

**THE PROMISE OF ECONOMIC DEMOCRACY IN PRACTICE:
THE ROLE OF COOPERATIVES IN SUSTAINABLE AND EQUITABLE
COMMUNITY DEVELOPMENT**

by

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ABSTRACT

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This thesis seeks to demonstrate the real and prospective benefits — in terms of economic equity and environmental sustainability — of democratically organized, cooperative business enterprises. For purposes of clarity and focus, the study analyzes those arrangements that explicitly grant worker-owners and/or co-op members official voice in economic decision-making within such institutions.

“Official voice” refers to the sanctioned presence of members or elected representatives with the power to influence or direct ongoing operations, finances and investments, policies, and/or economic priorities. Using primary and secondary research methods — including in-person interviews and telephone/e-mail conversations (as approved on January 31, 2001 in conformity with Humboldt State University’s Human Research Subjects protocols, IRB #01-04), along with research and analysis from a wide range of journals, books, articles, and websites — the thesis documents a series of case studies in selected regions with a special focus on agricultural co-ops, health care co-ops, and financial co-ops (i.e., credit unions).

The first chapter provides an introductory overview of the undemocratic character of the corporate-dominated global economy at the turn of the century and the limitations this reality has placed on peoples and communities seeking sustainable and equitable economic development. The second chapter summarizes the historical emergence of cooperatives as a response to the problems caused by top-down corporate globalization, and outlines the various benefits, both socially and environmentally, that cooperative institutions offer from a community development perspective. Three subsequent chapters examine the history and relative performance of various types of cooperatives, with an emphasis on assessing the extent to which benefits are more equitably distributed within their host communities and the degree to which environmental protection and sustainable resource use become explicit concerns compared with corporate arrangements.

The study concludes that cooperatives, through their democratic structure, help combat the problems associated with traditional corporate enterprise by empowering ordinary workers, citizens, and communities to make choices that are more attuned to their concerns and priorities — not those of absentee owners and shareholders. As a countervailing force to top-down, corporate decision-making, cooperatives serve as living examples of economic democracy in practice, and should be promoted at the level of public policy as means for achieving more ecologically sustainable and socially equitable community development.

TABLE OF CONTENTS

CHAPTER	PAGE
1: CORPORATE-LED GLOBALIZATION — RESTRICTING SOCIAL AND ECOLOGICAL CHOICE FOR COMMUNITIES AROUND THE WORLD	1
Putting Corporate Globalization in Context: The Overpowering Influence of Transnational Corporations on Development	1
Overexploitation of Nature, the Limits of Free Market Environmentalism and the Narrowing of Economic Choice Under Corporate Governance	5
Growing Income Inequality, Loss of Democratic Control and Economic Instability Under Corporate-Led, Neoliberalism	16
2: THE COOPERATIVE ALTERNATIVE — HARMONIZING THE DIVERSE INTERESTS OF OWNERS, WORKERS, COMMUNITIES, AND THEIR ENVIRONMENTS	45
A Brief History of Cooperatives, Related Organizational Developments, and the Role of International Law	45
Co-ops as Means of Giving Democratic Voice to Workers and Communities and Creating a Broad Range of Stakeholders	54
Cooperatives' Effects on Employment Opportunities, Workers' Incomes and Benefits, and Productivity	62
Cooperatives' Effects on Natural Resource Conservation and Environmental Health and Safety	79
3: AGRICULTURAL COOPERATIVES VS. CORPORATE AGRIBUSINESS	90
The Growing Cost of Corporate Agriculture to Farmers, Rural Communities, and the Natural Environment	90
Background on Agricultural Cooperatives in the Americas	95
U.S. Midwestern Farmers' Co-ops vs. ConAgra	107

TABLE OF CONTENTS (Continued):

CHAPTER	PAGE
4: COOPERATIVE HEALTH CARE VS. CORPORATE HEALTH MAINTENANCE ...	128
The Worsening State of the World’s Health, Soaring Health Care Costs, Dwindling Benefits, and the Swelling Underserved Under Corporate Management	128
Background on Health Care Co-ops in Selected Regions	137
U.S.: Washington State’s Group Health Cooperative vs. Aetna	147
5: CREDIT UNIONS VS. BANKS	164
Under-investment, Redlining, and Unaccountable Community Financing	164
by Banks and Traditional Lending Institutions	
Background on Credit Unions in the United States	172
Credit Unions vs. Banks in Fees for Services and Lending	186
U.S.: Coast Central Credit Union of Northern California	190
CONCLUSION: LESSONS FROM THE COOPERATIVE EXPERIENCE:	196
REVEALING THE UNTAPPED POTENTIAL OF SOCIAL DEMOCRACY	

LIST OF TABLES

TABLE		PAGE
1:	Credit Union vs. Bank Fees	187
2:	Credit Union vs. Bank Loans	189

CHAPTER 1: CORPORATE-LED GLOBALIZATION – RESTRICTING SOCIAL AND ECOLOGICAL CHOICE FOR COMMUNITIES AROUND THE WORLD

Putting Corporate Globalization in Context: The Overpowering Influence of Transnational Corporations on Development

The growing concentration of wealth and ownership of resources — both within countries' domestic markets as well as internationally — is posing ever-growing challenges to nations and communities seeking to secure environmentally sustainable and broadly distributed benefits to their citizenry from economic development. The extreme consolidation of such ownership, made possible through the awesome, state-backed power of transnational business enterprise, is now effectively driving the evolution of the global economy, defining and restricting the range of socioeconomic and ecological choices of peoples around the world.

Among most Western economists and development planners, the twin problems of growing inequality and persistent poverty are said to be principally the result of an innocent, but serious lack of capital in the “developing” world. Typically, the best means cited to address this is a heavy-handed package of top-down, economic structural adjustment policies, a roll-back of domestic regulations on foreign investment, and increased international aid, particularly in the form of condition-laden, high-interest loans. Rarely is it suggested that the ever-growing imbalance of power between rich and poor, between corporations and small businesses, and between highly developed and underdeveloped nations serves as an enduring set of obstacles to poverty alleviation.

In recent years, much-needed light has been cast on the socially and environmentally suspect policies and activities of the World Trade Organization (WTO), the International Monetary Fund, and the World Bank. These international, quasi-governmental institutions have been criticized by public interest organizations for foisting export-led development strategies on less industrialized nations; undermining their general capacity to provide crucial social services and environmental protections; denying them the ability to control their own monetary and investment policies; and constraining their economic development prospects with discriminatory tariffs, burdensome debt repayment schedules, and harsh austerity programs.

All of these forces have conspired to prevent more evenly shared and sustainable economic development from taking root, both internationally and domestically. While casting public light upon them is of utmost importance, it is also becoming increasingly imperative to examine critically the growing power and influence of the limited liability corporation, arguably the most dominant economic institution of modern times. A critical assessment of the corporation is particularly urgent given its function of enabling, if not boosting, the persistence of destitution and ecologically suspect development throughout much of the so-called Third World.

Although there has been renewed interest in corporate accountability (e.g., divestiture campaigns, boycotts, charter revocation drives) to combat such effects, comparably little attention has been paid to how the very *structure* of the corporation helps to further wealth disparity within and among nations.

In *The Post-Corporate World*, economist David C. Korten argues that the growing concentration of power held by corporations and international financial

institutions is stripping societies of their ability to set economic, social, and environmental policies in the common interest. Summarizing this argument in *YES! A Journal of Positive Futures*, he writes that “[t]he global corporation, which is programmed by its internal structures to respond to the incessant demand of financial markets to seek its own unlimited growth, behaves much like a cancerous tumor.” He goes on to note that “the economy internal to a corporation is centrally planned and directed by top management, not to serve the whole of the society on which its existence depends, but rather to maximize the capture and flow of money to its top managers and shareholders.”¹

These characteristics — growth at the expense of the whole and top-down centralized planning — represent what Korten describes as “serious violations of the principle of cooperative self-organization in the service of life.”² Given that the largest corporations are now bigger than the economies of most nation-states, he emphasizes that the undemocratic structure of the corporation is cause for urgent global concern. Indeed, 52 of the 100 largest economies in the world are now corporations, according to a recent report issued by the International Forum on Globalization (IFG).³

As corporations grow both in size and influence, they are increasingly able to shape the nature of the world economy and consolidate their control over productive assets and resources. Author Joshua Karliner notes in *The Corporate Planet* that the

¹ David C. Korten, “The Post-Corporate World,” *YES! A Journal of Positive Futures*, No. 9 (Spring 1999): 12.

² Ibid.

³ Debi Barker and Jerry Mander, *Invisible Government: The World Trade Organization - Global Government for a New Millennium?* (San Francisco: International Forum on Globalization, October 1999), 4.

number of transnational corporations in the world has skyrocketed from 7,000 in 1970 to over 40,000 in 1995.⁴ (This number had grown still further to 53,000 by the late 1990s, according to United Nations estimates.⁵) Karliner goes on to write that these corporations along with their foreign affiliates — now estimated at 450,000 — control most of the world's industrial capacity, technological know-how, and international financial transactions. “All told, the transnationals hold 90 percent of all technology and product patents worldwide and are involved in 70 percent of world trade.”⁶ And while the world economy has been growing by a modest 2-3 percent annually, the largest corporations have grown at a rapid pace of around 8-10 percent each year, notes Karliner.

Within the burgeoning international economy, transnational corporations are increasingly dictating the terms of trade. Indeed, they are shaping every contour of society itself. “The TNCs are both the architects and the building blocks of the global economy,” writes environmentalist Tom Athanasiou in *Divided Planet: The Ecology of Rich and Poor*. “They are regional and global actors in a world broken into nations and tribes. They play country against country, ecosystem against ecosystem, simply because it is good business to do so. Low wages and safety standards, environmental pillage, ever-expanding desires — all are symptoms of economic forces that, embodied in TNCs, are so powerful they threaten to overcome all constraint by the society they nominally serve.”⁷

⁴ Joshua Karliner, *The Corporate Planet* (San Francisco: Sierra Club Books, 1997), 5.

⁵ John Madeley, *Big Business, Poor Peoples* (London: Zed Books, 1999), 2.

⁶ Karliner, 1997, 5.

⁷ Tom Athanasiou, *Divided Planet: The Ecology of Rich and Poor* (Boston: Little, Brown and Co., 1996), 196.

Overexploitation of Nature, the Limits of Free Market Environmentalism and the Narrowing of Economic Choice Under Corporate Governance

As corporations have acquired increasingly disproportionate power within and over nations, the rates of resource utilization and extraction throughout the global economy have accelerated, prompting massive ecological change in a variety of spheres. In the words of WorldWatch Institute's Lester R. Brown, "As the twenty-first century begins, several well-established environmental trends are shaping the future of civilization ... population growth, rising temperature, falling water tables, shrinking cropland per person, collapsing fisheries, shrinking forests, and the loss of plant and animal species."⁸ These facts constitute formidable challenges to the task of forging an environmentally sustainable economy.

Transnational commercial interests, with their focus on exploiting all profitable resource bases as cheaply as possible, have encroached upon sensitive ecosystems throughout the world, turning them into private lots for cash crop production, intensive aquaculture and animal agriculture, materials extraction, and industrial manufacturing. As more and more traditional systems of agriculture and subsistence practices are replaced, the demands of ever-greater profits almost invariably lead to increased mechanization, greater reliance on non-renewable resources (especially fossil fuels), and heightened environmental impacts.

Advocates of corporate neoliberalism, however, are quick to argue that resource management by "private" interests is more sustainable than public management since

⁸ Lester R. Brown, et al., "Challenges of the New Century," in *State of the World 2000* (New York: W.W. Norton & Co., 2000), 4.

individual property owners will vigorously act to conserve and protect the long-term value of their holdings. According to this view, environmental dilemmas within modern societies are not really the fault of corporations at all. Rather, they are a result of government mismanagement of scarce resources and the absence of clearly-defined and well-enforced property rights.

In *Free Market Environmentalism*, authors Terry Anderson and Donald Leal write that “the further a decision maker is removed from [the discipline of resource management] — as he [or she] is when there is political control — the less likely it is that good resource stewardship will result.”⁹ Throughout their polemic against government intervention or social control over the market, two arguments stand out: (1.) Since government bureaucrats are far removed from actual economic activity, they will invariably have insufficient information to protect the environment effectively, and (2.) since private owners have a personal stake in their property within the context of “free” markets, they alone can be counted on not to over-exploit natural resources.

Regarding the latter point, Anderson and Leal contend that “individual property owners, who are in a position and have an incentive to obtain time- and place-specific information about their resource endowments, are better suited than centralized bureaucracies to manage resources.”¹⁰ They go on to explain that self-interested actors operating in the market will experiment with a multitude of resource strategies, the most successful of which will be noticed and adopted by others. As soon as one recognizes that unrestricted private ownership of resources by individuals and corporations best

⁹ Terry Anderson and Donald Leal, *Free Market Environmentalism* (San Francisco: Westview Press, 1991), 3.

¹⁰ *Ibid.*, 5.

allows for the protection of vital ecosystems, the failings of centralized or even coordinated political control become all the more apparent, note the authors.

Later in their book, Anderson and Leal attempt to quell any doubts about the superiority of free market environmentalism by pointing out negative environmental consequences of government interference in the market. For example, in the United States much forest land had been placed in public trust during the 19th century in the interest of preservation. Rather than resulting in preservation, however, this policy distorted the market value of timber resources, leading to extensive theft — and consequently, extensive misuse — of public reserves.¹¹ Anderson and Leal cite many more examples of government mismanagement, ranging from environmentally damaging agricultural subsidies to ineffectual wildlife conservation programs.

However, the authors fail to acknowledge that a significant restraint on the government's ability to protect key ecosystems has been the growing degree of corporate control over the political system. Although agricultural subsidies clearly have adverse effects (and thus may qualify as mismanagement), it is worth noting that they exist mainly because agribusinesses have intensively and expertly lobbied for them. So pointing the sole blame at government frees agribusiness of any culpability for the decline in natural areas that has accompanied agricultural expansion — which rose globally from 4.55 billion hectares in 1966 to 4.93 billion in 1996.¹² Intensive political

¹¹ Anderson and Leal, 1991, 44.

¹² World Resources Institute, "Global Study Reveals New Warning Signals: Degraded Agricultural Lands Threaten World's Food Production Capacity," May 22, 2000, available from <http://wri.igc.org/press/goodsoil.html>.

and economic pressure has also come from the timber, fur and trapping industries, which have routinely, often successfully, fought legislative attempts to protect the environment.

Returning to the issue of bureaucratic control, Anderson and Leal are understandably critical of any centralized agency's ability to oversee and manage diffuse and diverse ecosystems. Indeed, when one looks at the environmental disasters that had arisen within the former Soviet Union and other Eastern European nations before the end of the Cold War, central bureaucratic planning for large territorial expanses begins to seem downright reckless.

That said, Anderson and Leal's uncompromising devotion to *laissez faire* markets commits them to the mistaken belief that one must either lend political support to deregulated capitalism or to some form of bureaucratic socialism. Other options certainly exist like market socialism, market cooperativism (see next chapter), communitarianism, and bioregionalism, to name only a few. Unfortunately, Anderson and Leal only frame the debate in terms of a stark dichotomy between free market societies and bureaucratic ones.

Most of the remainder of Anderson and Leal's tract is an attempt to illustrate how private ownership of natural resources virtually guarantees their continued maintenance. This is so because profit is directly tied to the health of the resources owned, which invariably will be protected over the long-term to ensure perpetual returns. In their view, a perfect example of successful environmental protection through markets is The Nature Conservancy's land management program. The group uses its funds to obtain a parcel of

land, which it often later trades for a larger parcel.¹³ Through this process, vital habitat for rare or endangered species is effectively preserved.

Although there is definite merit to this approach, Anderson and Leal unconvincingly suggest that this type of strategy will somehow stand up to the growing resource demands of production-minded corporations. Their continued success in controlling the democratic process has only enhanced their ability to secure greater resources, landscapes, and ecosystems. After all, greater political and economic power lies not in the hands of The Nature Conservancy, but within the bank accounts of corporate investors. Consequently, financing for preservation is losing out to financing for corporate resource use.

In all fairness, Anderson and Leal would argue that even the purchase of natural areas by intensive private producers would not likely result in environmental degradation since whatever would be produced within the ecosystem would require continued care and maintenance by the new owners. Indeed, corporations and other private interests have established many wildlife zones to conserve select populations of valued species. “Forest” lands have been maintained — and even expanded through single-species tree plantations — to assure the perpetual growth of valuable timber. In such cases, corporate management has ensured that particular species within ecosystems are sustained — namely, profitable wildlife species and fast-growing tree types. But this has come at great cost to biological diversity and overall ecosystem health.

¹³ Anderson and Leal, 1991, 3.

Indeed, our planet's biological diversity is now taking a severe hit. In *Environmental and Natural Resource Economics*, author Tom Tietenberg writes that the "richness of diversity within and among species has provided new sources of food, energy, industrial chemicals, raw materials, and medicines. Yet there is considerable evidence that biological diversity is decreasing."¹⁴ As Brown notes in *State of the World 2000* that the "share of birds, mammals, and fish vulnerable or in immediate danger of extinction is now measured in double digits: 11 percent of the world's 8,615 bird species, 25 percent of the world's 4,355 mammal species, and an estimated 34 percent of all fish species."¹⁵ Sadly, our present political economy fails to recognize the long-term and broader social value of biological and genetic diversity. Even market economists like Tietenberg are being forced by ecological reality to make statements such as the following: "Can we rely on the private sector to produce the efficient amount of public goods such as biological diversity? Unfortunately, the answer is no!"¹⁶

Since maintaining a diversity of biological species is critical for ensuring the long-term integrity of a given ecosystem, profit-focused corporate preservation can actually turn out to be quite damaging. Recognizing this fact severely weakens the case in favor of free market environmentalism.

Admittedly, Anderson and Leal write from the perspective of a neoliberal ideal, one which valorizes a virtually unregulated marketplace and minimizes any acknowledgment, much less respect for conceptions of the common good. In the real

¹⁴ Tom Tietenberg, *Environmental and Natural Resource Economics* (Reading, Massachusetts: Addison-Wesley Longman, Inc., 2000), 71.

¹⁵ Brown, et al., 2000, 8.

¹⁶ Tietenberg, 2000, 71.

world, the advanced market-based economies are arenas in which interactions take place between the government, corporations, and civil society. Political theorist John Dryzek labels such societies as “corporatist” (e.g., the United States, Britain, Japan), “within which a small number of powerful interests (if not a single interest) effectively monopolize political influence, often in a conspiratorial relationship with the responsible government agency (and, in the U.S.A. with interested legislators).”¹⁷

In his book *Rational Ecology*, Dryzek assesses the comparative ability of different societal arrangements to cope with ecological issues and problems. Remarking on the inadequacies of the corporatist state, he notes that “policy outcomes are systemically skewed in the direction of powerful interests.” This fundamentally restricts the economic and social choices available to society. In particular, “*general* values, such as the protective value of natural areas, the productive potential of dispersed common property resources, or even economic efficiency, fall by the wayside inasmuch as they have no special interest attached to them.”¹⁸ (Emphasis original.) Moreover, the domination that powerful interests enjoy within corporatist societies serves to inhibit much-needed feedback to elected representatives or natural resource managers “by debasing the language of politics, ensuring that debate remains at the level of interests rather than underlying and common values.”¹⁹ All the while, the “sleeper effects” of day-to-day development choices can become increasingly costly to future generations, such as the stockpiling of radioactive nuclear wastes, the discharge of cumulative pollutants into the environment, and the build-up of global warming gases in the atmosphere.

¹⁷ John Dryzek, *Rational Ecology* (Oxford: Basil Blackwell Ltd., 1987), 120-121.

¹⁸ *Ibid.*, 122.

¹⁹ *Ibid.*

Perhaps in no other area of the global economy is this reality more apparent than in the energy sector. Whether through large-scale hydroelectric projects, intensive coal extraction and combustion, high-risk nuclear fission, or immense oil drilling, transnational corporations are capitalizing on their political influence to ensure that huge, centralized energy development continues at the expense of low-impact, local power based on renewable resources for the long-term benefit of society at large.

Corporate dam construction alone has wrought untold environmental destruction and dislocation, much of it through subsidized, often-bloated federal contracts. “Every year, from the mid-1980s to the mid-1990s, around four million people were displaced from their homes because of large hydro-electric dam schemes,” notes Madeley.²⁰ Such projects create huge reservoirs that flood communities, fragile ecosystems, and fertile land, forcing those living there to seek refuge on marginal lands, often with little or no compensation. By contrast, micro-hydro and small-scale check dams provide highly efficient, low-impact sources of power and much-needed irrigation water to rural farmers and communities throughout the developing world at minimal cost. Yet because of the large-scale biases of the major development lenders and the influence of transnational construction firms (e.g., Citibank as chief funder of China’s massive Three Gorges Dam and Siemens as equipment contractor to India’s proposed Maheshwar dam), the enormous potential of small-scale, alternative technologies remain underutilized.²¹ Again, social choice is being limited by disproportionate corporate power.

