than capitalism. Cooperatives, which have existed in the United States for over a century, have begun to show renewed vitality in recent years. More than 100 million Americans are currently members of a co-op or co-op credit union. Some are small; some large and more like corporations. Like ESOPs, the distribution of asset ownership across a broad membership base provides significant benefits. Co-ops also offer other benefits. For instance, a 2003 U.S. Department of Agriculture study found that the member-owned structure of cooperatives in the state of Minnesota meant that profit income was also realized locally, resulting in a tax base $600 million greater than if the businesses had been privately owned. The top 100 U.S. co-ops alone had sales of $117 billion in 2003.

Governments Acting Entrepreneurially to Build Wealth

In addition to supporting many of the efforts so far mentioned, municipal, county, and state governments also increasingly play a direct role in building wealth. One little noticed but fast developing approach involves **municipal-owned enterprises,** which—under both Republican and Democratic mayors—provide jobs and services, while at the same time generating revenue for cash-starved local governments. Municipally owned enterprises are not an entirely new phenomenon. However, municipalities have been rapidly expanding the scope of their business ventures. From 2001 to 2003, for example, the number of public utilities offering telecommunications services increased 54 percent, greatly improving residents' access to broadband services. Municipalities have also become progressively more adept at earning revenue from real estate investment and using property ownership to shape development. One common strategy has been to focus and own high-density development around transit stations. Although the élan of enterprising government has something to do with this expansion, more important has been the need to compensate for shortfalls in tax revenue and/or private investment. A decade ago, few cities would have considered owning large hotels. Today city-owned hotels—in which cities partner with private hotel chains to develop hotels to support convention centers—have become much more prevalent, with new ones opening in the past ten years in Austin, Houston, Chicago, Omaha, Overland Park (KS), Sacramento (CA), Marietta (GA), and Myrtle Beach (SC).

Related to all of this is a dramatic change in how state and local governments deal with **capital investment** to achieve public goals, and how they steer investment capital to promote local asset building. Both through the creation of venture funds and by investing pension funds in private equity firms where they can exercise more control over their investments, municipalities and states are increasingly becoming active community investors. In the process they have been creatively employing public assets as a way to meet community development goals while economizing on direct expenditures. A 1996 survey by Susan Clarke and Gary Gaile found that 56.3 percent of cities surveyed using equity investments as part of their economic development strategy. A September 2002 survey found that state pension funds had $69.4 billion worth of holdings in real estate and that 31 states had invested a total of $51.8 billion (an average of 4.7 percent of fund assets) in private equity. Such holdings have in turn increased their capacity to use pension funds to promote job and economic development goals. In some states, like California, these goals are made explicit, as pension trustees have pledged to invest $5 billion in the state's underserved communities. It is not simply "liberal" states; the conservative state of Alabama has long been a leader in this field.

Directions for the Future of Wealth-Building Strategies and Research

We have also included material in this report drawn from a preliminary review of related developments abroad, particularly those which offer lessons for possible U.S. application. International asset-based strategies range from the Mondragón system of worker cooperatives in Spain to town and village enterprises in China. A resource guide is also provided to aid readers in further study of these issues.

There clearly remains much room for further work. A new political-economic paradigm is rapidly emerging with important implications for policy development. In part due to the "silo effect," the range of practical activity—and the rate of growth—has rarely been appreciated even by experts. As awareness grows, we can anticipate greater collaboration and coordination of increasingly sophisticated asset-based strategies.

The promise of the new strategies is particularly great in connection with community rebuilding efforts. A decade ago, Robert Putnam of Harvard University wrote, "I believe that the weight of the available evidence confirms that Americans today are significantly less engaged in their communities than was true a generation ago."[1] Yet even as individual rates of civic participation appeared to decline, promising new community-based institutions have been emerging, especially in deprived and disadvantaged areas—including the wealth building initiatives examined here.

To date the various strategies often have worked in relative isolation from each other. In our research we have found that while practitioners are aware of growth within their own sector, they often fail to see the broader patterns that are emerging, leading many to view their own sector's growth as an isolated event. One important goal of this report is to help stimulate interest in the broader patterns by mapping the growth of key sectors; identifying points they share in common; highlighting innovative practices, challenges, and opportunities; surveying the international context; and recommending common policies that might contribute to further development.

Building Wealth: The New Asset–Based Approach to Solving Social and Economic Problems

Can local community-based models of ownership work? As this path-breaking report demonstrates, in cities and towns across the United States, they already do. The past few decades have seen rapid expansion of new forms of local ownership to develop business, create jobs, foster local democratic practices, generate tax bases to support public services, and promote stability and community development. In combination with related wealth-building approaches employed by both foundations and governments, these efforts constitute part of an emerging paradigm of employing assets to address social and economic problems.

This book marks the first across-the-board attempt to survey the development of these approaches – and their strategic interaction – in a comprehensive fashion. To do this, a wide variety of wealth-building strategies are examined, highlighting both key accomplishments as well as the continuing challenges. Although these challenges are not inconsequential, the new approaches are shown to provide important tools for regions to generate new sources of wealth and reinforce local economies in the face of the growing competition in a global economy.

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