²⁰ Madeley, 1999, 115.

²¹ Sandra Postel, “Redesigning Irrigated Agriculture,” in *State of the World 2000*, 55-56.

As the 21st century began, the Bush administration gained power in the United States, ushering in an even more influential period for the traditional energy industry. At the time of taking office, Bush was backed by \$3.5 billion dollars in campaign contributions from energy corporations heavily invested in oil and natural gas.²² Reporting for the British Broadcasting Corporation, investigative journalist Greg Palast noted that the “moment George Bush announced he was running for president 50 million dollars came in from Texas-based energy companies, but they got a payback of 5 billion dollars — half delivered since [he] was president and half while he was still governor of Texas ...”²³ The companies’ rewards were lucrative: decreased regulatory requirements and an end to a Clinton-era order barring stock market speculation on energy prices.

Once freed of such limits, these Texas-based firms quickly maneuvered to consolidate oligopolistic control of the energy market in the western United States. When the California energy crunch hit, a golden opportunity to reap mega-profits quickly emerged. California’s energy companies, having secured passage of a self-serving deregulatory scheme via generous donations to governors and members of the state assembly, suddenly found themselves at the mercy of out-of-state, price-fixing energy suppliers. According to a May 2001 report by the California Assembly’s Subcommittee on Energy Oversight, “[Texas-based] El Paso Corp. and its affiliates accelerated the steep climb of California’s natural gas prices by pinching off the flow of gas through the company pipeline.”²⁴ Having purchased as much pipeline space as possible, El Paso

²² Greg Palast, “Bush’s Energy Plan — Policy or Payback?” on BBC Television’s *Newsnight*, May 17, 2001, available from http://news.bbc.co.uk/olmedia/1315000/video/_1319141_payback_vi.ram.

²³ *Ibid.*

²⁴ Bernadette Tansey, “Natural Gas Price Squeeze Play,” *San Francisco Chronicle*, May 13, 2001, A-1.

prevented that capacity from being used, which artificially restricted supply, causing energy prices to rise by as much as 2,795 percent. As these costs began to be borne by PG&E and Southern California Edison, they in turn started hiking their gas and electricity rates, instituting “rolling blackouts,” begging for waivers of environmental rules, and pleading for federal intervention to cap wholesale energy prices. California citizens were caught cleaning up the mess left behind by corporate greed and mismanagement.

But price-gouging and market manipulation by U.S.-based energy firms pales in comparison to the general wrongdoing being perpetrated against the public by the fossil fuel industry. Despite occasional protests from industry-funded scientists, an increasingly convincing body of evidence is accumulating to show that our planet’s atmosphere is heating up due to the excessive combustion of fossil fuels. Indeed, a recent report by the Intergovernmental Panel on Climate Change (IPCC) concluded that “[t]he balance of evidence suggests a discernible human influence on global climate.”²⁵ The IPCC is an international group of 2,500 meteorologists gathered under the auspices of the United Nations to determine why the Earth is warming up and what it might portend for human civilization. The ongoing burning coal, oil and natural gas, plus deforestation, have increased the atmospheric content of carbon dioxide by 31% — up from 275 parts per million (ppm) to 360 ppm — over the past few hundred years. This carbon build-up has increased the global average temperature, which has begun to melt the Arctic tundra (thereby releasing more carbon dioxide into the atmosphere from freed methane gas and decaying peat); accelerated the breakage of ice shelves along the coast of the Antarctic

²⁵ Bette Hileman, “Case Grows for Climate Change,” *Chemical & Engineering News*, Vol. 77, No. 32 (August 9, 1999), 16-23.

Peninsula (7,000 square kilometers or 2,703 square miles over the past 50 years); bleached oceanic coral reefs in the Indo-Pacific, Western Atlantic, and the Caribbean (due to rising water temperatures); increased annual precipitation over the continental United States, Canada, Japan, Russia, China, and Australia; doubled the annual number of intense storms over the North Atlantic and the North Pacific since 1900; and intensified El Niño ocean warming events since the 1970s, which has given rise to violent storms along the U.S. Pacific Coast, devastating droughts in Africa and Australia, and weakened or absent monsoon rains in Asia.²⁶

Even in the face of such mounting threats, the fossil fuel industry continues to push for increased use of its highly polluting, non-renewable energy products. A recent report by the Natural Resources Defense Council and the Union of Concerned Scientists concluded that 80% of all greenhouse gas emissions is produced by a mere 122 corporations.²⁷ With so many fortunes tied up in fossil fuels, it is little wonder that oil and coal lobbyists have worked so tenaciously to scuttle America's participation in the Kyoto global climate change accords.

And yet, a plentiful set of sustainable energy options, micropower technologies, and conservation strategies exist, just waiting to be adequately funded and implemented. "Cleaner sources of energy are already available and affordable. Adopting them in the U.S. alone would create 770,000 jobs, save \$530 per household per year, and significantly reduce the threat of global warming," notes Peter Montague in *Rachel's*

²⁶ Montague, Peter, "The Carbon Pushers," *Rachel's Environmental Weekly*, No. 664 (August 19, 1999) [e-mail news journal].

²⁷ Ibid.

Environmental Weekly.²⁸ Although modest investments have been made in solar, wind, hydrogen, and geothermal power, the raw power of fossil fuel companies has thus far prevented a much-needed transition to a renewable energy economy. In effect, their actions are jeopardizing the long-term integrity of our global ecosystem and endangering the very lives of future generations.

Indeed, the glaring absence of any widespread environmental ethic within the corporate world points to a dangerous lack of built-in response mechanisms to ensure that sustainable resource utilization occurs under neoliberal development. What seems to matter most under neoliberalism is short-term profitability — not sustainability.

Growing Income Inequality, Loss of Democratic Control and Economic Instability Under Corporate-Led, Neoliberal Development

Despite the increasingly apparent ways in which transnational corporations are manipulating public policy to serve their own narrow interests, most economists, trade bureaucrats, and industry leaders as well as government officials across the political spectrum continue to sing the praises of unfettered corporate-led globalization, although this concept is routinely marketed under the more positive label of “free trade.”

The stated reason for all of this is to improve the quality of life for all parties involved, especially the growing masses of poor people who for some reason have not yet realized all the gains that were promised them decades earlier when the era of corporate-managed trade was truly beginning to take shape.

²⁸ Montague, August 19, 1999.

Today countries that have not yet significantly lowered tariffs, privatized key economic sectors, or lessened “burdensome” regulations on capital flows, industry, and labor markets are being encouraged — and in some cases, *forced* — to adopt such measures under the stated rationale of improving their citizens’ general quality of life. Unfortunately, the traditional indicator used to bolster this argument is average per capita income over time, a statistic that completely ignores the distributional effects of trade liberalization.

Per capita income statistics are particularly notorious in obscuring the realities of the widespread poverty that remains (or that is worsening) throughout much of the Third World. On this point, Athanasiou quotes Indian activist Smitu Kothari: “Increased trade might bring an increase in per capita income, but this doesn’t tell you anything about injustice, about how many people have fallen below the poverty line, about class. There is no reason to assume that an increase in wealth by a small portion of society will lead to the overall enhancement of the ecosystem, or to the increased control of more people over their productive natural resources, *which is what must happen if there is to be true ecological sustainability.*”²⁹ (Emphasis mine.)

In recent years, extensive literature has been generated detailing the deficiencies of using such indicators as per capita gross national product (GNP) or per capita gross domestic product (GDP) to monitor quality of life. (GDP is equivalent to GNP minus the net receipts of income generated from other parts of the world by domestic residents.³⁰) Organizations such as Redefining Progress and ecological economists such as Herman

²⁹ Athanasiou, 1996, 188.

³⁰ Paul R. Krugman and Maurice Obstfeld, *International Economics: Theory and Policy* (Reading, Massachusetts: Addison-Wesley, 1997), 305.

Daly have rightly noted that these traditional indicators fail to account for losses such as diminishing natural resources, rising crime levels, or increasing cancer rates. When other, more holistic measurement indices are used (i.e., the Genuine Progress Indicator), the quality of life in the United States, for instance, shows a general decline since the mid-1970s.³¹

Nonetheless, GNP and GDP continue to be the primary statistical baselines by which most economists measure quantitative growth, and by implication, qualitative improvement in economies throughout the globe. Dominant financial institutions like the World Bank tend to privilege GNP measurements in their statistical accounting. GNP is given particular attention “because [it] tracks national income more closely than GDP,” write economists Paul Krugman and Maurice Obstfeld in *International Economics: Theory and Policy*. More importantly, these economists assert that “national welfare depends more directly on national income than on domestic product.”³²

Still, macroeconomic statistics like GNP or even per capita GNP fail to assess how different segments of a country’s population are affected by corporate-led, neoliberal development. The World Bank’s own annual reports over the past two decades show that the distributional effects in most highly liberalized economies do not conform to the broadly shared income growth expectations of the neoliberal approach — especially among lesser industrialized nations.³³

³¹ Jonathan Rowe and Mark Anielski, *Genuine Progress Indicator 1998* (San Francisco: Redefining Progress, 1999), available from http://www.rprogress.org/publications/gpi1998/gpi1998_execsum.html#GPI_S7.

³² Krugman and Obstfeld, 306.

³³ World Bank, *World Development Reports* (New York: Oxford University Press, 1978-1999). [Based on comparisons of national per capita income figures published annually in each report’s appendices.]

The neoliberal model calls not only for the progressive removal of “barriers to trade” such as tariffs and quotas, but also the partial or even wholesale privatization and deregulation of commerce within and between nations. Between 1948 and 1994, member nations of the General Agreement on Tariffs and Trade (GATT) convened a total of eight times to hammer out new rules that would boost international commerce by scaling back a vast array of trade restrictions and regulations. The process moved into high gear in the 1980s with the ascendance of the Reagan-Thatcher-Mulroney administrations in the United States, Great Britain, and Canada, respectively, and continued to accelerate throughout the 1990s.³⁴ Recent trade agreements have dealt with unprecedented areas of liberalization, including agricultural subsidies, banking, intellectual property rights, investment, telecommunications, procurement, and an array of social services.

At the Uruguay round of GATT talks in 1995, trade officials gave birth to a radically new international organization called the World Trade Organization (WTO). The WTO’s institutional mandate was to facilitate member countries’ transition to the “least trade restrictive” policies governing commerce. To ensure that expanded trade rules were given lasting power, the WTO was empowered to enforce existing (and future) trade agreements and to serve as a central clearinghouse for trade relations and disputes between countries. According to the WTO’s organizational statement, its main objective is to “help trade flow smoothly, freely, fairly and predictably.”³⁵ At the turn of the century, the WTO consisted of 135 member nations, which are responsible for more than 90 percent of world trade.

³⁴ Silja J.A. Talvi, “World Trade or World Domination?”, *Mother Jones*, Nov. 24, 1999, available from <http://www.motherjones.com/wto/talvi.html>.

³⁵ *Ibid.*

In the eyes of neoliberal proponents, these institutional developments are both welcome and long overdue. A recent World Bank report sums up the importance of free trade this way: “Openness to trade is essential. One of the main reasons East Asian economies were able to grow so fast for so long was their ability to build strong links with world markets and to draw upon the technology flowing through those markets. They did this with policies ranging from trade liberalization to export promotion, some of which offset protectionist biases favoring domestic industries.”³⁶ It’s noteworthy that the World Bank chose to downplay the fact that East Asian countries extensively subsidized domestic sectors and that massive capital outflows by foreign investors helped spawn a region-wide economic nosedive beginning in 1997. Of course, such admissions would detract from the Bank’s unwavering commitment to neoliberal doctrine, which fervently maintains that “protection” is bad, and that unfettered trade and investment is good.

Commenting on the widespread benefits of deregulated commercial activity, economist Milton Friedman has argued that “the gains to some producers from tariffs and other restrictions are more than offset by the loss to other producers and especially to consumers in general. Free trade would not only promote our material welfare, it would also foster peace and harmony among nations and spur domestic competition.”³⁷ Friedman further asserts that the assortment of business regulations and controls that have been enacted over the years amounts to “a maze of restraints and restrictions that makes all of us worse off than we would be if they were all *eliminated*.”³⁸ (Emphasis mine.)

³⁶ World Bank, *World Development Report 1998/1999* (New York: Oxford University Press, 1998), 145.

³⁷ Milton Friedman, *Free to Choose* (New York: Harcourt Brace Jovanovich, 1980), 39.

³⁸ *Ibid*, 38-9.

In this way, neoliberal proponents are able to link their critique of tariffs and other international trade restrictions with an attack on domestic regulation of industry. Hence, Friedman concludes that with regards to “domestic as well as foreign trade, it is in the interest of ‘the great body of the people’ to buy from the cheapest source and sell to the dearest.”³⁹ Attempts by governments, unions, or other groups to apply controls on industry are therefore ineffective at best, or a smokescreen for protecting “special interests” at worst.

But just how much has “the great body of the people” benefited from economic liberalization? To be sure, some have benefited enormously. As tariffs and other barriers to trade were reduced or eliminated over the past several decades, growth in world trade continued to increase, especially among industrialized nations.⁴⁰ Economist Jagdish Bhagwati argues that this phenomenon also spurred growth in income levels throughout most of the industrialized world, albeit at slower rates than growth in trade.⁴¹ Once again, however, only general macroeconomic indicators such as national GDP are used to buttress this argument.

The historical record paints a sobering, rather different picture. Recent trends in corporate liberalization have coincided with growing financial disparities between owners and wage earners. According to the IFG, the world’s 475 billionaires now command as much wealth as the combined annual incomes of more than 50 percent of the earth’s population.⁴² Even more alarming is the fact that the net worth of the world’s

³⁹ Friedman, 1980, 38.

⁴⁰ Jagdish Bhagwati, *Protectionism* (Cambridge: MIT Press, 1988), 3-4.

⁴¹ *Ibid.*, 4.

⁴² Barker and Mander, 1999, 4.

ten wealthiest people adds up to more than 1.5 times the combined income of all the least developed nations as defined by the United Nations Development Program.⁴³ In the United States, corporate chief executive officers were paid, on average, 419 times more than line workers in 1998, up from only 40 times as much in 1980, according to a recent report by United for a Fair Economy.⁴⁴

Moreover, after decades of explosive trade growth and increasing corporate concentration, the richest 20% of the world's population now receive annual incomes that are 74 times that of the world's poorest 20%, up from 30 times as much in 1960, according to the United Nations' 1999 Human Development Report.⁴⁵ In absolute terms, World Bank statistics reveal an ongoing increase among those in official poverty. Despite a global economic recovery in the latter 1980s and early 1990s, the total number of income-poor individuals increased by almost 100 million from 1.2 to 1.3 billion, with the overall number growing in every region except Southeast Asia and the Pacific.⁴⁶ And according to the United Nations' Human Development Index, living standards declined in 30 countries during 1996-1997, more than any other year since the organization's Human Development Report was first issued.⁴⁷ Summarizing the world's general state of affairs, the U.N. Secretary General's millennial report notes that "[n]early half the world's

⁴³ Jan Kippers Black, *Inequity in the Global Village* (Bloomfield: Kumarian Press, 1999), 15-16.

⁴⁴ Chuck Collins; Chris Hartman and Holly Sklar, *Divided Decade: Economic Disparity at the Century's Turn* (Boston: United for a Fair Economy, December 15, 1999), available from http://www.faireconomy.org/press/archive/1999/Divided_Decade/divided_decade.html.

⁴⁵ Joel Bleifuss, "New World Order," *In These Times*, Vol. 23, No. 19 (Aug. 22, 1999), 1.

⁴⁶ Black, 1999, 13.

⁴⁷ *Ibid.*

population still has to make do on less than \$2 per day. Approximately 1.2 billion people — 500 million in South Asia and 300 million in Africa — struggle on less than \$1.”⁴⁸

Responding to the obvious disparities that are resulting from unchecked corporate liberalization, tens of thousands of concerned citizens converged in Seattle during the World Trade Organization’s Third Ministerial Meeting in late November 1999. The far-reaching scope and undemocratic structure of the WTO inspired the ire of a broad coalition of environmental, labor, consumer, public health, and Third World activists who came from around the world to protest the opening day of the proceedings. Their presence delayed the beginning of the ministerial by several hours.⁴⁹ But perhaps more significantly, their determined action succeeded in hurling the WTO into the public limelight. Within the hallowed halls of the ministerial meeting itself, many Third World delegates — emboldened by the protests outside — revolted against their exclusion from secret trade discussions that had been held by the United States and other key industrial powers. More than 70 developing countries, primarily from Africa and the Caribbean, declared later that week that they would not sign the final ministerial declaration that had been crafted via a process from which they had been excluded.

If such realities are any indication, there appears to be considerable reason to doubt that the world’s peoples are confident that corporate-driven economic liberalization will result in a greater life for all. As John Madeley notes in his recent work, *Big Business, Poor Peoples*, transnational corporations tend to offer highly questionable gains

⁴⁸ Kofi A. Annan, *Millennium Report of the Secretary-General of the United Nations* (New York: United Nations, 2000), available from <http://www.un.org/millennium/sg/report/full.htm>.

⁴⁹ Aaron Lehmer, “The Battle of Seattle,” *Earth Island Journal*, Spring 2000, available from http://www.earthisland.org/eijournal/wto/wto_battle.html.

in employment, foreign direct investment, and even trade. Citing a recent report by the United Nations Conference on Trade and Development, Madeley writes that the world's transnational corporations and their affiliates employ about 73 million people worldwide, 60% in their home offices and 40% in their affiliates.⁵⁰ Given the enthusiasm for TNCs displayed by government officials in so many developing countries, one would expect them to be providing sizeable employment opportunities for Third World peoples. As it turns out, however, only about 12 million people are employed by TNCs in developing nations, comprising a mere 2% of their total workforce.⁵¹ Many of these jobs are also highly insecure or temporary given the fact that TNCs enjoy the right to move to another country at a moment's notice. Their sheer size and legal might often prevent successful union organizing from taking root to improve wages, working conditions, and general terms of employment. In addition, employment within TNCs has been made even more uncertain under GATT rules which often force countries to overturn laws requiring foreign companies to hire modest numbers of local workers.

The explosion of foreign direct investment (FDI) that has occurred in recent decades is commonly cited as a hopeful sign that corporate globalization will lead to substantive gains for developing countries. By 1997, the global stock in FDI by transnational corporations had reached \$3.5 trillion. The annual average of FDI in developing countries nearly tripled between 1992 and 1997, growing to \$149 billion out of a worldwide average of \$400 billion per year. Even so, roughly 80% of this has gone to just ten countries, while the smallest 100 economies received only 1%.⁵²

⁵⁰ Madeley, 1999, 2.

⁵¹ Ibid.

⁵² Ibid.

Madeley also notes that TNCs have concentrated FDI in a small number of countries where authoritarian governments reign supreme, allowing their investments to remain the most secure — and the most profitable. According to a recent study by the New Economy Information Service that analyzed World Bank and U.S. government statistics, 72% of U.S. manufacturing investment in the Third World now goes to non-democratic nations (i.e., no elections are conducted nor is free speech allowed). At the same time, U.S. imports from these nations rose from less than one-half to two-thirds since the end of the Cold War.⁵³ This fact should come as no surprise given the corporate logic of profit-maximization at all costs. With workers in democratic societies making an average of 60% more than those in autocratic societies,⁵⁴ it is little wonder that transnational corporations would seek to avoid higher labor costs by shifting production to nations whose populations live under oppressive regimes.

Of the many studies that have been conducted assessing the effects of foreign direct investment by transnational corporations, almost all have concluded that it leads to widening internal income inequalities within developing countries.⁵⁵ And yet, the accompanying increase in international trade that results is almost always heralded as evidence of corporate globalization's overall net benefits.

In an imaginary speech written for the former president, Pulitzer-prize winning *New York Times* columnist Thomas L. Friedman suggests that Clinton would have been better served had he said the following at his inauguration: "Foreign trade, which

⁵³ Paul Street, "Capitalism and Democracy 'Don't Mix Very Well,'" *Z Magazine*, Vol. 13, No. 2 (Feb. 2000), 23-24.

⁵⁴ *Ibid.*, 24. [Citing a study of 93 nations published in *Business Week* by Harvard trade economist Dani Rudrik.]

⁵⁵ Madeley, 1999, 9.

represented just 13 percent of gross domestic product in 1970, is now up to nearly 30 percent of American GDP — and rising. ... Not only is this a new world; it is, for the most part, a better one. Even if they have to struggle at times with the system, China, Indonesia, Korea, Thailand, Malaysia, Brazil, Argentina have seen their standards of living rise faster, for more of their citizens, than at any time in their history — thanks to the increasing effectiveness of financial markets in facilitating trade and investment by people in one country into the factories of another.”⁵⁶

The implications of this style of rhetoric are clear. There may indeed be some unfortunate bumps along the road to economic integration (e.g., massive job losses, rising income inequality, increasingly frenetic living, and ever-growing stresses on natural resources), but corporate-led globalization will ultimately lead to overall net gains for peoples around the world. How these gains will be distributed and whether they will be environmentally — or even economically — sustainable are simply outside of the analytical lens of most neoliberal advocates.

Indeed, the various “costs” of corporate-driven development usually are not even bestowed the dignity of being included in official economic accounting. Instead, they are relegated to the second-class status of “externalities” — an antiseptic term that serves mainly to deny their actual importance, especially as compared to the “real” economic issues of supply, demand, and the interests of corporate and currency managers. Such ideology, although dressed up in the respectable clothing of academic and official expertise, is actually a sophisticated form of value utilitarianism.

⁵⁶ Thomas L. Friedman, *The Lexus and the Olive Tree* (New York: Anchor Books, 2000), 441-442.

“Utilitarianism says that actions are defensible if they produce a favorable balance of happiness over unhappiness,” writes moral philosopher James Rachels. While this may sound progressive at face value, it turns out that “[u]tilitarianism is at odds with the idea that people have rights that may not be trampled on merely because one anticipates good results.”⁵⁷ As such, economic rights or even standards of justice become little more than conceptual intrusions into market utilitarianism’s domain since they imply that economic gains can actually be ill-gotten, and hence, illegitimate. In other words, if more GNP and more general happiness results from a toxic chemical plant that sets up shop next to a poor neighborhood — even if the local residents become sterile or fatally ill from its activities — then at least it is all for the greater good. This is a classic case of the ends justifying the means. And since only consumers/buyers and producers/sellers have legitimacy within this “free” market framework, the impacts of commercial development on workers, communities, and their environs can be more readily dismissed.

In any event, recent assessments of corporate-managed trade are casting doubt on neoliberalism’s central utilitarian claim of being able to achieve overall net gains for society. In a study of developing countries’ various economic strategies, Duke University professor Gary Gereffi writes that “[a]lthough export-processing activities such as those that have grown so rapidly in Mexico and the Caribbean Basin in recent years have undeniable benefits . . . they do not in themselves constitute a sufficient basis for a long-term development strategy.”⁵⁸ Indeed, after the first five years of NAFTA’s implementation between Mexico, Canada, and the United States, even Mexican

⁵⁷ James Rachels, *The Elements of Moral Philosophy* (New York: McGraw-Hill, Inc., 1993), 107-108.

⁵⁸ Gary Gereffi, “The Elusive Last Lap in the Quest for Developed-Country Status,” in *Globalization* (Boulder: Lynne Rienner Publishers, 1996), 78.

authorities have been forced to admit that manufacturing wages have dropped by 10%.⁵⁹ Mexico's general populace has also failed to realize the broad-based benefits that trade liberalization had promised. According to a recent analysis of NAFTA's cross-border impacts by Washington, D.C.-based Public Citizen, "[T]he earnings of Mexicans have declined precipitously since NAFTA's enactment: In 1997, 7,771,607 Mexicans were documented as earning less than Mexico's legal minimum wage of \$3.40 a day, 20% more than in 1993. Among Mexico's working class, salaries at the end of 1997 had fallen to 60% of their 1994 value."⁶⁰

Seeking to account for these unwelcome developments, Madeley explains that Mexico's border-zone *maquila* industries — comprised of thousands of mostly foreign-owned assembly plants operating with little or no regulation — have never created substantial economic linkages with the rest of the country's economy. "As a result of this lack of integration, a robust domestic supply sector has not developed in Mexico. The *maquila* programme has not helped sustainable development."⁶¹

What is worse is that the gains that countries are supposed to make under the theory of comparative advantage are increasingly being subverted by growing internal trade within and among transnational corporations. Madeley notes that "[a]bout one-third of world trade is conducted by TNCs within their own organizations — a subsidiary in one country selling to and/or buying from a subsidiary in another, or with head office."⁶² As a result, an increasingly significant portion of national financial resources is never

⁵⁹ The Nation Co., "No FTAA, No Fast Track," *The Nation*, May 14, 2001, 5.

⁶⁰ Public Citizen, *NAFTA at Five: School of Real-Life Results* (Washington, D.C.: Public Citizen, December 1998). Available from <http://www.citizen.org/trade/nafta/votes/articles.cfm?ID=6473>.

⁶¹ Madeley, 1999, 12.

⁶² *Ibid*, 4.

even being circulated, much less allocated in the broader domestic economies within which TNCs operate, leading to decreasing maximization their diverse relative endowments. Instead, centralized corporate management is using its disproportionate power to further its own profit-maximization goals above all else, leaving billions unable to reap the benefits of economic globalization.

Occasionally, proponents of neoliberalism emphasize the important role that states can play in cushioning the blow to those whose livelihoods are inevitably impacted by increasingly globalized trade. In his recent work entitled *The Lexus and the Olive Tree*, Thomas Friedman takes a thoughtful approach to economic globalization, explaining how the process of liberalized trade between nations invariably leads to mass layoffs, economic displacement, and severe hardship for those in uncompetitive sectors. Rather than resort to shoulder-shrugging and a Newt Gingrich-style “let-them-eat-cake” attitude toward impacted workers, Friedman calls for what he terms a “social-safety-netter” strategy of assistance and job training. “Economically, this means designing trampolines and social safety nets that don’t simply try to cushion the fall of the left-behinds, know-nots and turtles, but actually try to bring them into the system by helping them acquire the tools and resources to compete.”⁶³

Unfortunately, Friedman’s call is not being heeded. At the Quebec City Summit of the Americas in late April 2001 — where leaders of 34 countries (except Cuba) gathered to discuss extending the North American Free Trade Agreement throughout the

⁶³ Friedman, 2000, 438-439.

Western hemisphere — officials showed little interest in listening to globalization’s victims, much less helping them.

In fact, summit organizers and participants were so nervous about public outcry that they erected a 2.3-mile concrete and chain-link fence around the heart of the provincial capital to keep people away from the dignitaries. To further prevent protesters from even getting near the meeting site, Canadian officials arbitrarily refused entry to citizens of other countries at the border and assigned around 6,000 additional police officers to block the streets. Hundreds of meeting halls in Quebec City’s sprawling “security zone” also remained off limits to citizens — a far cry from Friedman’s vision of “bringing people into the system.” Canadian Prime Minister Jean Chrétien revealed just how interested he was in democratic dialogue with his critics, saying at the summit, “*On va protester et blablabla*,” which means in English, “They’re coming to protest and blah blah blah.”⁶⁴ In the end, a small group of determined protesters — amid tens of thousands of others who came from all over the world — broke through the security wall and disrupted the opening day’s summit meetings, delaying their commencement by at least an hour.⁶⁵

More recently, droves of people took to the streets in Genoa, Italy, in protest of another “insiders only” summit of the G-8, a group of the world’s most highly industrialized countries. “One hundred thousand people don’t get upset unless there is a problem in their hearts and spirits,” said French President Jacques Chirac, according to

⁶⁴ The Nation Co., May 14, 2001, 5.

⁶⁵ Lucia Newman and John King, “Protests Delay Start of Americas Summit,” CNN.com, April 20, 2001, available from <http://www.cnn.com/2001/WORLD/americas/04/20/summit.americas.03/index.html>.

the *New York Times*.⁶⁶ The sincerity of his comments will be tested in the years to come as citizens and non-governmental organizations increase their demands for democratic participation in deciding our common future. While the media continue to denounce the “violent anti-globalization” protesters, many of them are also straining to point out that the growing segment of society they represent is getting increasingly fed-up with backroom, corporate-directed trade deals with questionable benefits.

Indeed, a recent survey of 20,000 adults from 20 countries found that most citizens believe that corporate globalization is harming their nations’ cultures, that human rights and environmental protection should be major international priorities (well ahead of trade and investment), and that non-governmental and faith-based groups generally found outside the Seattle and Quebec City barricades can be trusted to operate in the best interests of society much more than those inside (i.e., national governments and global companies).⁶⁷ Commenting on the poll’s implications, Environics International’s President Doug Miller noted that “[u]nless meaningful ways are found to involve NGOs and faith-based organizations in developing international agreements in the trade, human rights and environmental areas, global initiatives will lack moral authority and the progression towards greater globalization will likely suffer significant set-backs. Police lines and tear gas should not be necessary tools for building a new world order.”⁶⁸

⁶⁶ Alessandra Stanley and David E. Sanger, “Italian Protester Is Killed by Police at Genoa Meeting,” *New York Times*, July 21, 2001, available from <http://www.nytimes.com/2001/07/21/international/21ITAL.html>.

⁶⁷ Environics International, *Poll Findings Suggest Trouble Ahead for the Globalization Agenda Survey of 20,000 Citizens Across 20 Key Countries* (Toronto: Environics International, Ltd., May 23, 2001), 1, available from http://www.environicsinternational.com/news_archives/GIM_globalization.pdf.

⁶⁸ *Ibid*, 3.

Indeed, what such surveys are bringing to light is that people and communities increasingly fear losing the ability to shape their own economic destinies under the heavy shadow of corporate-led globalization. Sadly, even neoliberal proponents like Friedman who espouse a sensible safety-net approach still refuse to acknowledge how corporations are undermining the capacity of governments to consider their policy recommendations, much less respond to the growing discontent of the general public.

All the while, corporate globalization is hollowing out the welfare state by demanding cutbacks in the social safety net, rendering economies that do this more attractive to private investors. In the words of Jan Kippers Black, a professor at the Monterey Institute of International Studies, “Whatever the inclination of its leaders, the state is no longer able to carry out what was seen a few decades ago as its primary function — serving as a job or welfare provider of last resort.”⁶⁹

Transnational corporations help catalyze the process of reduced social, environmental, and support services for citizens by urging countries to craft their legal and economic frameworks around their narrow financial interests. In the United States, for example, corporations have recently flexed their collective political muscle to shift the tax burden dramatically from themselves to the general population. “Three decades ago, corporations paid about a quarter of all U.S. federal taxes,” write corporate critics Russell Mokhiber and Robert Weissman. “Now the corporate share is down to approximately 10 percent.”⁷⁰ What is worse is that dozens of major corporations are exploiting enough tax loopholes to have *negative* federal income tax payments —

⁶⁹ Quoted in Athanasiou, 1996, 196.

⁷⁰ Russell Mokhiber and Robert Weissman, “Corporate Taxes Under Attack,” *Focus on the Corporation*, May 25, 2001, available from <http://lists.essential.org/pipermail/corp-focus/2001/000075.html>.

meaning that they're receiving rebate checks from the U.S. Treasury, according to a study of the 1998 income tax payments of 250 of the largest corporations by the Washington, D.C.-based Citizens for Tax Justice.⁷¹

Of course, given the frequently dire realities of high domestic unemployment and rising poverty levels in developing countries, government officials there almost cannot help but respond favorably to corporate pressure for reduced tax liability. Such nations also find themselves besieged by global cash flows, writes Athanasiou, making it all the more difficult for them to control the behavior of corporations. Ecological economist Herman Daly issued a stern warning about this phenomenon to his fellow staffers upon his departure from the World Bank Environment Department, stating, "To globalize the economy by erasure of national boundaries through free trade, free capital mobility, and free, or at least uncontrolled migration, is to wound fatally the major unit of community capable of carrying out policies for the common good."⁷²

Moreover, notes Madeley, "[a]ttracting TNCs is costly. It demands that governments allocate resources for the purpose." The consequence of all this is less money "for other sectors of the economy, such as agriculture, education and health care."⁷³ During the last half of the 1980s alone, UNICEF reports that the poorest 36 developing countries slashed their education and health care budgets by 25 and 50 percent, respectively.⁷⁴

⁷¹ Mokhiber and Weissman, May 25, 2001.

⁷² Quoted in Athanasiou, 1996, 48.

⁷³ Madeley, 1999, 11.

⁷⁴ Black, 1999, 13.

As the economic clout of TNCs has grown, the power that they wield over governments in the Third World has become increasingly determining. This effectively places transnational corporate CEOs in the position of economic managers within such countries, opening up enormous opportunities for abusive profit-seeking behavior. This reality was made clear at a Nestlé-sponsored business conference in 1995, where the company's marketing executive Lewis Pringle admitted, "In many (if not all) developing markets, it is simply impossible to make significant money without overt violation of normal Western ethical principles."⁷⁵

Leaving aside moral lapses at the executive level (whether conscious or otherwise), recent analysis suggests that, despite oft-repeated claims to the contrary, many transitional and developing countries have failed to reap the long-promised benefits of TNC-led economic liberalization.

Some authors suggest that the problems witnessed in those countries that did not realize broad and consistent gains either failed to muster the political will to institute much-needed neoliberal reforms adequately⁷⁶ or failed to adopt them in the appropriate sequence.⁷⁷ Others find this view wanting and note that over-reliance by developing and transitional economies on export-oriented production combined with loosened financial controls made many of them highly vulnerable to commodity market swings and reflexive capital flight by international investors. In particular, critics argue that Africa's

⁷⁵ Quoted in Madeley, 1999, 8.

⁷⁶ Anne O. Krueger, "Problems of Liberalization," in *Economic Liberalization in Developing Countries*, eds. Armeane M. Choksi and Demetris Papageorgiou (New York: Basil Blackwell Inc., 1986), 15-31.

⁷⁷ Michael Michaely, "The Timing and Sequencing of a Trade Liberalization Policy," in *Economic Liberalization in Developing Countries*, 1986, 41-57.

persistent development woes, the Latin American debt crisis in the 1980s⁷⁸, the Asian and Russian economic crises of the 1990s are attributable, at least in part, to neoliberalism.

Seeking to account for the economic difficulties encountered by many liberalizing countries in Africa, authors Julius E. Nyang'oro and Timothy M. Shaw state that they cannot be explained simply as a result of the oil shocks of the 1970s. Rather, they should be seen as the result “of a much deeper problem in the nature of *international capitalism* — the failure of the system to replicate itself in a dynamic fashion in the periphery as it has in the center — and the consequent response by the periphery in terms of emerging structures at the level of both the economy and politics; in short, the nature of class relations.”⁷⁹ (Emphasis original.) They go on to argue that the IMF and World Bank falsely assume that some universal rationality will force the ruling elites in Africa to “face up” to reality and wholeheartedly embrace structural adjustment programs as the most practical solution for their economic woes.

In Zambia, which by the 1980s had become too weak economically to resist increasing IMF demands for reform, riots broke out in several urban centers to protest the imposition of structural adjustment programs. IMF liberalization requirements included currency devaluation and the creation of weekly foreign currency auctions, reductions in overall government spending on social services and food subsidies, and an across-the-board wage freeze. Commenting on these drastic measures, Zambian President Kaunda remarked in 1987: “The IMF program has been with us for close to 12 years now and we have begun to see nothing but a contraction of the economy ... In the end, we were living

⁷⁸ Tariq Banuri, *Economic Liberalization: No Panacea* (New York: Oxford University Press, 1991), 9.

⁷⁹ Julius E. Nyang'oro and Timothy M. Shaw, “African Development in the New International Division of Labor,” in *Beyond Structural Adjustment in Africa* (New York: Praeger Publishers, 1992), 2.

to pay the IMF, nothing else!”⁸⁰ Two years later, another IMF liberalization program was renegotiated, containing provisions strikingly similar to the previous one. Not only did most of the population see their incomes and welfare decline, but the capacity of the government to address social problems was correspondingly diminished. Indeed, as author Thomas Callaghy, a tentative supporter of structural adjustment programs, points out, their implementation in Africa was made all the more problematic by the concomitant weakening of the administrative capacities of the state.⁸¹

Authors P. Konings and H. Meilink provide an even less sanguine view of the potential for corporate-led trade liberalization to benefit Sub-Saharan African countries, arguing that such economies will continue to lose ground as the Uruguay GATT provisions are implemented. In particular, they note that tariff liberalization on tropical and temperate agricultural products will cost them \$505 million in lost export revenues, which represented over 1% of Africa’s total export earnings in 1992.⁸² Although this may not seem terribly large, the authors note that “for individual countries which in most cases are dependent on a few export products, losses may be far-reaching.”⁸³

Turning to Latin America, it is worth noting that a major plank of the neoliberal thesis has been that the economic downturn that the region suffered in the 1980s can be attributed to the “closed” nature of its economies. But as researcher Tariq Banuri notes in *Economic Liberalization: No Panacea*, the rapid accumulation of debt, major currency

⁸⁰ Nyang’oro, “The Evolving Role of the African State Under Structural Adjustment,” in *Beyond Structural Adjustment in Africa*, 1992, 19.

⁸¹ *Ibid*, 20-21.

⁸² P. Konings and H. Meilink, “Economic Integration in Sub-Saharan Africa,” in *Regionalization and Modernization in the Modern World Economy*, eds. A.E. Fernandez Jilberto and A. Mommen (London: Routledge, 1998), 140-141.

⁸³ *Ibid*, 141.

devaluations, and soaring inflation rates that occurred in many Latin American countries was due mainly to the openness of their capital markets.⁸⁴ In the case of Mexico, \$26.5 billion in assets fled the country, representing nearly 50% of gross capital inflows at the time. Argentina was hit even harder as it saw 65% of its gross capital inflows flee. By contrast, countries with capital controls (e.g., Brazil and Colombia) suffered far smaller volumes of capital flight, allowing them to achieve a faster recovery.⁸⁵

Banuri concludes from these observations that wholesale liberalization of the financial sector is an unwise prescription for development. “An alternative solution is a coordinating role for the state, by maintaining some form of regulation over the financial sector (including such elements as nationalization of banks and other financial institutions), some form of control or restrictions over international capital movements and maintaining a policy regime which can keep up with the development of informal financial institutions.”⁸⁶

The recent financial crisis in Asia has also triggered serious criticism of the corporate-led neoliberal approach. Although the liberalizing economies of East Asia achieved remarkable growth through most of the past few decades — particularly the so-called “tigers” of South Korea, Taiwan, Singapore and Hong Kong — the bubble abruptly burst in mid-1997 as bank runs, bad investments, massive capital flight, and then hyperinflation set in throughout much of the region. British professor John Gray attributes this phenomenon to a fast-developing crisis of global capitalism.

⁸⁴ Banuri, 1991, 18.

⁸⁵ Ibid.

⁸⁶ Ibid, 26.

“Uncontrolled capital flows have inflicted heavy and lasting damage on Asian countries as different as Thailand, Indonesia, and South Korea.”⁸⁷

After the fall of the Soviet Union, a host of Western economic advisors descended upon Russia and nations from the former Eastern bloc. Fast-track liberalization — which included huge budget cuts, large-scale privatization of state assets, and wage and benefit reductions — was touted as the route to certain success. For the most part, Russia under the leadership of Boris Yeltsin adopted this neoliberal elixir, which policy analysts James S. Henry and Marshall Pomer argue led to the country’s current crisis. “[T]he program threw Russia wide open to destabilizing capital and trade flows that it was simply unequipped to handle, while transferring enormous wealth to a tiny new elite.”⁸⁸ The authors also note that Russia’s ruble has plummeted in value, leaving significant portions of the population in desperate poverty.

Of course, negative impacts of liberalization are not limited to newly-industrializing or developing economies. Both Great Britain and Canada, for instance, have also experienced significant negative effects. In a recent work entitled *False Dawn: The Delusions of Global Capitalism*, John Gray outlines the consequences of neoliberal policies imposed by Prime Minister Margaret Thatcher in the early 1980s. Following the thoroughgoing deregulation of Britain’s labor market and the massive privatization of the public sector, Gray notes that British crime rates soared, divorces skyrocketed, births outside of marriage doubled, incarceration rates rose sharply, economic inequality grew to unprecedented heights, and the percentage of non-working households climbed to over

⁸⁷ John Gray, “Not for the First Time, World Sours on Free Markets,” *The Nation*, Oct. 19, 1998, 18.

⁸⁸ James S. Henry and Marshall Pomer, “Can Russia Save Russia?” *The Nation*, Sep. 21, 1998, 5.

19% by 1994.⁸⁹ Similar consequences followed Canada's implementation of the Free Trade Agreement (FTA) with the United States, according to Leo Panitch. He notes that official Canadian unemployment rose from 7.5% in late 1988 to 11.3% in mid-1993 and that "real" unemployment actually rose to 20% if involuntary part-time workers and those who dropped out of the work force are added to the mix.⁹⁰

Perhaps the most striking example of corporate-led neoliberal failure in the developed world was the economic crisis that came to head in the United States in 2002. The U.S. government, under increasing pressure from industry, had enacted extensive deregulatory measures in the 1980s and '90s, which greatly reduced its oversight capacity over key sectors. This paved the way for a wave of corporate accounting fraud and misconduct, which ultimately led to the high profile bankruptcies of giant firms like Arthur Anderson, WorldCom, and Enron. A dramatic drop in the stock market followed, accompanied by a tens of thousands of layoffs and wholesale losses in employee pension plans, which were based upon high stock values for their long-term security. "It is no coincidence that three of the sectors involved in today's economic problems — finance, telecommunications, and electricity trading — were all subject to deregulation," writes Joseph Stiglitz, former chief economist of the World Bank. "Almost every major episode of deregulation gives rise to a bubble-and-burst cycle, and the progression of events in these three sectors proved to be no exception."⁹¹ Although U.S. corporations — or at least their top financial officers and managers — were able to reap windfall profits under

⁸⁹ John Gray, *False Dawn: The Delusions of Global Capitalism* (New York: The New Press, 1998), 29-32.

⁹⁰ Leo Panitch, "Rethinking the Role of the State," in *Globalization: Critical Reflections* (Boulder: Lynne Rienner Publishers, 1996), ed. James H. Mittelman, 99.

⁹¹ Joseph Stiglitz, "The Roaring 90s," *The Atlantic Monthly*, Vol. 290, No. 3 (October 2002), 75-89.

deregulation, the overall cost of their misdeeds to the economy and American workers has been staggering.

Nonetheless, most of the highly-industrialized nations have maintained their high-income status relative to most of the developing world. Political theorist Noam Chomsky attributes this to the fundamental hypocrisy of the industrialized nations, which he believes have continued to protect their markets while simultaneously demanding that the rest of the world liberalize theirs. “The development strategies imposed upon the Third World by Western power, implemented by the international economic institutions of the states and corporations themselves, have enormous negative effects on the lives of the targeted populations,” he writes. Moreover, these policies are guided by the self-interest of those who hold power, not by any solid understanding of developmental economics or any serious concern for the impacts of their decisions.⁹²

None of this, of course, automatically leads to the conclusion that development or that increasing utilization of the market mechanism per se will result in ever-worsening conditions for peoples, communities, and nations now plagued by extensive poverty, malnutrition, and other conditions of human suffering. It does, however, strongly question the overall efficacy of and widespread allegiance to corporate neoliberalism.

Unfortunately, alternative economic strategies have been and continue to be marginalized in the overall development discourse. With the dawn of the Cold War, the United States and other dominant Western powers began to regard popular social justice movements and calls for national development in the Third World as little more than

⁹² Noam Chomsky, *Deterring Democracy* (New York: Hill and Wang, 1992), 247-248.

examples of creeping communism.⁹³ This fact, in combination with the West's unceasing search for more lucrative export markets, fueled extensive economic and military intervention throughout the less industrialized world in order to shape its organizational contours and day-to-day economic functioning to serve narrow Western imperatives.

During this contested period, however, numerous countries in the Third World adopted a range of strategies in response to their disadvantaged market positions and to spur internal development. Economic historian Karl Polanyi has written extensively on the process whereby societies inevitably move to counter the most pernicious effects of unregulated markets. Far from casting the efforts of such reformers as utopian idealists, Polanyi vividly documents in *The Great Transformation* how the “*utopian endeavor of economic liberalism to set up a self-regulating system*” was ultimately challenged during the crises of the World Wars and the Great Depression.⁹⁴ (Emphasis mine.)

Despite the political unpopularity in the West of revolutionary experiments in the Third World and the questionable human rights records of their leaders, it must be acknowledged that they have occasionally achieved demonstrable improvements in the standards of living, literacy levels, health, and life spans of the poor in selected regions, Cuba and Nicaragua being two noteworthy examples. Acknowledging such progress need not commit oneself to an uncritical embrace of their development programs or methods, but it behooves those who are concerned about the plight of the impoverished to recognize what positive contributions can be gleaned from such revolutionary experiences and experiments.

⁹³ Arturo Escobar, *Encountering Development* (Princeton: Princeton University Press, 1996), 31-32.

⁹⁴ Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1957), 29.

Indeed, a broad array of alternatives to corporate-driven development have long been recognized as offering positive means for achieving more socially equitable and environmentally sustainable outcomes for workers, citizens, and their communities. This is particularly so in the areas of land tenure reform, broad provision of effective health and social services, public infrastructure and sanitation improvements, along with the development of economic cooperatives, independent businesses, micro-credit lending institutions, culturally appropriate low-impact technologies, adaptable indigenous knowledge systems, and locally-managed self-help organizations.

If anything can be gleaned from this range of policy options for national and local ends, it is that one uniform approach, whether neoliberal or otherwise, does not effectively serve the interests or aspirations of communities and peoples seeking social and economic advancement. In his work, *The Worldly Philosophers*, renowned economics writer Robert Heilbroner writes that there is actually a “considerable variation of capitalist *societies* despite the general similarity of their economies — witness the gulf between the socially, if not always economically, successful capitalisms of Scandinavia and Europe, and the economically successful but socially disastrous capitalism of the United States.” Such variety indicates that a healthy and diverse spectrum of options truly exists for countries wishing to embark upon the road to development. Indeed, the purposeful end of economists and development theorists could very well be the creation of “a new awareness of the need for, and the possibilities of, socially as well as economically successful capitalisms.”⁹⁵

⁹⁵ Robert L. Heilbroner, *The Worldly Philosophers* (New York: Touchstone Books, 1995), 320-321.

Considering the prospects for the developing world in an era of increasing liberalization, author James Mittelman writes that for vast numbers of people “there is no hint of a new world order of upward mobility in a changing division of labor.” He further notes that 435 million in Asia, 60 million in Latin America, and 265 million people in Sub-Saharan Africa are projected to remain in poverty at the turn of the century.⁹⁶

In the face of such challenges, Mittelman argues that the task of the future is to “anticipate postglobalization by identifying the bearers of change and their strategies in a new double movement: the integration wrought by market forces and the transnational protectionist reaction against the disintegration of extant forms of social and political organization.”⁹⁷ If the recent mass protests in Seattle against the WTO and in Quebec City against the proposed Free Trade Area of the Americas agreement are at all telling, we may already be witnessing the rebirth of such “bearers of change” in the form of new coalitions of laborers, farmers, environmentalists, public health advocates, animal protectionists, feminists, and Third World activists who are increasingly recognizing their common interest in preserving and promoting democratic structures that can withstand the unfettered forces of corporate-led liberalization.

Anthropologist Arturo Escobar sums up the development dilemmas faced by popular opposition groups in the Third World: “Urged by the need to come up with alternatives — lest they be swept away by another round of conventional development, capitalist greed, and violence — the organizing strategies of these groups begin to revolve more and more around two principles: the defense of cultural difference ... and

⁹⁶ James Mittelman, “The Dynamics of Globalization,” in *Globalization: Critical Reflections*, 1996, 18.

⁹⁷ *Ibid.*

the valorization of economic needs and opportunities that are not strictly those of profit and the market.”⁹⁸ In other words, development need not be an either/or choice between the market and the state or between serving elite sectors or popular classes. It can — with effort, determination, and creative resistance to dominant discourses — be a flexible and dynamic process that incorporates the learned experiences and successes of private, public, and civic efforts toward the purpose of sustaining and enhancing broadly defined economic opportunity and self-directed cultural expression.

⁹⁸ Escobar, 1996, 225-226.

CHAPTER 2: THE COOPERATIVE ALTERNATIVE – HARMONIZING THE DIVERSE INTERESTS OF OWNERS, WORKERS, COMMUNITIES, AND THEIR ENVIRONMENTS

A Brief History of Cooperatives, Related Organizational Developments, and the Role of International Law

As corporations have become disproportionately powerful actors in the globalization process, one response by community organizers, local businesspeople, and workers alike has been to form economic cooperatives. By so doing, they have been able to democratize business decision-making, create new incentives for owner-member responsibility and participation, and disperse more broadly the rewards of development within their communities.

Cooperatives have emerged in a wide range of regions, countries, and political circumstances. In a recent book on the subject entitled *Ecological Democracy*, author Roy Morrison notes that this form of community-centered development has even thrived within highly competitive market economies. Some prominent examples include the famous Mondragon cooperative system in the Basque region of Spain, Co-op Atlantic in Canada's easternmost provinces, and the Seikatsu Cooperative Club in Japan.⁹⁹

Recognizing the severe limitations of top-down corporate structures, even Western social critics steeped in the market tradition began to espouse the need for alternative economic models from the early days of the industrial revolution. In 1848, renowned British political economist and philosopher John Stuart Mill wrote: "The form

⁹⁹ Roy Morrison, *Ecological Democracy* (South End Press: Boston, 1995), 15.

of association ... which if mankind [is to] continue to improve ... is *not* that which can exist between a capitalist as chief, and workpeople without a voice in the management, but the association of the labourers themselves on terms of equality, collectively owning the capital with which they carry on their operations, and working under managers elected and removable by themselves.”¹⁰⁰ (Emphasis mine.)

In the United States, workers’ cooperatives have played an ongoing role in the struggle for labor empowerment in both the industrial and agrarian sectors. “Since colonial times there has been a continuous history of worker cooperatives in the United States. And to a great extent, the ebb and flow of this history is linked to the economic, social, and cultural dislocations of capitalist economic and political life,” write Robert Jackall and Henry Levin in their *Worker Cooperatives in America*.¹⁰¹ Author Howie Hawkins notes that during the early colonial period, proponents of radical republicanism began to see co-ops as a means of democratizing economic production while defending the ideal of small proprietorship over European feudalism and monopoly capitalism. Initial experiments with cooperative organization included Ben Franklin’s insurance co-op, a carpenters’ co-op in Philadelphia in 1791, and an array of worker co-ops formed by the Knights of Labor in the late 1800s.¹⁰²

After the Civil War, some of the most successful arrangements were the Grange and National Farmers Alliance co-ops, which provided marketing assistance, credit, equipment, seed technology, and grain storage rights to their members. Throughout the

¹⁰⁰ John Stuart Mill, *Principles of Political Economy* (New London: Colonial Press, 1900), 280-281.

¹⁰¹ Robert Jackall and Henry M. Levin, “Work in America and the Cooperative Movement,” in *Worker Cooperatives in America* (Berkeley: University of California Press, 1984), 3.

¹⁰² Howie Hawkins, “Co-ops for Conservatives,” *CommonWorkings*, Winter 1994.

19th century, co-ops emerged from the continuous class struggles between workers and employers over arduous or hazardous working conditions and low wages. America's burgeoning industrial revolution also wrought havoc on artisans and other craftspeople, prompting them to initiate cooperatives as vehicles for their own survival.

Following the populist era in the late 1800s and early 1900s, conspicuous consumption amongst America's upper classes began to fracture the nation's social contract and tenuous devotion to laissez faire capitalism. By the time of the stock market crash in 1929, the stage was set for new forms of economic organization to come to the fore. "In the 1930s, the massive unemployment brought on by the Great Depression stimulated the founding of hundreds of worker cooperatives, often with the assistance of state and local governments, expressly for the purpose of creating jobs," note Jackall and Levin.¹⁰³ They go on to explain how the cultural upheavals and persistent economic problems of the late 1960s and early '70s led to the creation of a new generation of worker cooperatives.

Economic cooperatives have had to overcome tremendous obstacles placed in their path by dominant corporate interests. "Every step of the way ... co-ops were resisted by the emerging industrial corporations and associated banks and the state and national governments they dominated," notes Hawkins.¹⁰⁴ Nonetheless, they have managed to become a significant part of the American economic landscape. According to the National Cooperative Business Association (NCBA), over 120 million people were members of 48,000 U.S.-based cooperatives operating at the turn of the century. "These

¹⁰³ Jackall and Levin, 1984, 4.

¹⁰⁴ Hawkins, 1994.

people have organized to provide themselves with goods and services in nearly every sector of our economy,” notes the association.¹⁰⁵

Indeed, as economic and historical circumstances have changed, cooperatives have evolved into a number of forms in order to better serve a growing range of economic and social needs. The three most common forms include consumer, producer, and worker co-ops. Consumer-owned cooperatives allow consumers to secure a wide array of goods and services, including food, energy, health care, insurance, housing, and general financing (e.g., credit unions). Producer-owned cooperatives are run by farmers, artisans, craftspeople, industrial producers or small businesses in order to process and market their goods, provide themselves with credit, and purchase equipment or other supplies. Worker-owned cooperatives are businesses controlled by their employees such as employee-owned grocers, processing plants, restaurants, taxicab companies, clothing companies, timber processors, manufacturers, and light and heavy industry.

Despite their organizational variety, all cooperatives share the defining characteristic of being owned and democratically run by those who belong to them. Member-owners share equally in the control of economic cooperatives — meeting at regular intervals, reviewing detailed reports on their economic performance and general operations, and electing directors from among their ranks. Co-op directors are then responsible for hiring people to manage the daily affairs of the cooperative in a way that serves its member-owners’ interests. “Members invest in shares in the business to provide capital for a strong and efficient operation,” notes the NCBA. “All net savings

¹⁰⁵ National Cooperative Business Association, *Co-op Primer* (Washington, D.C.: NCBA, 2002), available from <http://www.ncba.org/primer.cfm>.

left after bills are paid and money is set aside for operations and improvements, are returned to co-op members.”¹⁰⁶ Although this bears some resemblance to Employee Stock Ownership Plans (ESOPs) in which workers receive partial ownership shares paid regularly into a company trust fund, such employees do not enjoy the equal voting rights that all co-op member-owners do.

As cooperatives have grown in number, form, and diversity, a corresponding set of organizational and legal advancements have been made to legitimize and further their development. Although cooperatives have a long and dynamic history dating at least as far back as the late 1700s, their role in development policy has only recently come to be seen as critically important among international institutions. Toward this end, the International Labour Organization and the International Cooperative Alliance have pursued economic policy initiatives that specify how cooperatives should be treated at the level of the nation-state.

Today, most countries have laws governing the operation of cooperatives within their respective economies. While these vary considerably, most are informed by the principles adopted by the 23rd Congress of the International Cooperative Alliance, which met in Vienna in 1966. Established in 1895 as an independent, non-governmental association, the International Cooperative Alliance purports to unite, represent, and serve cooperatives worldwide through actions taken at the international, regional, and national levels. In 1946, the ICA was one of the first NGOs to be accorded United Nations

¹⁰⁶ National Cooperative Business Association, 2002.

Consultative Status. Today, it is one of only forty-one organizations holding Category 1 Consultative Status with the U.N. Economic and Social Council (ECOSOC).¹⁰⁷

Among other aspects, the ICA's set of adopted principles outline cooperatives' membership requirements, rights, and responsibilities; affirm their democratic structure (i.e., one person, one vote); prescribe limited financial returns to capital (e.g., rates of interest); specify income sharing among members; call for the education of their members in the principles and techniques of cooperative organization; and advocate for the active cooperation of cooperative organizations with other cooperatives at the local, national, and international levels.¹⁰⁸ On July 1, 2000, the ICA held its 78th International Cooperative Day (also the 6th United Nations International Day of Cooperatives) to highlight the important role that cooperatives play in providing employment and vital services to billions of people throughout the world.

As cooperatives have become more widely recognized for their role in community development, the United Nations has begun to take notice by adopting official conventions promoting such economic institutions by member states. This process has occurred principally through the International Labour Organization (ILO), initially created as part of the 1919 Treaty of Versailles but later established as a special agency linked to the U.N. by constitutional amendments in the mid-1940s.¹⁰⁹ Member nations of

¹⁰⁷ International Cooperative Alliance, "What is the ICA?" May 1998, available from <http://www.coop.org/ica/ica/ica-intro.html>.

¹⁰⁸ Peter Abell and Nicholas Mahoney, *Small-Scale Industrial Producer Co-operatives in Developing Countries* (New Dehli: Oxford University Press, 1988), 5-6.

¹⁰⁹ Joseph G. Starke, "Introduction to International Law," in *International Environmental Law and World Order*, eds. Lakshman D. Guruswamy, et al. (St. Paul: West Publishing Co., 1999), 903-4.

the ILO are obliged to take necessary action that “gives effect” to all ratified conventions and to submit annual reports on their progress to the ILO.

Of the 160 or more conventions that have been adopted by the International Labour Organization since 1919, two stand out as particularly relevant to the question of cooperatives: The Social Policy (Basic Aims and Standards) Convention of 1962 (No. 117) and The Co-operatives (Developing Countries) Recommendation of 1966 (No. 127).

Unlike most ILO conventions, almost all of which address very specific policy areas, The Social Policy (Basic Aims and Standards) Convention of 1962 lays down the general principle that all ILO member-states’ policies “are to be directed primarily to the well-being and development of the population.”¹¹⁰ In addition, the convention covers a range of basic international labor standards regarding wage rates, the protection of earnings, freedom from discrimination, the minimum age of admission to employment, and education. The convention discusses cooperatives in the context of chronic indebtedness among agricultural workers, suggesting that their promotion could help ameliorate this persistent problem for rural communities. Specifically, member-states are urged to adopt measures that foster “the reduction of production and distribution costs by all practicable means and in particular by forming, encouraging and assisting producers’ and consumers co-operatives.”¹¹¹ Cooperative financial institutions like credit unions are also encouraged as means of protecting wage earners and independent producers against usury, especially insofar as they can act to reduce interest rates on loans.

¹¹⁰ International Labor Organization, “International Labour Standards on Social Policy and Cooperatives,” October 2000, available from http://www.ilo.org/public/english/standards/norm/whatare/standards/soc_pol.htm.

¹¹¹ International Labor Organization, “Convention Concerning Basic Aims and Standards of Social Policy,” 1962, available from <http://ilolex.ilo.ch:1567/scripts/convde.pl?C117>.

The Co-operatives (Developing Countries) Recommendation of 1966 more specifically addresses the development role of co-ops in a broad array of economic sectors. It suggests that cooperatives should be regarded as key elements in the pursuit of economic, social and cultural development, as well as human advancement, within developing countries. As such, nation-states are urged to adopt a range of policies to encourage the establishment and development of economic cooperatives. The convention even goes so far as to call for explicit protection of co-ops against discriminatory regulations or taxes that may interfere with their operation. Specifically, it states that “[t]here should be laws or regulations specifically concerned with the establishment and functioning of co-operatives, and with the protection of their right to operate on not less than equal terms with other forms of enterprise.”¹¹²

At an ILO-sponsored colloquium held in Geneva in 1993, representatives from various developing and highly industrialized countries met to assess the progress of nation-states in adopting domestic policies aimed at implementing Recommendation No. 127. A report issued from this meeting found that countries that had ratified the recommendation had accomplished many of its objectives by passing significant cooperative-related legislation, and that some countries and regions had even gone far beyond ILO specifications into areas of constitutional law, tax law, and labor law.¹¹³

With economic globalization and the end of the Cold War there also has come intense pressure within formerly socialist countries to adopt more pluralistic, democratic

¹¹² International Labor Organization, “Recommendation Concerning the Role of Co-operatives in the Economic and Social Development of Developing Countries,” 1966, available from <http://ilolex.ilo.ch:1567/scripts/convde.pl?R127>.

¹¹³ International Labor Organization, *The Relationship Between the State and Cooperatives in Cooperative Legislation* (Geneva: ILO, 1994), 1.

forms of government and more liberalized economies. Although dominated increasingly by corporate interests, such trends have also inadvertently helped cooperatives operating in such countries to become more independent by encouraging their de-coupling from the state apparatus. This newfound independence for the cooperative sector, while boosting its ability to directly serve co-op members and worker-owners, has come at the price of greatly reduced support and protection from such governments.

Nonetheless, cooperatives have continued to adapt to rapidly changing circumstances and, in some cases, have risen to become central organizations involved in sustainable community improvement efforts. Indeed, governments around the world have continued to recognize their critical role in the development process. Ever since the pro-co-op ILO conventions were ratified in the 1960s, dozens of countries have adopted legislation governing the operation of cooperatives and encouraging their involvement in a wide range of economic activity.

According to the ILO-affiliated program COOPREFORM, cooperatives generally serve as an “efficient means to alleviate the negative side effects of structural adjustment and to strengthen the popular participation in national decision-making.”¹¹⁴

COOPREFORM has collaborated with development agencies and governments in almost 70 countries — particularly in the regions of East, West and Southern Africa, South-East Asia and Latin America — to assist in preparing new cooperative policies and laws.

As hopeful as these developments are, they remain pitifully meager compared to the phenomenal financial, legal, and institutional support presently offered to the

¹¹⁴ International Labor Organization, “Why COOPREFORM?” November 2000, available from <http://www.ilo.org/public/english/employment/ent/coop/coopref.htm>.

traditional corporate sector by development banks, agencies, and governments. If the playing field is to be leveled, much broader awareness of the community-enhancing potential of economic cooperatives will be needed.

Co-ops as Means of Giving Democratic Voice to Workers and Communities and Creating a Broad Range of Stakeholders

Despite enormous obstacles, co-ops have continued to emerge in many parts of the globe due to the distinct advantages offered by their structural organization.

Although granting member-owners official democratic rights confers benefits to those in all types of cooperatives, this governance feature has offered particular advantages to those involved in worker-owned co-ops.

Hawkins sums up these advantages by noting that worker cooperatives: (1) democratize economic control on the basis of one person, one vote as opposed to one share, one vote in traditional corporate structures, giving workers, owners and managers incentive to assume responsibility, become competent in various aspects of the business, and take initiative to improve efficiency; (2) unite ownership with work, denying the owning class the ready opportunity to raid a company, merge it, or liquidate its assets; and (3) reward work over speculation, giving worker-owners due compensation for their efforts, not absentee-owners or capricious shareholders.¹¹⁵

From the perspective of economic theory, the primary advantage to cooperative organization stems from the incentive created for workers to produce and innovate by the

¹¹⁵ Hawkins, 1994.

role they assume as stakeholders in the enterprise. According to political economist James Meade, individual workers within a labor cooperative can gain by acting in such a way as to increase its total net earnings. Meade notes that workers who both own and manage a business are responsible for financing the purchase of capital, land, and labor as well as selling their output on the market. They not only share in the risks and responsibilities, they also share in the rewards. Typically, all net income from the cooperative's sales (i.e., total earnings minus costs) is divided equally among worker-owners.¹¹⁶ Although this translates into greater returns to individuals in cooperatives with fewer members, Meade writes that other motives such as group loyalty often operate to maintain continued success and improvement of such enterprises.

Critics of the cooperative model point to the fact that individuals within such self-governed enterprises lack many of the privileges typically deemed essential to private firms — namely, the rights to possess, use, manage, rent, sell, destroy, or transfer portions of the business at will. However, the absence of such exclusive property rights — which are typically concentrated within the hands of a few owners and executives in corporations — translates into more broadly dispersed participation rights, surplus profit sharing, and investment decision-making opportunities for worker-owners in cooperatives. Moreover, as self-governed organizations, cooperative businesses provide protection for their own autonomy against bureaucratic control by the state or external pressures for standardization from distant parent corporations, allowing them to be more attuned to the particular needs and interests of their host communities.

¹¹⁶ James Meade, "New Contributions to the Economics of Co-operation and Partnership," in *The Political Economy of Co-operation and Participation* (New York: Oxford Univ. Press, 1980), 90.

Perhaps the most critical advantage of cooperatives is their adaptive democratic structure. In this sense, they embody the ideals of economic democracy by seeking to harmonize the diverse interests of owners, managers, investors, workers, and their communities. “[B]y increasing workplace democracy, worker cooperatives go a long way toward reducing worker dissatisfaction,” write Jackall and Levin. They go on to note that there is increasing evidence showing that “worker cooperatives can contribute to resolving some of our economic problems. Moreover, they can accomplish this in a way that is in keeping with our most deeply held tradition, our democratic heritage.”¹¹⁷

Political scientist Robert Dahl argues that an economy in which cooperatives thrive is more conducive to political democracy than one dominated by corporate enterprise. In his work *A Preface to Economic Democracy*, Dahl writes, “By committing itself to a system of self-governing enterprises, a democratic people would take an important step toward attaining the goals of political equality, justice, efficiency, and liberty, both political and economic.”¹¹⁸ He notes that the extremely unequal income differentials between workers and managers within corporations (especially in the United States) have endowed the latter with far greater resources with which to pursue disproportionately favorable public policies. In effect, this erodes political equality, leading to adversarial relationships within firms, spilling out into society at large. Within self-governing cooperatives, by contrast, managers must give priority to the interests of their worker- or member-owners, prompting a more equal distribution of economic resources, and hence, political clout. While this would not eliminate clashing interests,

¹¹⁷ Jackall and Levin, 1984, 6-7.

¹¹⁸ Robert A. Dahl, *A Preface to Economic Democracy* (Berkeley: University of California Press, 1985), 136.

goals, and perspectives within firms or in society, it would help to “reduce the conflict of interests, [and] give all citizens a more nearly equal stake in maintaining political equality and democratic institutions...”¹¹⁹

In typical corporate enterprises, workers lack any official democratic rights to voice their concerns, much less put them into practice. Such businesses effectively deny themselves important feedback from their labor forces by making workers mere extensions of the production process, thereby ignoring their potential role in improving the organization of work, the techniques employed, and the technologies utilized. “Workers survive and succeed in such a system by tailoring their skills, and indeed themselves, to the external requirements of the system. They have little say in shaping those criteria. In this context, work becomes a way to earn a living, with only a marginal possibility of it becoming a way of life,” note Jackall and Levin.

Political scientist Albert O. Hirschman has written extensively on the advantages and disadvantages that various feedback mechanisms can have for firms, organizations, and society generally. In his work *Exit, Voice, and Loyalty*, Hirschman explains how customers in a market society typically have the option of switching to another firm’s products if those of their usual firm deteriorate in quality or increase in price. Further, employees can quit if they become disenchanted at work or investors can sell their shares if they sense that the firm is heading in the wrong direction financially. This sort of “exit” behavior, while potentially useful in sending important feedback to businesses, may actually lead nowhere or to the needless dissolution of firms. If, for example, the costs to the firm of customer, shareholder, or employee exit are negligible (e.g., as in

¹¹⁹ Dahl, 1985, 110.

small-scale boycotts or the departure of disaffected workers), such actions can be readily shrugged off, even if the reasons behind such decisions contain crucial insight into the firm's mismanagement or misdirection. On the other hand, if such exit occurs too quickly or with crippling magnitude, otherwise productive and useful businesses could crumble under the weight of a hasty mass exodus. Seen in this light, the much-heralded option of customers, employees, and shareholders to bolt from any given business enterprise turns out to have a very serious downside — it can fail to provide the feedback necessary for corrective action to be taken.

Hirschman notes that someone's decision whether to exit from a firm will often depend on her or his ability to exercise "voice," which he defines as "any attempt at all to change, rather than to escape from, an objectionable state of affairs, whether through individual or collective petition to the management directly in charge, through appeal to a higher authority with the intention of forcing a change in management, or through various types of actions and protests, including those that are meant to mobilize public opinion."¹²⁰ Acknowledging that the typical business firm within the United States has privileged exit over voice, Hirschman argues for a more balanced mix in which both feedback mechanisms complement one another. Although it is not clear how exactly this balance should be achieved, he writes that "[c]orrective policies obviously include efforts to make the organization more responsive to exit, *but also* efforts to have members of the organization switch from exit to voice. In this fashion, the range of possible remedial measures is broadened."¹²¹ (Emphasis original.)

¹²⁰ Albert O. Hirschman, *Exit, Voice, and Loyalty* (Cambridge: Harvard University Press, 1970), 30.

¹²¹ *Ibid.*, 123.

As democratic institutions that grant official voice and participation rights to their members, economic cooperatives have been able to overcome many of the feedback bottlenecks that typify traditional corporate enterprises. For example, unlike corporate enterprises within which workers must either “put up or shut up” over where they are stationed, cooperative workers can decide the most suitable division of labor within their organization. Since their decisions will have a direct bearing on their day-to-day work, they have a built-in incentive to assess which work tasks would best match their individual talents and skill sets. And since their decisions will also determine the financial success of their enterprise — and hence, their individual economic well-being — they have an interested stake in choosing which products or services they should focus on providing to their communities or the general marketplace. “In short, cooperatives provide workers with opportunities to shape the public arena in which they spend most of their lives and, in so doing, to control the production of their social identities,” write Jackall and Levin.¹²² In effect, they are granted an important degree of social choice, a freedom that is often sorely lacking in traditional corporate structures.

As cooperatives begin to flourish, their democratic structure tends to create a broad constituency of stakeholders within their host communities. Indeed, they are often established as responses by specific locales to regional or national economic problems. In a 1994 report to the General Assembly of the United Nations on co-operatives, the Secretary-General Boutros Boutros-Ghali concluded that “co-operative enterprises provide the organizational means whereby a significant proportion of humanity is able to take into its own hands the tasks of creating productive employment, overcoming poverty

¹²² Jackall and Levin, 1984, 8.

and achieving social integration.”¹²³ According to the International Cooperative Information Resource Center, cooperatives are particularly relevant in striving toward equitable community development given that they are “locally-rooted institutions ... [that] reflect their communities’ concerns with social justice and the environment.”¹²⁴

Because cooperative enterprises can be established by any group of persons who wish to come together to meet common economic and social needs, they are particularly helpful to otherwise disadvantaged individuals like indigenous peoples in remote rural areas, peasant farmers, internally displaced persons and refugees, recent migrants in inner cities, the unemployed, women, the elderly, and those with physical and mental disabilities. Once formed, cooperatives serve as support networks for a broad array of stakeholders at the community, national and international level. By so doing, even when a majority of co-op members are no longer disadvantaged, their institutional mandates carry on the legacy of their founders, helping to reinforce the original purpose for which the cooperative was formed. Often times, this purpose was to provide much-needed job opportunities, community social and financial services, or assistance for those seeking to escape from poverty and discrimination.

Those that are disadvantaged either socially or economically can also benefit from existing cooperatives, which are already integrated in the local or national economy. Since cooperatives thrive by attracting new member-owners, they have an inherent tendency to be open to all who can contribute to them, which creates disincentives

¹²³ International Cooperative Information Center, “Social Integration,” December 1994, available from <http://www.wisc.edu/uwcc/icic/orgs/ica/un/conf/world-summ/wssd/soc-integ.html>.

¹²⁴ International Cooperative Information Center, “Co-ops and Human Sustainable Development: Global Perspective,” August 1995, available from <http://www.wisc.edu/uwcc/icic/issues/sustain/glob-pers.html>.

against political, religious, gender or other forms of social discrimination. Of course, membership fees are usually assessed to ensure any given cooperative's fiscal soundness, but creative schemes like gradual wage deductions and profit sharing trusts are being employed to ease admission barriers to new member-owners.¹²⁵ Once admitted, new members become decision-makers, often with respect to both the economic concerns of the enterprise and to the special development needs and objectives of their communities.

“Thus numerous worker-owned production and service provision co-operatives make special provision for the extension of membership to the unemployed, the disabled and to immigrants. Many housing co-operatives take special measures to facilitate full and beneficial integration of immigrants and their families, persons with disabilities and older persons. They frequently organize programs to counter the marginalization of young people and some have even tackled social problems such as domestic violence,” note the authors of an ICA report on the social integration potential of co-ops.¹²⁶

The ICA also reports that consumer co-ops have expanded their activities in various regions to serve as crucial vehicles for community integration and social welfare. Moreover, as the number of stakeholders within and related to cooperatives has expanded, regional and national efforts have emerged to promote community development plans in collaboration with other representative organizations on their behalf before governments and intergovernmental organizations. In effect, cooperatives are advancing communities' ability to make positive social choices for themselves.

¹²⁵ Corey Rosen; Katherine Klein; and Karen Young, *Employee Ownership in America* (Lexington: Lexington Books, 1986), 33.

¹²⁶ International Cooperative Information Center, “Social Integration,” December 1994.

Cooperatives' Effects on Employment Opportunities, Workers' Incomes and Benefits, and Productivity

With persistent poverty and widespread unemployment still plaguing nations and communities around the globe, especially within Third World countries, economic development analysts are looking increasingly at the role that cooperatives play in generating much-needed occupational opportunities and income security.

A recent report by the International Labour Organization notes that cooperatives enhance employment by: (1) serving as direct employers in the case of workers' co-ops, service co-ops, and consumer and financial co-ops among members, owners, and non-members alike; (2) promoting and enabling self-employment and self-advancement by providing technical, marketing, and social services to their members' households and communities; and (3) boosting indirect employment by creating ancillary opportunities in institutions and businesses related to the operations of cooperatives.¹²⁷ Indeed, according to recent United Nations estimates, nearly 3 billion people — roughly half the planet's population — now rely on cooperatives for day-to-day food, shelter, supplies, health care, and other socioeconomic needs. Further, more than 800 million are members of cooperatives, which taken together provide 100 million jobs.¹²⁸

“There is now a growing realization in the Third World and amongst those who seek to improve their welfare, that not only can impoverished countries not rely upon flows of aid from the economically developed world, but that they will have to forge

¹²⁷ Roland Lindenthal, *Cooperatives and Employment in Developing Countries* (Geneva: International Labor Organization, 1994), 2.

¹²⁸ International Cooperative Alliance, “Co-operatives and Employment Promotion,” June 2000, available from <http://www.coop.org/ica/ica/coopday/enmessage2000.html>.

concepts of social and economic organization which address their specific problems and experiences largely relying on their own resources and talents,” note authors Peter Abell and Nicholas Mahoney in a recent study of small-scale industrial cooperatives in developing countries.¹²⁹ In particular, they conclude that cooperatives provide a definite “contribution to a living wage of the members alongside other recognized employment opportunities” within the developing world.¹³⁰

Further, they note that the cooperative form may actually have decided economic advantages over more traditional business forms: “It certainly appears from the experience of the Mondragon Co-operatives in northern Spain that, when properly organized, producer co-operatives can thrive, expand and out-perform similar capitalist enterprises.”¹³¹ Based on a thorough analysis of the Mondragon cooperatives, economics professor Henry Levin has determined that they have created more jobs and greater overall productivity compared to traditional corporate businesses.

Started in 1956 in the Basque region of northern Spain, Levin writes that “the Mondragon cooperatives are remarkable for their size, their diversity, the complexity of their product mix, their rapid growth rate, their ability to generate capital and to obtain the technical skills for production and expansion, their success in penetrating both the national and international markets, and their establishment of democracy and equality in the workplace.”¹³²

¹²⁹ Abell and Mahoney, 1988, 2.

¹³⁰ Ibid, 15.

¹³¹ Ibid, 3.

¹³² Henry M. Levin, “Employment and Productivity of Producer Cooperatives,” in *Worker Cooperatives in America*, 1984, 16-17.

The Mondragon cooperative system operates under the following ten guiding principles: (1) open membership to all men and women, regardless of religion, race, gender, political convictions or origin; (2) equal rights under a democratic structure governed by the concept of “one person, one vote,” meaning that each person’s vote carries the same weight, regardless of seniority, position within the company, professional category or accumulated capital; (3) worker sovereignty, whereby work is held to be the principal generator of wealth within the cooperative structure; (4) an explicit commitment to regarding capital as instrumental or subordinate to labor, (5) active worker participation in management; (6) wage solidarity, wherein compensation within the cooperative system reflects a smaller difference between the top and bottom of the pay scale than is typically seen in the business market; (7) cooperation between cooperatives, regionally and internationally; (8) social transformation by reinvesting the majority of Mondragon’s profits, supporting community development initiatives, cooperating with other Basque social and economic institutions, and promoting local culture and social security policies based on solidarity and responsibility; (9) universal solidarity with all those who work towards economic democracy; and (10) education of members through investments in human and economic resources in both cooperative and professional training.¹³³

Among other activities, the Mondragon cooperatives are primarily involved in steel and iron, automobiles, machine tools, household appliances, and electronics manufacture. Taken together, their product sales totaled \$1 billion in 1981, \$200 million

¹³³ Mondragon Corporacion Cooperativa, *Mondragon Corporacion Cooperativa: The History of an Experience* (Guipúzcoa, Spain: Mondragon Corporacion Cooperativa, February 2000), 37-39.

of which were exports.¹³⁴ A 1999 assessment put Mondragon's total sales volume at \$1.27 billion (in 2001 dollars), making it the eighth largest business group in Spain.¹³⁵

Perhaps more significantly, Mondragon has continued to serve as a reliable and substantial employer over the past five decades. Levin notes that the number of its employee-members grew prodigiously from around 400 just a few years after its founding to nearly 19,000 by late 1981. Today, the Mondragon cooperative system employs 26,201 worker-members, making it the third largest employer in Spain's national economy.¹³⁶

But the Mondragon system is not just an amalgamation of related cooperative enterprises. It is also a community service provider to its workforce in areas such as social security, health care, research and development, and lending and other financial services. Established early on in Mondragon's history, the banking system grew to 76 branches by 1977.¹³⁷ Its renowned Polytechnical School offers specialized vocational training and certification programs to students who work simultaneously in the region's cooperative sector.

During the 1970s, an array of new cooperatives was founded and existing ones were consolidated. Research and development was also expanded with the creation of the Ikerlan Technological Research Centre. In response to the challenges posed by the creation of the European Economic Community in the 1980s and the increasing pace of economic globalization, the Mondragon cooperatives formally integrated their activities

¹³⁴ Levin, 1984, 17.

¹³⁵ Mondragon Corporacion Cooperativa, 2000, 30.

¹³⁶ Levin, 1984, 17.

¹³⁷ Ibid.

under the umbrella of the newly created Mondragon Co-operative Corporation (MCC). The cooperatives, which had previously been divided into regional subgroups, were thereby reorganized into sector divisions based on their different activities.

In the 1990s, the MCC supported and aided in the creation of Mondragon University, which was launched to meet the growing and increasingly specialized business needs of the cooperative system. During the final years of the decade, the cooperatives experienced a spectacular increase in business, largely as a result of their vigorous internationalization initiatives.

Based on an intensive study comparing the capital investments, employment, and labor productivity of the Mondragon system to Spain's 500 largest corporate enterprises, Levin discovered that the cooperatives yielded more than three times as large of a value-added contribution to production per unit of capital.¹³⁸ Moreover, the traditional Spanish firms were found to require four times as much capital to create each job relative to the cooperatives. This is not surprising, notes Levin, since most successful cooperative ventures have been initiated to provide employment security or to expand the local employment base.

Critics of the cooperative model have argued that under worker control, strong incentives exist to maximize returns to member-owners, which serves to undermine their ability to increase employment. But such arguments have been based on studies of cooperatives in bureaucratic socialist economies where competition and employment are not primary concerns.¹³⁹ Cooperatives within market systems, by contrast, tend to focus

¹³⁸ Levin, 1984, 19-20.

¹³⁹ Ibid, 22.

on employment since fewer state provisions or employment options are provided. With this bias in operation, cooperatives tend to reduce monetary returns to their members rather than reduce their membership during recessionary periods — quite unlike traditional corporate structures in which employees are often simply laid off upon the first sign of economic difficulty.

In an assessment of American producer cooperatives, economics professor Derek Jones notes that they demonstrate far higher labor productivity as compared to traditional corporate businesses. He attributes this to the greater economic incentives and efficiencies that cooperatives offer to their workforces. Since workers own the enterprise, they succeed or fail based on their own direct performance — a reality that plays no small part in creating an ethic of solidarity, encouragement, and reward for accomplishment. What’s more, the cooperatives tend to have lower rates of worker turnover and absenteeism in light of the personal stake that each worker has in the firm. “It is worth reiterating that, broadly speaking, it is those clusters of producer cooperatives with the *most cooperative* features ... that have the longest life, the best economic performance, and the best record of maintaining a cooperative structure over time,” writes Jones.¹⁴⁰

Given these revelations, Levin writes that producer cooperatives “seem to have a large number of desirable characteristics that would benefit societies with a surplus of labor, a shortage of capital, and low productivity.”¹⁴¹ The following brief examples help

¹⁴⁰ Derek C. Jones, “Producer Cooperatives and Employee-Owned Firms,” in *Worker Cooperatives in America*, 1984, 52.

¹⁴¹ Levin, 1984, 20.

illustrate the many employment and self-governance advancements that people in various countries have derived from establishing cooperatives in their communities.

Industrial Cooperatives in Lima, Peru

The industrial cooperative movement in Peru, while having roots that extend as far back as the 19th century, began to take off in the late 1960s. After the first revolutionary government came to power under General Juan Velasco in 1968, cooperatives developed rapidly under new private sector reforms aimed at improving the country's fragile economy.¹⁴² Cooperatives expanded largely in proportion to changes in national law on taxation, industrial sectors, and bankruptcy, which had the effect of favoring their development over other forms of economic organization. During the reform period of 1959 to 1976, the number of cooperatives operating in Peru increased from 111 to 2,613.¹⁴³ Those sectors where cooperatives grew most prodigiously included textiles, manufacturing, and other industrial activities.

In 1969, a mixed-technology cooperative called Printwell was founded in Lima by the employees of a formerly private printing firm. Printwell formed as a cooperative for practical reasons — the workers wanted to own an enterprise of their own. When it was totally private, the owner periodically shut down the company, laid off workers, and later re-employed them, thereby avoiding the need to pay retirement benefits and other dues to longstanding employees. As the labor dispute intensified, increasing numbers of

¹⁴² Abell and Mahoney, 1988, 46-48.

¹⁴³ Ibid, 52-53.

dissatisfied workers transferred their savings into productive investments that coalesced into the requisite capital to form the new workers' cooperative. In 1971, after one full year of operation, Printwell had 35 members, four of whom were full-fledged workers.

Throughout the 1970s, Printwell had a solid record of sales growth and showed a profit most years.¹⁴⁴ Over time, more working members joined the cooperative, which eventually placed the elected council under the direction of worker-owners. When business peaked in the mid-1970s, the cooperative invested in new equipment to handle its growing scale of operations. Directly thereafter, Printwell earned the greatest profit it had ever made. However, in 1977 the cooperative faced a financial crisis, creating a brief period of tension among members. Nonetheless, Printwell was largely able to surmount such difficulties and stands out as one of the most successful cooperatives in this sector. Abell and Mahoney note that "certain features of the co-operative's history probably contributed to its success: the solidarity, mutual trust, commitment and practical experience of its founders ... [and] its gradual and balanced growth."¹⁴⁵

Another prominent Lima cooperative called Shoeleather was established in the late 1960s by a group of workers who had been previously employed in a private enterprise that went bankrupt. These workers pooled their resources and rebuilt the business under direct member management. Despite having relatively little capital, Shoeleather soon became a highly profitable enterprise of above average size. The cooperative produced high-quality leather shoes which earned a reputation of high quality — so much so that many prestigious stores in Peru carried Shoeleather's products,

¹⁴⁴ Abell and Mahoney, 1988, 60.

¹⁴⁵ Ibid, 65.

suppliers were willing to extend credit, and the cooperative bank granted highly favorable overdraft and interest terms to the enterprise.¹⁴⁶

Shoeleather's workers also benefited substantially from the firm's success. The incentives for worker-owners were such that productivity remained very high, which provided co-op members with an above average standard of living.¹⁴⁷ This condition persevered even as capital was accumulated and the enterprise expanded. Production rose steadily up through the mid-1970s, earning the cooperative a substantial profit for most of those years. The total number of Shoeleather employees continued to increase throughout this period, and did not level off until 1977 when the Peruvian economy began to suffer a general decline (leading to an IMF-imposed stabilization package that called for restrictions in newly achieved labor rights).

During the early to mid-1970s, other Lima cooperatives also thrived, including the Steel Furniture Cooperative and various metal-furniture and clothing cooperatives. However, as economic elites gained increasing control over the government and the military, many reforms that had allowed for the emergence of a cooperative sector were repealed. "The Peruvian workers' participation scheme ... was curtailed in accordance with changing dynamics between sociopolitical forces," notes political scientist Evelyne H. Stephens in a book on the history of Peru's experiment with social property relations. She goes on to write that these conservative forces "effected a change in the composition of the governing elite in favor of forces protecting the interests of capital."¹⁴⁸

¹⁴⁶ Abell and Mahoney, 1988, 72.

¹⁴⁷ Ibid, 66.

¹⁴⁸ Evelyne H. Stephens, *The Politics of Workers' Participation: The Peruvian Approach in Comparative Perspective* (New York: Academic Press, 1980), 234-235.

According to a recent International Labour Organization report, cooperative grassroots organizations can also have a positive impact on sustaining the livelihoods and enhancing self-reliance among indigenous and tribal communities. Indigenous co-ops are apt to be most successful where cooperatives, as voluntary organizations, are conceived of as part of indigenous cultures and are owned and operated by the native participants themselves. Among indigenous peoples, there is a critical need to regain the confidence among those who have a strong (and understandable) mistrust of development planners.¹⁴⁹ In light of this fact, non-governmental organizations and public agencies are being forced to recognize the need to place indigenous perspectives and priorities at the forefront of their strategies.

Given the questionable socioeconomic and environmental benefits for tribal communities stemming from conventional corporate and governmental interests, all the more reason exists to consider the employment-generating potential of cooperatives. Still, the reality remains that indigenous communities often lack the capital or the resources necessary to initiate cooperative ventures, which frequently requires at least a modicum of initial outside assistance.

One organization that is working to help meet this objective is the Inter-regional Programme to Support Self-Reliance of Indigenous and Tribal Communities through Cooperatives and other Self-Help Organizations (INDISCO). Established in 1993, INDISCO is designed to assist indigenous and tribal peoples and ethnic minorities

¹⁴⁹ Huseyin Polat and Manuela Tomei, *Participatory Development Framework for Indigenous Peoples* (Geneva: International Labour Organization, 1996), 51.

through a range of participatory pilot projects, most of which are currently taking place in the Philippines, India and Central America, and have operations just beginning in Vietnam.¹⁵⁰ INDISCO is also conducting development activities in Belize, Thailand, Namibia, Tanzania, Cameroon, and Laos.

In order to enhance indigenous peoples' economic sovereignty, INDISCO has sought to raise the capacity of indigenous and tribal peoples' cooperatives and self-help organizations to plan and manage their own development efforts. All projects are devised, implemented and evaluated by the communities themselves, with INDISCO providing technical assistance. Rather than providing pre-packaged, top-down blueprints for indigenous peoples and governments, INDISCO has aimed to support and promote the implementation of country- and community-specific models and experiences to foster more sustainable and autonomous indigenous development.

The Yen Bai Women's Union in Northern Vietnam

In northern Vietnam, the Yen Bai Women's Union was established in 1998 with the assistance of the INDISCO program. A total of 1,200 indigenous, minority language-speaking people organized themselves into the union, which is comprised of 40 self-managing cooperatives involved in a wide range of community activities including

¹⁵⁰ International Labour Organization, "Recent Developments in the ILO Concerning Indigenous and Tribal Peoples," October 2000, available from http://www.ilo.org/public/english/standards/norm/whatare/standards/ind_tech.htm.

handicrafts and clothes making, revolving loan programs, local forestry initiatives, literacy and health workshops, and youth education efforts.¹⁵¹

The underlying philosophy of the project is based upon the understanding that economic development should build upon traditional community-based practices and cultures. In particular, the project aims to establish “self-managed and self-reliant group capacities for ethnic minorities at community levels so that these peoples through collective action can improve the economic and social living conditions of their families.”¹⁵² Special emphasis has been placed on developing such capacities in a participatory manner through the ideas, actions, and initiative of the group members themselves.

From an economic standpoint, the cooperative’s activities have had a moderate to significant effect on members’ overall welfare. Through economic diversification and improved agricultural techniques, 30 of the 40 Women’s Union groups have seen their incomes change since 1998. Increased economic performance has also led to better savings capacity among the self-managed groups, 27 of which have boosted their savings fund and are utilizing these for the betterments of their members.¹⁵³

The progress of the Women’s Union has also helped cooperative members move closer to economic self-reliance. As of 2000, 25 groups were already reinvesting some or all of their additional revenue in new activities while 12 others reinvested only small

¹⁵¹ ILO-INDISCO, *We Evaluate ... INDISCO Vietnam: Sustainable Development of Ethnic Minorities through Participatory Approaches* (Geneva: ILO, January 2000), iii-2.

¹⁵² *Ibid.*, 1.

¹⁵³ *Ibid.*, 7.

amounts but put the rest in savings.¹⁵⁴ Given these developments, 36 groups expect to be self-sufficient within 6 to 24 months.

In a recent assessment of the project's overall effectiveness, the self-managed groups report that they are generally quite satisfied with the services being delivered at various levels of the Women's Union. Of the 40 groups, 20 always participate in the union's regular work projects, 16 occasionally participate, and only 4 have found it difficult to participate. Moreover, 30 groups note that the union's workshop activities are always relevant, 7 say they that most are relevant, and 3 responded that few are relevant.¹⁵⁵ While such information clearly points to the need for improvement, it also demonstrates a considerable degree of success as perceived by the participants.

The Mandro Stone-Cutters Society in Bihar, India

The Ranchi area of the Bihar state of India is a poor, but resource-rich region with an economy largely dependent upon government-owned engineering factories, coal and iron mining activities, and steel mills.¹⁵⁶ Despite the area's wealth of resources, however, very little has "trickled down" to the ordinary members of the community.

Those receiving the least benefit are Ranchi's tribal peoples who reside in the surrounding hilly and forested Chotonagpur Plateau. This indigenous group, which constitutes half of the population of the area, descends from the hunter-gatherer tribes

¹⁵⁴ ILO-INDISCO, January 2000, 8.

¹⁵⁵ Ibid, 4.

¹⁵⁶ Malcom Harper, *Producers' Small-Scale Industrial Cooperatives: Some Case Studies from Developing Countries* (Geneva: International Labour Organization, 1991), 72.

who lived in India well before the ensuing colonial invasions. Much like many other indigenous populations around the world, the Ranchi tribal people have been forced off the most productive land and onto marginal, more barren tracts where they earn a meager living by small-scale farming, making handicrafts, and taking casual farm jobs from other agriculturalists in the state of Bihar.

A fair number of tribal men also engage in stone-cutting, typically for non-tribal contractors at very low wages. In the mid-1980s, individual stone cutters were receiving around 35 to 40 paise per stone. While the tribal stone cutters had long been aware that they were receiving only a minute portion of the selling price for their stones — which brought them a bare subsistence wage of only 35 or 40 rupees per day — they saw no alternative means of improving their situation.¹⁵⁷

In 1987, however, a local development officer mentioned to a group of stone cutters that they might do better for themselves if they formed a small-scale cooperative. By working together as a group, each with a stake in the operation, it was suggested that they could receive a much better asking price for their products. At first, the stone cutters were highly reluctant, given the many social obstacles to economic advancement that Ranchi tribal peoples had historically experienced.

After discussing the idea among others within their tribe, word eventually got to a successful indigenous entrepreneur in the community named Kullu. Although retired, Kullu agreed to join the stone cutters and help establish a cooperative. A local rural development program provided the stone cutters with a sizeable grant combined with a

¹⁵⁷ Harper, 1991, 73.

low-interest loan, which allowed them to pool their entitlements under the scheme to start the cooperative.

At first, twenty-one stone cutters signed up to participate in the cooperative. Kullu helped the stone cutters with the necessary start-up capital and assisted with the grant proposal and initial lease for the quarry to be used by the stone cutters. Once the group began cutting and secured a contract for several thousand stones, other tribal stone cutters began to sit up and take notice. As soon as the group's loan was approved, the cooperative admitted 49 additional members, some of whom returned from Calcutta where they had migrated in search of casual jobs.¹⁵⁸

The cooperative, now named the Mandro Society, was eventually able to secure a considerable number of contracts, which enabled all 70 members to remain fully employed. In 1989, the cooperative earned a net profit of 22,520 rupees.¹⁵⁹ Kullu served as the general manager and drew a respectable salary for his efforts. Moreover, the cooperative was receiving approximately 60 paise per stone — over 50 percent more than the stone cutters were previously receiving on an individual basis.

In response, many of the non-tribal private contractors began offering stone cutters extra money for their product. A handful of people left the cooperative to receive the higher returns, but most remained, realizing that the society offered more regular employment and that the true motive of the contractors was to reduce wages again by breaking up the cooperative.

¹⁵⁸ Harper, 1991, 75.

¹⁵⁹ Ibid, 76.

Due to the success of the Mandro Society, about 50 other stone cutter societies began to form in the Ranchi District. Tribal discussions also began over a proposal to set up a central committee to assist with cooperative development efforts and to arrange for better terms to acquire health insurance for society members.

Through these and other efforts, the tribal people of the Ranchi District have been better able to maintain their community structures and livelihoods in the face of powerful and long-standing socioeconomic obstacles.

The Kuna Clothing Cooperative in Tupile, Panama

Tupile is a small island community of the Kuna, one of Panama's three major indigenous peoples. Part of the San Blas group of islands, Tupile is situated just off the north-central coast of Panama in the Caribbean Sea. The Kuna are known internationally for their grassroots, community-centered approaches to economic development, including projects focused on fostering local control over the tourist industry, protecting area rainforests from deforestation, and supporting an array of cultural events. "Indigenous groups worldwide have expressed great interest in learning about how the Kuna have achieved a considerable degree of economic, political, and social autonomy," notes Karin E. Tice in a recent book on the Kuna.¹⁶⁰

In Tupile, one of the Kuna's most successful projects has been the formation of a clothing cooperative producing indigenous mola blouses, traditionally worn by the

¹⁶⁰ Karin E. Tice, *Kuna Crafts, Gender, and the Global Economy* (Austin: University of Texas Press, 1995), 4.

women of the San Blas region. Since the 1980s, mola production has become a primary source of income for the entire region. It is worth noting that the shift from a subsistence-based to a cash-based economy has actually served to empower women among the Kuna, due largely to the participatory mode of development that they have chosen, according to Tice.¹⁶¹

Before the cooperative was established in the late 1960s, very few women sold molas in the region. When they attempted to do so (usually in Panama City), they rarely generated much of a profit, if any. However, as the San Blas region became increasingly interconnected with the national Panamanian government under Lt. Col. Omar Torrijos, the Kuna found themselves in need of more cash income. In order to confront and adapt to these changing political and economic circumstances, the mola cooperative was organized and soon became the primary means by which most molas were marketed and sold.

To maximize the use of the cooperative's physical infrastructure, production groups rotated in and out of the premises during morning and afternoon work shifts. Each production group was organized into subgroups that were charged with a wide range of activities such as bingo, raffles, savings and lending programs, and other income-generating operations. Decision-making was done by consensus and responsibilities were divided up among the members.

By the mid-1980s, fully 64 percent of Tupile's 130 households were represented by one or more of the cooperative's 161 members. Within a six-year period (1979-1984),

¹⁶¹ Tice, 1995, 5.

overall sales rose from \$10,000 to \$30,000.¹⁶² Profits were either distributed among group members each Christmas or they were reinvested in additional projects. As the cooperative became the dominant and most secure means by which to produce and sell molas, their sale became an increasingly important source of income for most Tupile households.

From a gender-relations standpoint, the cooperative had a major impact on the way women spent their time and the resources they had at their command. As younger women spent increasing amounts of time sewing molas in the cooperative, older women took over many of their daughters' and granddaughters' traditional domestic activities. Management of household income also changed, notes Tice: "Women managed their husbands' income from coconut sales as well as their own for purposes of household maintenance. They also controlled their earnings from mola sales."¹⁶³ Increased control over financial assets was particularly helpful for single mothers whose partners did not support their children and for women who needed cash to purchase necessary foodstuffs as subsistence agricultural production declined and men migrated to urban centers.

Cooperatives' Effects on Natural Resource Conservation and Environmental Health and Safety

As public concern over environmental protection mounted starting in the late 1960s, the International Cooperative Association began to pay increasing attention to

¹⁶² Tice, 1995, 141.

¹⁶³ Ibid, 154.

sustainability as a component of its advocacy efforts. In 1992, the ICA Congress adopted a “Declaration on the Environment and Sustainable Development,” which affirmed the organization’s “commitment to action in promoting sustainable development practices in all sectors of activity,” with special emphasis on “the preservation of the natural environment, the importance of promoting environmental education, and the need to influence government policy in the area of environment and development.”¹⁶⁴

Acknowledging the growing role that cooperatives are playing — and could potentially play — in an increasingly globalized world, the ICA argues that such institutions are uniquely situated to address modern sustainable development goals. This is especially so in light of the need for viable alternatives to today’s dominant trends in corporate-driven development and natural resource management. In a document entitled “Cooperative Agenda 21,” intended to reflect the landmark environmental agreement adopted at the 1992 U.N. Conference on Environment and Development in Rio de Janeiro, the ICA notes that cooperatives “can no doubt be instrumental in implementing the U.N. Agenda 21,” particularly in the agricultural, consumer, fisheries, housing, industrial/handicraft, tourism, energy, financial, and education sectors.¹⁶⁵

Renewed activity in the area of cooperative reform has coincided with an increasing concern for environmentally sustainable economic development. As locally-based, community-focused institutions, cooperatives have tapped into such concern, translating mounting challenges into economic opportunities.

¹⁶⁴ International Cooperative Information Center, “Cooperative Agenda 21,” May 1995, available from <http://www.wisc.edu/uwcc/icic/issues/sustain/agenda-21.html>.

¹⁶⁵ Ibid.

Within the realm of so-called Third World countries, where majorities of their populations tend to work in the agricultural sector, economic cooperatives have served as important vehicles for improving peasant welfare. Since poor farmers traditionally are risk-averse due to their low incomes and subsistence livelihoods, they are often “reluctant to invest labor in natural conservation measures with an unproven guarantee of meeting a sufficient flow of food, fuelwood or other basic resources,” write the authors of an ILO discussion paper on cooperative natural resource management.¹⁶⁶ Moreover, their land tenure rights are often very uncertain, their access to capital and credit is limited, and the prices they can expect to receive as individual producers are usually quite low. However, under the organizational umbrella of cooperatives — which provide crucial support services and allow smaller producers to pool scarce resources to receive better returns in the marketplace — small producers are able to increase their land tenure and food security.

Through these measures, dispersed land tenure rights can be maintained and small- to medium-sized proprietorships can better survive in highly competitive environments, allowing for more broadly distributed ownership of resources and capital. Such conditions are seen by many ecological economists as preferable to concentrated ownership of the means of production, which frequently leads to absentee ownership, a reduced sense of economic stakeholdership by producers and consumers, heightened incentives for asset liquidation, and greater pressures toward unsustainable resource utilization. Cooperatives are therefore well-situated to fill the management and resource

¹⁶⁶ International Labour Organization, *Cooperatives and Natural Resource Management* (Geneva: ILO, 1992), 2.

stewardship gap left behind by ineffective or inadequate state structures, particularly in sub-Saharan Africa, Latin America, and Asia.¹⁶⁷

In Britain, Scandinavia, and Switzerland, consumer cooperatives have embarked on an environmentally-focused business program that has led them to become market leaders in natural products and waste reduction. In 1991, Co-op Atlantic — a Canadian system composed of 161 retail, producer, agricultural, housing, and fishing cooperatives — passed a far-reaching proposal affirming the importance of sustainable, community-directed development that included explicit environmental protection and educational initiatives.¹⁶⁸ Agricultural cooperatives in Brazil (see next chapter), fertilizer cooperatives in India, and tree-growers' cooperatives in India are all actively involved in environmental initiatives. And in China, where environmentalism has experienced a surge of public interest and involvement, cooperatives have used their marketing extension services and supply chains to become national leaders in waste reduction.¹⁶⁹

What follows are three case studies of cooperative-led development strategies with an explicit concern for sustainable resource management.

Resolving Waste Management Challenges in Urban Colombia

In Colombia, materials recyclers are responsible for collecting and managing urban waste independently. Since the 1950s, nearly one percent of the nation's

¹⁶⁷ International Labour Organization, *Cooperatives and Natural Resource Management*, 1992, 3.

¹⁶⁸ Morrison, 1995, 158-160.

¹⁶⁹ International Cooperative Information Center, "Co-ops and Human Sustainable Development: Global Perspective," August 1995.

population has earned an income from urban recycling, which is derived from 30 percent (the non-organic component) of the 5 million tons of waste produced annually.¹⁷⁰ This waste is collected by cooperatives and is then sold to a network of industries and intermediaries.

In the city of Manizales, some recyclers were excluded from a new dump that had been created in 1986. In response, these recyclers formed the Prosperity Cooperative in an attempt to increase their bargaining power in the marketplace. Soon after, Prosperity's model was replicated in a number of communities and after four years, forty such groups were formed in urban centers across Colombia.

This growing network of cooperative recyclers soon initiated a Social Foundation Recycling and Environmental Programme, which promotes an integrated model of solid waste management based on community participation and support for recycling groups. Through this organization, recyclers began to see significant improvements in their work conditions, their incomes, and their general quality of life. In 1990, a National Congress of Recyclers was held that led to the formation of the country's first National Association of Recyclers (ANR). ANR's founding purpose is to coordinate the work of recycling cooperatives with the state and with NGOs to lobby for better policies that benefit recycling in Colombia. The following year, over 70 recycling cooperatives and factories participated in the Second National Conference of Recyclers.

Since then ANR has won the Colombia Habitat prize and other awards in recognition of its contributions toward environmental protection. This has added greatly

¹⁷⁰ Margarita Pacheco Montes, "Colombia's Independent Recycler's Union: A Model for Urban Waste Management," in *Green Guerrillas*, ed. Helen Collinson (Montréal: Black Rose Press, 1997), 215.

to popular recognition of the role that the cooperative recycling association has played in advancing resource conservation. Indeed, ANR members now recycle approximately 1,100 tons per day, which constitutes 5 percent of the nation's solid waste.¹⁷¹ Much of this has been recycled paper and glass, which has helped Colombia conserve its forests along with significant water and fuel that would have otherwise gone into virgin resource extraction and processing.

The success of ANR and its cooperative network has inspired the development of a wide range of affiliated efforts throughout the country, many of which have expanded into the provision of much-needed educational and social services and the implementation of anti-hunger initiatives. Still, the activities of ANR are not yet sufficiently recognized by the state, a fact which has led many recyclers to question what their role should be vis-à-vis domestic policymakers. The lack of state recognition has meant that recycling efforts and materials use and purchasing has remained uncoordinated, often leaving much recyclable material unused or underutilized. Even so, ANR has played a crucial role in helping to resolve the waste management, public health, and conservation challenges facing modern Colombia.

Japanese Cooperatives in Sustainable Resource Management

Throughout the course of Japan's process of industrial modernization, the country has had to grapple with a wide range of environmental challenges. From the Meiji Restoration in 1868 until the end of World War II in 1945, industrial development and

¹⁷¹ Montes, in *Green Guerrillas*, 1997, 217.

military expansion was given the highest priority, causing serious pollution problems, not to mention the horrific human and environmental consequences of war. During the post-war period, high economic growth and extensive resource extraction was combined with explosive increases in all types of industrial pollution.

In recognition of the need for environmental sustainability, members of four sectors of Japanese co-operatives — agricultural, forest owners, fishery, and consumers — recently prepared a report for the Tokyo Congress outlining their commitment to resource conservation.¹⁷²

Since 1988 agricultural cooperatives in Japan have committed themselves to a project known as “3-H Agriculture,” which describes practices focused on health, high quality, and high technology. These cooperatives are involved in improving soil productivity and reducing the amount of fertilizer used; reducing the use of chemicals; safety and hazard prevention measures; developing new natural fertilizers; and creating more environmentally sensitive livestock treatment facilities and materials.

Forest-owners’ cooperatives are leading the effort to replant the country’s forests and are also carrying out thinning operations and processing small-diameter wood in order to maintain healthy forests. In 1989 the national convention of forest owners’ co-operatives adopted a resolution aimed at “enlivening forests” by promoting the growth of mushrooms and edible wild plants, as well as other techniques to make forests more accessible and useful to people.

¹⁷² International Cooperative Information Center, “The Environment and Sustainable Development: A Report to the 1992 ICA Congress,” 1992, available from <http://www.wisc.edu/uwcc/icic/orgs/ica/pubs/review/vol-85/env.html>.

Since 1983 Japanese fisheries cooperatives have affirmed the principle that “fishermen themselves will tackle the question of environment conservation in a more positive manner.” Under their present regime of three-year action programs, fisheries cooperatives have established an environmental conservation and monitoring system for fishing grounds, have created an environment assessment system, have opposed the use of synthetic detergents, and have promoted the tree-planting.

Finally, Japanese consumer cooperatives have developed a slogan of “Let us Watch our Life and the Earth” and have developed more than 180 environment-friendly products. In 1991 the Japanese Consumers’ Cooperative Union sold 7 billion yen worth of merchandise made from recycled paper. A cooperative electric car development company was also established with investments from 50 consumers’ co-operatives throughout the country. Shops operated by the agricultural and fisheries cooperatives are also emphasizing recycled and environmentally friendly products.

The Hoedads Co-op: Sustainable Forestry in the Pacific Northwest

In 1970, a group of three foresters formed the Hoedads Co-op in Eugene, Oregon, to perform tree planting, forest thinning, seed collection, and other reforestation services. The threesome had just won a contract to plant seedlings on a 60-acre plot near a neighboring community and had decided that a cooperative structure would suit their desire to have an effective business organization that also encouraged individual self-expression.

After successfully completing their first contract, they began enlisting new members. By 1974, the cooperative had grown to between 100 and 125 members working in seven crews and by 1980 had soared to nearly 300 people working in 10-14 crews.¹⁷³ In their hey-day, Hoedads was grossing \$2 million in contracts annually.

The minimal capital requirements of reforestation work played no small role in Hoedads' successful expansion. In the words of a former Hoedad: "Let's face it, planting trees is not rocket science, nor does it require a lot of money to get started. All it takes is a strong, healthy body able to scramble around in steep broken terrain all day and an ability to ignore wind, rain, sleet, snow and mud. Reforestation workers fed up with being ripped off by traditional contractors realized they could form their own business and decide in a democratic manner how the profits should be distributed. All that was needed was a small pool of money to buy a crummy [usually a refurbished small school bus or van] for transportation and maintain an account sufficient to pay the required bonding fees."¹⁷⁴

Born in the progressive, counter-cultural context of Eugene, the Hoedads Co-op eventually came to be recognized for its commitment to egalitarian and democratic values as well as its energetic involvement in environmental and other political causes in the Pacific Northwest.

Most Hoedads were young, white, middle-class college students who had abandoned their traditional urban lifestyles to live in homemade campers and leaky tents miles from the nearest electrified building or convenience store. Their idealism formed

¹⁷³ Christopher Gunn, "Hoedads Co-op: Democracy and Cooperation at Work," in *Worker Cooperatives in America*, 1984, 141-142.

¹⁷⁴ Hoedads Foundation, "Hoedads," 2000, available from <http://www.hoedads.com>.

the basis of the Hoedads Co-op's democratic structure. This took the form of co-op-wide representative democracy, direct democracy at the crew level, and town hall-style quarterly meetings. Among other issues, Hoedads representatives democratically set general co-op policy, its overall operating budget, work rules and hours, compensation, administrative functions, elections, and optimal size.¹⁷⁵ In order to ensure maximum participation and involvement by co-op members, Hoedads spent considerable resources disseminating information and soliciting feedback throughout the organization.

Beyond its core reforestation and trail maintenance activities, Hoedads also funded extensive research into economically viable herbicide- and pesticide-free forestry techniques and organized community underbrush clearings. The cooperative also joined other forestry organizations in lobbying the Oregon state legislature to call for limits on the use of toxic sprays commonly used in state forests. Their efforts turned out to be instrumental in securing legislation that curtailed the use of chemicals containing the harmful substance thiram. In addition, Hoedads filed a joint lawsuit with allied groups in an attempt to halt the use of polluting substances in the Siuslaw National Forest.¹⁷⁶

As Hoedads' revenue ballooned in the late 1970s, it became increasingly involved in community issues. For example, when Starflower, a worker-owned organic foods wholesaler, ran into hard times, Hoedads granted funds to the business to help keep it afloat. Hoedads also leveraged the money needed to purchase the Community Center for the Performing Arts and helped establish NEDCO, a low-income housing agency similar to Habitat for Humanity.

¹⁷⁵ Gunn, 1984, 145.

¹⁷⁶ Ibid, 167.

Although the Hoedads Co-op formally dissolved in the 1980s, its former members have remained active in supporting one another and those involved in sustainable forestry. In 1997, Hoedads began receiving checks as a result of a successful class action suit brought against the State of Oregon for having improperly spent accident insurance funds that members were due. After receiving this money, members decided to form the Hoedads Foundation to support people actively involved in the protection of forest ecosystems and streams for the benefit of future generations.¹⁷⁷

These and many other examples of community improvement and environmental stewardship under the direction of economic cooperatives are demonstrating the critical role that such institutions can play in advancing socially just and sustainable development. In particular, the untapped benefits of cooperative organization have tremendous potential to help alleviate the growing world crises in agriculture, health care, and community development financing, as the following three chapters will seek to show.

In the words of the International Cooperative Association's report, "Cooperative Agenda 21": "[C]ooperatives are ideally placed to implement activities dealing with the protection of the environment as well as with sustainable development questions. The protection of the natural and human environment is a key issue for the survival of future generations."¹⁷⁸

¹⁷⁷ Hoedads Foundation, "Hoedads Foundation," 2001, available from <http://www.hoedads.com/foundation.html>.

¹⁷⁸ International Cooperative Information Center, "Cooperative Agenda 21," May 1995.

CHAPTER 3: AGRICULTURAL COOPERATIVES VS. CORPORATE AGRIBUSINESS

The Growing Cost of Corporate Agriculture to Farmers, Rural Communities, and the Environment

As agribusiness firms have grown in size and breadth over the past century, so too has their control over productive land, farmers, rural economies, food production and distribution, and even the genetic rights to the world's seed supply. In the process, the ability of smaller farmers to earn a decent living has steadily diminished, forcing millions around the world to migrate to urban centers in search of alternative employment or to become migrant laborers for increasingly wealthy landowners and major agricultural corporations.

“The globalization of industry and trade is bringing more and more uniformity to the management of the world's land, and a spreading threat to the diversity of crops, ecosystems, and cultures,” writes Brian Halweil in a recent issue of *WorldWatch* magazine. “As Big Ag takes over, farmers who have a stake in their land — and who often are the most knowledgeable stewards of the land — are being forced into servitude or driven out.”¹⁷⁹

Since 1950, the number of those working in agriculture in industrialized nations has plunged by more than 80 percent. In the United States, less than one percent of the population is now employed as full-time farmers.¹⁸⁰ Despite the dramatic contraction of

¹⁷⁹ Brian Halweil, “Where Have All the Farmers Gone?” *WorldWatch*, September/October 2000, 12.

¹⁸⁰ *Ibid*, 16.

farmers in industrial economies, over half the world's people still earn a living from the land, with especially high percentages in sub-Saharan Africa and south Asia.

Yet these agriculturalists face the same escalating pressures as farmers worldwide to produce more and more food at less and less cost, which plays into the hands of agribusiness corporations peddling their miracle solutions and propaganda. "Claiming to have the technology that will increase crop yields, destroy pests and disease and feed the world, the transnational corporations downplay traditional, organic agriculture, and local production systems," writes Madeley. "But this growing TNC involvement threatens the livelihoods of millions of resource-poor farmers in developing countries."¹⁸¹

The source of this threat is perhaps most evident in the ever-concentrating seed sector. As recently as the mid-1980s, the United Nations Food and Agriculture Organization (FAO) had listed over 7,500 public and private seed sources for farmers worldwide. By 1998, however, after an intense wave of seed source acquisitions by major TNCs, the number of seed companies had shrank to just 1,500, only 24 of which controlled approximately half of the global commercial seed market.¹⁸²

In their ceaseless quest for greater market share and higher profit margins, corporations like Monsanto and Ciba have invested heavily in developing patented seed technologies that also require farmers to purchase associated fertilizers and pesticides. By so doing, farmers essentially have become indentured servants to agribusiness firms that increasingly dictate the prices and terms of trade they must accept just to stay in business.

¹⁸¹ Madeley, 1999, 26.

¹⁸² Ibid, 27.

The economic stranglehold of agricultural giants over farmers has also forced many of them to switch to highly mechanized, petrochemical-based growing and harvesting methods. Widespread adoption of such techniques has led to an over-supply of product that in turn has further depressed crop prices in the global commodities markets.

All of this may sound beneficial from the standpoint of consumers, until one factors in the increasing share of the food dollar which processors, shippers, distributors, seed brokers, advertisers, public relations officers, retailers and marketers are taking for their own purposes. In the United States, for example, the share of the food dollar that goes to farmers has plummeted from 40 cents on the dollar in 1910 to a mere 7 cents in 1997.¹⁸³ As a consequence, consumers are now paying as much for the wrapper covering a typical loaf of bread as they are for grains that provide its nutrients. “Agricultural economists have already noted that the widening gap between retail food prices and farm prices in the 1990s was due almost exclusively to exploitation of market power” by major agribusiness firms, notes Halweil.¹⁸⁴ In such an environment, consumers are facing costs that are increasingly set by corporate monopolies rather than by market competition.

To make matters worse, the World Trade Organization’s Agreement on Agriculture would prohibit countries from implementing price supports or tariffs on imported goods, thereby preventing nations or communities from protecting their own farmers from overproduction or cutthroat, below-cost competition from large agribusiness. A 1994 joint report by the World Bank and the Organization for Economic

¹⁸³ Halweil, September/October 2000, 17.

¹⁸⁴ Ibid, 21.

Development estimated that the tariff and subsidy reductions as required under the Uruguay Round of the General Agreement on Tariffs and Trade would amount to \$213 billion annually by 2002, \$190 billion of which would derive from cuts in agriculture supports alone.¹⁸⁵ Taken together, these realities are pushing small farmers and rural communities to the brink, with little or no sign of relief in sight.

Of course, none of these even factors in the accumulating costs of industrialized agriculture to the natural environment: the increasing water table contamination from excessive pesticide and herbicide use, the ongoing topsoil loss due to intensive, commodity-focused production, the rapidly declining genetic diversity of ecosystems throughout the world, or the weakening pest-resistance of staple plants resulting from reliance on ever-fewer export crops.

Among these so-called “external” costs, the decline in genetic diversity within agriculture is perhaps the most serious cause for concern. According to a recent assessment by the FAO of 154 countries, around three-quarters of the world’s plant varieties were lost during the 20th century. More than 80 of these countries reported that the replacement of diverse local varieties with new, single-species industrial crops was the primary cause of genetic loss within their borders.¹⁸⁶

Unfortunately, the principal guardians of the world’s remaining genetic diversity are those very farmers with the least power to defend themselves from the mounting directives from corporate agribusiness to standardize production. “The world’s agricultural biodiversity — the ultimate insurance policy against climate variations, pest

¹⁸⁵ Madeley, 1999, 38.

¹⁸⁶ United Nations Food and Agriculture Organization, *State of the World’s Plant Genetic Resources* (Rome: FAO, 1997), 34.

outbreaks, and other unforeseen threats to food security — depends largely on the millions of small farmers who use this diversity in their local growing environments,” notes Halweil.

As such, their increasing marginalization means that societies are losing more than the biological diversity found among their native crop varieties. They are also losing locally-adapted and locally appropriate knowledge systems that represent generations of understanding on how best to grow and nurture various crops within their regional ecologies — knowledge that is particularly useful in areas with agriculturally marginal lands not suitable for intensive industrial production methods.

In recent years, protests among peasant groups and rural communities have mounted in countries like India, France, and Mexico where dismay over increasing corporate control in agriculture is on the rise. Their agitation and sophisticated networking with international activist leaders shows that farmers are now strongly asserting themselves politically in world affairs. Their demonstrations are clearly in favor of protecting the rights of countries and communities to choose democratically whether to support local agricultural goods, even preferentially over imported goods.

Fortunately, the challenges of living in increasingly market-oriented economies are not only wreaking havoc on communities and their environments, they are also prompting farmers worldwide to take creative, constructive action on behalf of their affected regions. One principal means has been and continues to be the formation of agricultural cooperatives, which, although out-powered and out-lobbied by the major agribusiness firms, still manage to improve the lives of millions of farmers by helping

them earn a reasonable living off the land and giving them a voice in how rural development should take place.

Historical Background on Agricultural Cooperatives in the Americas

Although producing in very different cultural settings and under highly variable economic conditions, farmers in North, Central, and South America have faced a common dilemma since the dawn of the global commodities market: how to make ends meet by producing more and more food for sale at lower and lower prices.

As individuals, their ability to bargain or set long-term price contracts with buyers (typically medium- to large-sized agribusiness firms) is minimal, if not nonexistent. But by pooling their resources and aiding one another through the provision of much-needed technical and marketing services, farmers are better able to remain producers on their own land and communities are better able to maintain a population of local landowners to help anchor their economic and social vitality.

Three types of cooperative functions predominate within the agricultural sector — marketing, supply, and service. However, these functions are by no means mutually exclusive. Frequently, they are handled within the same co-op, especially among larger, federated cooperatives.

Sometimes known as regionals, federated co-ops are typically composed of two or more cooperatives, rather than of individual producer-members. Such cooperatives usually serve large geographic areas by marketing the products or negotiating supply purchases for centralized member-based cooperatives. Central member-owner co-ops in

turn operate multiple facilities throughout their regions and are governed by a board of directors that is elected by agricultural district or for at-large posts. Mixed cooperatives house both individual producer-members as well as centralized co-ops.

Since most farmers do not produce enough volume to allow them to conduct business directly with wholesalers and retailers, cooperatives help serve as effective and efficient marketing and distribution vehicles for their products. Modern agricultural cooperatives integrate food processing, canning, concentrating, freezing, packaging and storage of a wide array of dairy, fish, meat, poultry, grain, fruit and vegetable products. These cooperatives also assist members in meeting consumer demand and in complying with government-mandated or community-specific product standards.

Supply cooperatives allow members to pool their resources to purchase critical supplies including seed, fertilizer, fuel, farming equipment, heating oil and hardware for farm businesses. The economy of scale that cooperative purchases can achieve allows farmers to reap considerable savings and helps assure product quality for the co-op members. Such cooperatives frequently affiliate with other cooperatives both domestically and overseas in joint-ownership of nutrient deposits, fertilizer plants, research laboratories, petroleum refineries, and other resources and facilities.¹⁸⁷

Working in conjunction with other types of agricultural cooperatives, service cooperatives provide training and assistance in specialized areas such as feed mixing, pest management, diverse planting techniques, crop harvesting, and animal breeding, husbandry, and care. Other unique co-op services include: (1) farm credit provision,

¹⁸⁷ National Cooperative Business Association, "Rural Business and Agriculture: Organization and Structure," 2001, available from <http://www.ncba.org/organize.html>.

whereby members receive credits for meeting specific production or conservation goals (typically this practice is regulated by an independent public agency), (2) value-added product promotion to help farmers earn added income by tapping into emerging markets for new or niche products; and (3) rural electrification and communications infrastructure improvements for members in remote or rural areas that investor-owned utilities are often unwilling to serve.¹⁸⁸

Throughout the Western hemisphere, agricultural co-ops have been formed and adapted to meet a range of social needs and environmental objectives, principally those that help people maintain affordable, sustainable farming practices. In Latin America and the Caribbean, as in other regions of the developing world, cooperative organization has been embraced as one strategy for helping poor communities to meet their food security needs and create employment.

Overall, such cooperatives have had mixed records of success, due in no small part to the hostile political environments in which they have typically operated. Side-by-side competition from corporate agribusinesses that do not bear the same social costs often puts agricultural cooperatives at a comparative disadvantage. Of course, critics of cooperatives point to this reality as a fundamental flaw in their general organization. But such an argument overlooks the countless subsidies, legal, and tax advantages which agribusiness firms enjoy in countries throughout the world, especially in the United States and Europe. Further, it ignores the many success stories of agricultural cooperatives, which, if encouraged, could allow their broad-based, distributional benefits to flourish.

¹⁸⁸ National Cooperative Business Association, 2001.

Examples of the positive contributions that agricultural cooperatives have made in Latin America are varied and widespread. In *Green Guerrillas*, a book highlighting socioeconomic and environmental struggles in the region, a series of authors document an array of cases where producer cooperatives have played a pivotal role in facilitating successful community-based development.

One report by journalist Catherine Matheson chronicles the story of Brazilian farmers who have experimented with new forms of organization to survive in the harsh fringes of the Amazon rainforest. As threats to their local environment have become more pronounced, they have adopted alternative sustainable farming strategies that incorporate the cooperative organizational model.

In the late 1980s, a fruit farming cooperative was established by the Farming Foundation of Tocantins-Araguaia (FATA), uniting five local branches of a local rural workers' union comprised of 12 to 15,000 families.¹⁸⁹ Specialists in agronomy, sociology, economics, and anthropology have also formed an associated research group to collaborate with area farmers on sustainable farming practices and marketing strategies. The cooperative has also been instrumental in securing local and regional markets for the exotic fruits its member-owners produce and boosting sales of their traditional products.

With the growth of trade in non-traditional agro-exports like bananas, coffee and other specialty crops, Latin American farmers are becoming increasingly marginalized as major transnational agribusinesses grab larger and larger shares of the market. In

¹⁸⁹ Catherine Matheson, "Fruit Farming in the Brazilian Amazon: A Sustainable Alternative" in *Green Guerrillas*, 1997, 104.

Guatemala, small-scale, resource-poor farmers have organized themselves into cooperatives in order to help facilitate the development of marketing and technical services for their crops, especially vegetables. Perhaps the most successful of these efforts has been the Cuatro Pinos cooperative which now boasts 1,700 members, notes Lori Ann Thrupp, Director of Sustainable Agriculture at the World Resource Institute's Center for International Development and the Environment.¹⁹⁰

Agricultural cooperatives have also sprung up in Bolivia among small-scale farmers who produce a wide variety of traditional and non-traditional crops. Although these producers face intense competition from international agribusiness concerns, Thrupp writes that they are "more likely to achieve success when they are organized into associations" like co-ops.¹⁹¹

Cooperative Farming as a Form of Adaptation in Cuba's Post-Soviet Era

One of the most successful recent cooperative developments has occurred in Cuba. In an essay entitled "The Greening of Cuba," food security analyst Peter Rosset outlines the drastic steps that this socialist nation has taken to meet its domestic food needs since the collapse of the Soviet Union. Along with the punishing embargo imposed by the United States, the loss of Soviet food subsidies has created a situation in which Cuban farmers have had to get by with far less imported agricultural machinery

¹⁹⁰ Lori A. Thrupp, "New Harvests, Old Problems: The Challenges Facing Latin America's Agro-Export Boom," in *Green Guerrillas*, 1997, 124.

¹⁹¹ *Ibid*, 125.

and petrochemicals. As a result, the country has dramatically reorganized its economic institutions to stimulate productivity.

One major step has been Cuba's turn toward Basic Units of Cooperative Production (UBPCs) in 1993, which were worker-owned enterprises formed throughout the countryside.¹⁹² Co-op members elect management teams, determine the division of labor, choose which crops to produce, and dole out credit where needed.

The process of cooperativization has also led to an overall scaling back in the average size of farms, allowing many farmers to become more rooted and connected to the land. Since whoever manages the farm must be intimately familiar with its unique ecological characteristics, this arrangement has greatly assisted in the process of implementing organic agricultural techniques which have proliferated throughout Cuba.

In addition, the new cooperative compensation rules have allowed farmers to earn extra cash from crops that exceed their quotas, which has stimulated increases in overall production. Although these reforms have not prevented Cuba from suffering severe food shortfalls, Rossett notes that production has gone up significantly, staving off what would otherwise have been a far worse scenario.

Producer Cooperatives in Revolutionary Nicaragua

The Sandinista Revolution in Nicaragua in the late 1970s and early '80s stimulated popular hope for more broadly dispersed economic advancement for the

¹⁹² Peter Rossett, "The Greening of Cuba," in *Green Guerrillas*, 1997, 158-163.

country's vast rural poor. In pre-revolutionary Nicaragua, malnutrition had doubled under the previous economic system, crippling the lives of nearly 60 percent of children below four years of age. Moreover, by the time of the insurrection, just one percent of the country's landowners held almost half the land base, which contributed in no small part to depriving 60 percent of rural citizens of the land required to feed themselves¹⁹³

In an effort to stave off conflict stemming from vast disparities in wealth, the Sandinista government began to promote cooperatives in the early 1980s. "For the Sandinistas, setting up cooperatives represent[ed] a vindication of the rural-based leader [Augusto César Sandino] who fought to free Nicaragua from the U.S. Marines," note Joseph Collins and his co-authors in a book assessing the economic impacts of the Nicaraguan revolution.¹⁹⁴

The first step that the Sandinista government took was to establish credit and service associations to assist rural farmers. Within the credit associations, farmers could pool their purchasing power to obtain necessary inputs like seed in bulk at lower prices. Association members received credit under individualized terms, but elected representatives who served as liaisons between the entire group and the central bank. One year after the credit association program began, 1,200 such institutions were formed.¹⁹⁵ The farmworkers' association (ATC) and PROCAMPO, a public service agency, provided organizing and technical assistance, respectively. These institutions

¹⁹³ Joseph Collins; Frances M. Lappé; Nick Allen; and Paul Rice, *Nicaragua: What Difference Could a Revolution Make?* (New York: Grove/Atlantic, Inc., 1986), 2.

¹⁹⁴ *Ibid.*, 97.

¹⁹⁵ *Ibid.*, 99.

were largely conceived of as stepping stones to the development of full-fledged producer cooperatives.

Starting in the very early years of the revolution, the government began promoting Sandinista Agricultural Communes that involved 10 to 30 families working cooperatively on land plots of up to 250 acres in size. Under such arrangements, farming families pooled their land, equipment, and animals, and decided amongst themselves how best to divide up what was produced. Generally, profits were divided up first to individuals according to the work they performed, then to community projects like health clinics and schools, and finally to specific capital improvements like farm equipment purchases.

To compensate for the slow pace of cooperative formation among small landowners, the ATC also began to organize cooperatives composed of formerly landless and poor farm workers on rented and state-owned lands. After the first two years, there were officially 3,820 credit associations and producer cooperatives with a total of 62,359 members — comprising 53 percent of all small producers in Nicaragua. “Campesinos and rural workers are generally responding, for they can see the benefits to themselves,” wrote Collins and his fellow authors.¹⁹⁶

In the first few years of the revolution, considerable advances were made by and for rural Nicaraguans, partly as a result of the growing system of agricultural cooperatives. Specifically, 40,000 landless rural families gained access to subsistence land for the very first time; land grants, extensive credit assistance, and better prices

¹⁹⁶ Collins, et. al., 1986, 105-106.

allowed farmers to increase corn and bean production by 10 and 45 percent, respectively (relative to 1977-78).¹⁹⁷

By 1983, however, the Nicaraguan economy began to show signs of serious weakness. Saddled with a vulnerable export-oriented economy and burdened with a hulking international debt, Nicaragua began to face severe economic stress as world grain prices fell, interest rates soared, and U.S. economic and military coercion sought to undermine the Sandinista government.

In the midst of economic decline, the Nicaraguan government turned to rationing and other austerity measures to meet the country's most pressing needs. "This situation ... resulted not because the Sandinista ruling elite desired it," writes author Forrest D. Colburn in his book on post-revolutionary Nicaragua. "Rather, the exigencies of the situation ... made the impoverishment of peasants and laborers a structural necessity."¹⁹⁸ Despite these enormous setbacks, however, Collins and his co-authors conclude: "Greater production *and* enabling more Nicaraguans to share in the wealth produced, not rationing, were the hallmarks of the Sandinista revolution."¹⁹⁹ (Emphasis original.)

Unión Nacional Agricultura y Granadera: A Modern Nicaraguan Agricultural Co-op

The Unión Nacional de Agricultura y Granadera (UNAG) is a Nicaraguan agricultural cooperative comprised of approximately 40,000 producers nationally with a

¹⁹⁷ Collins, et. al., 1986, 4-5.

¹⁹⁸ Forrest D. Colburn, *Post-Revolutionary Nicaragua: State, Class, and the Dilemmas of Agrarian Policy* (Berkeley: University of California Press, 1986), 127.

¹⁹⁹ Collins, et. al., 1986, 239.

focus on beans, rice, corn, and coffee.²⁰⁰ In addition to its national headquarters in Managua, UNAG has branch offices in each province (departamento) that employ a staff of technical specialists, agronomists, marketers, and others with particular areas of expertise.

Miguel Gonzáles Ramírez is president of UNAG's state branch in Boaco, located in Nicaragua's central highlands, which serves 800 small producers, forty percent of whom are women. The Boaco branch is divided into three subsections, the Cooperativa de San Isidro, the Cooperativa de San Lucinda, and the Cooperativa de Boaco de Café.

To become a member of UNAG, producers must pay an entrance fee equivalent to US\$12. There is no minimum landholding requirement and most members own between 1 and 50 manzanas (1 manzana = 1.73 acres = 0.699 hectares). Since smaller farmers often lack the extra income or savings to invest in the necessary capital to improve their operations, membership in the cooperative allows them access to critical technical, processing, and marketing services that they could not otherwise afford as individual producers. By pooling their limited resources within the cooperative, such farmers are able to receive better prices for their products and more secure and reliable purchasing contracts.

In recent years, coffee has become an increasing focus of UNAG's efforts, especially with the burgeoning growth in coffee consumption in the United States and other wealthier nations. Coffee is grown by UNAG producers in at least a half dozen Nicaraguan provinces and in Boaco is concentrated in the north.

²⁰⁰ Miguel Gonzáles Ramírez and Mauricio Ruíz Vásquez, personal interviews (in-person) in Boaco, Nicaragua, July 17, 2000.

Since coffee plants can be harvested only every five years, there are definite risks for farmers considering coffee production. Usually, new producers plant only a portion of their landholdings in coffee to minimize potential losses from poor growing seasons or unfavorable market conditions. Much of the rest of their acreages are then devoted to cattle, corn, beans, and other basic grains.

As the central buyer and chief price negotiator, the cooperative is well-positioned to negotiate favorable market terms for its membership. In the case of coffee, members sell their product to the cooperative, which in turn sells it to a beneficiary that assesses the quality of the harvest and sorts out the best beans for final sale to an exporter. As of July 2000, the cooperative was receiving US\$40 for a 100 libra (or 45 kilogram) sack of oro beans, which are unprocessed, gold coffee beans still in the dry husk.

UNAG is presently seeking more direct buyer relationships to avoid the loss of intermediary mark-up costs incurred by its dependence on beneficiaries and exporters. It also has plans to develop its own infrastructure for bean processing, but lacks the necessary funds for the purchase of such machinery.

Given the higher price that can be garnered from organic coffee beans, a growing number of producers are planting portions of their lands in coffee using shade-grown and organic methods. As of July 2000, 80 producers in Boaco's UNAG branch were engaged in cooperative organic coffee production.²⁰¹ The co-op secured and paid for the organic certification of its growers, which costs US\$1,000 per year. One of its principal buyers, Thanksgiving Coffee Co. based in Fort Bragg, California, has recently begun purchasing

²⁰¹ Ramírez and Vásquez interviews, July 17, 2000.

beans produced by UNAG farmers. The company also purchases beans produced by members of the Aranjuez Small Produce Cooperative in Aranjuez, Nicaragua.²⁰²

UNAG also arranges credit and loans to its members through the processing beneficiary. Its main concerns are promoting capital investments in machinery, transportation, and improved plant stocks. In addition, the cooperative is building a national team of technical assistants and regional representatives who travel to different regions as needed to help producers improve their growing and harvesting methods.

Recent Agricultural Co-ops in the United States: Assisting Those Still in the Field

In the latter half of the 20th century, agricultural cooperatives in the United States grew prodigiously in size and overall business sales. Although the absolute number of cooperatives declined over most of that period, their overall growth in sales volume grew significantly from \$25.2 billion at the beginning of the 1950s to \$67.6 billion in the 1971-72 season (adjusted for inflation to 2001 dollars using Consumer Price Index conversion factors).²⁰³ Moreover, their total volume of market share in the agricultural sector increased from 20 to 27 percent over the same period.

Since the 1970s, American agriculture has witnessed a series of corporate mega-mergers, acquisitions, consolidations and dissolutions reflecting similar activity in many industries during a period of increased globalization. Even so, by the mid-1990s, there

²⁰² Thanksgiving Coffee Co., "Thanksgiving Coffee Co. – Stories," 1999, available from http://www.thanksgivingcoffee.com/story_nicaragua-aranjuez.html.

²⁰³ Martin A. Abrahamsen, Ph.D., *Cooperative Business Enterprise* (New York: McGraw-Hill Book Company, 1976), 107-108.

were approximately 4,100 agricultural cooperatives comprised of 3.9 million members operating in the United States. These cooperatives set a record net income of \$1.96 billion in 1994 and employed 175,000 people. Their combined net sales volume amounted to \$105.5 billion (in 2001 dollars).²⁰⁴

Faced with ever-increasing demands for mechanization and greater output, cooperatives have evolved to assist those still employed as farmers as more and more of their ranks have abandoned the field. As their counterparts have done in Latin America, farmers in the United States have nurtured cooperatives to help equip themselves with increasingly sophisticated research and technical assistance in the areas of planting, harvesting, processing, distribution, brokering, and marketing.

U.S. Midwestern Farmers' Co-ops vs. ConAgra

In the American Midwest, as more and more farmers have either moved to the cities or shifted to part-time fieldwork, average farm acreages have risen accordingly. Throughout the process, cropping systems have become increasingly vast and increasingly simplified, with a typical focus on corn and soybean production. Since 1972, the total number of Midwestern counties with more than 55 percent of their acreages planted with soybeans or corn has tripled from 97 to 267.²⁰⁵

²⁰⁴ National Cooperative Business Association, "Rural Business and Agriculture: Organization and Structure," 2001.

²⁰⁵ Halweil, September/October 2000, 25.

The trend toward uniformity has been tremendously advantageous for corporate agribusiness, which has positioned itself to become the principal seller of mass-produced seeds, associated fertilizers and pesticides, scaled-up farm equipment, and mass-marketed foods. In North America, only three agricultural conglomerates control virtually every link in the domestic (and increasingly, the global) food chain: ConAgra/DuPont, Cargill/Monsanto, and Novartis/Archer Daniels Midland.²⁰⁶

ConAgra: Ruling the Ag Sector by Cost-Slashing, Blackmail and Vertical Integration

Among the agribusiness oligopolies, ConAgra stands out for its willingness to use its colossal leverage in the marketplace to take advantage of farmers, squeeze profits out of every possible link in the food production chain, and consolidate its growing power over the agricultural sector.

Only 20 years ago, ConAgra was a relatively modest-sized Nebraska-based agribusiness concern with annual revenues of \$500 million. The most recent estimate puts the company's yearly earnings at more than \$20 billion.²⁰⁷

A no-holds-barred cost-cutting strategy combined with illegal cutthroat business tactics helps account for ConAgra's incredible expansion. Some of the company's more flagrant instances of lawlessness included deliberately misweighing 45,256 truckloads of chickens to make them seem lighter (which cost ConAgra \$17.2 million in fraud damages in federal court in 1989) and cheating farmers out of three year's worth of income by

²⁰⁶ Halweil, September/October 2000, 20.

²⁰⁷ Eric Schlosser, *Fast Food Nation: The Dark Side of the All-American Meal* (Boston: Houghton, Mifflin Company, 2001), 159.

deliberately doctoring samples of their crops (which cost \$8.3 million in federal fines in 1997).²⁰⁸ Given its multi-billion dollar revenue stream at the time, these federal penalties amounted to little more than slaps on the wrist.

The company's die-hard job-cutting and wage-slashing strategy also helped to propel its profit earnings. At one of its primary slaughterhouses, ConAgra actively broke up a union, which led to massive layoffs among its 900 employees and a 400 percent job turnover rate.²⁰⁹ But since the company was then able to enjoy paying its workers two-thirds less than it had 40 years ago, the decline in workplace safety and job security was well worth the price.²¹⁰

In 1987, ConAgra threatened the state of Nebraska by proposing to move its operations unless the newly-elected governor helped to secure a number of tax breaks for the company. Although ConAgra had been in the state for seventy years and Nebraska's corporate tax rates were among the lowest in the country, company officials sought deep cuts in corporate and executive tax obligations (CEO Mike Harper stood to gain \$295,000 alone from the proposed 30 percent rate cut).²¹¹ Some legislators regarded ConAgra's proposal as blackmail. But with the threat of job losses looming large, Nebraska's legislature approved the tax cuts, which effectively amounted to a taxpayer subsidy of between \$13,000 and \$23,000 for each new job created by the company.²¹²

Today, ConAgra boasts of being the largest food service provider in North America, the number one U.S. French fry producer, the biggest sheep and turkey

²⁰⁸ Schlosser, 2001, 159-160.

²⁰⁹ Ibid, 159-160.

²¹⁰ Ibid.

²¹¹ Ibid, 164.

²¹² Ibid.

processor, the largest distributor of agricultural chemicals, the leading seed and feed producer, as well as the top commodity futures trader. This market clout has put the company in the position of being able to dictate the terms of trade to farmers and buyers of its products worldwide.

Through vertical integration of its diverse production and distribution activities, ConAgra has also gained control over increasing shares of various agricultural markets. These include: farm machinery sales, which ConAgra dominates along with just two other corporations; global grain trading, of which it controls one-quarter; North American grain milling, of which it and three other companies control 62 percent; chicken production, of which the company and a handful of others command 60 percent; U.S. beef packing, of which ConAgra and three others control 80 percent; pork packing, of which the company and four others direct 75 percent; and supermarket sales, of which it holds considerable market share with over 80 major grocery brands and labels.²¹³

In the face of such economic power, farmers and small producers have been forced to produce ever-more for less return or create and nurture their own means of sustaining their livelihoods. The following brief case studies from the American Midwest demonstrate how cooperatives and allied organizations have helped farmers to remain in business, enhance the well-being of their rural communities, adapt to the increasingly competitive market conditions, and innovate with promising new producer-consumer arrangements and more environmentally sound farming practices and products.

²¹³ Halweil, September/October 2000, 20.

Iowa Institute for Cooperatives: Serving Iowa's Co-ops

The Iowa Institute for Cooperatives (IIC), founded by local cooperatives in the early 1950s to provide educational and other support services, presently has approximately 200 members. Sixty percent of its membership is comprised of local grain marketing and farm supply cooperatives, with others in areas such as farm credit, dairy, rural utilities, consumer products, and fuel.²¹⁴

Executive Director Larry Kallem summarizes IIC's work on behalf of farmers thusly: "Cooperation by whatever means and by whatever name you call it — networks or co-ops — is what built our system of family farms in the Midwest, and is probably the best strategy for preserving it to the greatest degree possible as we meet business challenges."²¹⁵

Toward this end, the IIC engages in legislative lobbying, which allows farmers and their co-ops to promote collective policies they could not pursue otherwise as individual producers; conducts training and education programs to help managers run cooperatives and understand financial operations; and undertakes coordinated public relations efforts among its members and the general public.²¹⁶ The IIC also offers legal services, interpretation assistance for existing laws and regulations, and other special programs addressing current and emerging issues within its members' respective areas of economic focus.

²¹⁴ Iowa Institute for Agricultural Cooperatives, Organizational brochure, 2000.

²¹⁵ Ibid.

²¹⁶ Larry Kallem, personal interview (in-person) in Ames, Iowa, June 4, 2001.

In addition to serving existing members, the IIC assists farmers with the task of forming new cooperatives. Its cooperative development services include initial start-up, feasibility studies, project coordination, and results analysis. IIC also helps link farmers with credit systems to help them with such efforts.

Kallem estimates that about 90,000 farms presently operate in the state of Iowa, down from around 130,000 in the mid-1970s.²¹⁷ Moreover, only 18,000 Iowa farmers currently work full-time in the fields. The rest have off-farm supplemental employment. Non-farm corporations in hogs and poultry play a dominant role in Iowa's contemporary economy, says Kallem, a fact which has posed considerable challenges to rural communities and neighboring farmers whose land values and environmental health are threatened by the vast quantities of waste produced within concentrated feeding and processing facilities.

In an effort to promote local farm ownership, the Iowa Corporate Farming Law of 1975 sought to prohibit the purchase of private farmland by foreign nationals. As such, it tried to draw a protective fence around family farms. But Kallem notes that one provision of the law made it impossible for a group of greater than 25 to form joint cooperative enterprises. So in 1996, the IIC successfully introduced and passed state legislation that lifted the ceiling on the number of individuals that could come together to form co-ops, provided that the members supplied all the up-front capital and were engaged in producing their own raw materials.²¹⁸

²¹⁷ Kallem interview, June 4, 2001.

²¹⁸ Ibid.

Encouraging environmental stewardship has also been a key element of IIC's programmatic efforts. Kallem says a number of IIC cooperatives have begun using global positioning technologies to help members better manage their fields, which allows for more detailed and contour-specific techniques to be applied while also lessening the need for fertilizer applications. "It's an approach to farming that is much healthier," he says. "A number of our cooperatives have also become involved in local watershed protection boards," which Kallem says has significantly reduced the amount of nitrogen that frequently migrates into waterways adjacent to farmland.²¹⁹ Kallem also helped found the Practical Farmers of Iowa, a non-profit organization dedicated to promoting ecologically sound and community-oriented farming.

Kallem says the primary challenge facing family farmers today is access to markets. With so many prices now determined by contractual arrangements with industrial agribusinesses, smaller producers are often confronted with significant market barriers. "If no one will give farmers contracts, they can't get access," notes Kallem. "But cooperatives can help by getting them that access."²²⁰

Even so, farmers do not always see the benefits of joining cooperatives. Working together with other farmers is often a last resort for individual farmers who frequently prefer to do their own thing. "A lot of times they won't change what they're doing until their bankers foreclose on them. If they would adopt more of the principles of their cooperatives, they would last longer," Kallem says.

²¹⁹ Kallem interview, June 4, 2001.

²²⁰ Ibid.

One of those principles has been to explore the possibilities for new, value-added products that the major agribusiness firms do not already control. But trying to find alternatives to corn, beans, cattle, and hogs — tried and true staples of the modern agricultural economy — is often a difficult proposition. “It’ll be a long time before new markets develop to prevent significant numbers of farms from dying,” says Kallem. “Three or four years ago, we got to the point where most rural residents were no longer farmers. This has created serious conflicts in rural areas. Most of the counties in Iowa are emptying out.”²²¹

In an effort to slow the out-migration of farmers from rural areas, Kallem says the IIC will focus on increasing its education and outreach efforts to new and existing co-op members. He says nothing less will prevent the drop-off in family farms from accelerating: “When those family farms are gone, so are we.”

West Central Co-op: Portrait of a Large Farmer-Owned Iowa Cooperative

Founded in 1933, West Central Co-op has weathered severe periods of market volatility and adversity to become one of the leading agricultural cooperatives in the American Midwest. Based in Ralston, Iowa, West Central’s 3,500 farmer-owners benefit one another from their shared knowledge, diverse experience, and technological know-how. The co-op’s diverse product base includes: grain for feed, export, and domestic processing; soy for food-grade tofu, genetically modified-free products, feed meal, oils,

²²¹ Kallem interview, June 4, 2001.

biodiesel fuel, lubricants, solvents, and cleaners; lecithin for a wide array of food products; and glycerin for various cosmetic and health care products.

West Central's headquarters in Ralston acts as the hub for the cooperative's trade activities that span ten counties and extend 55 miles in each direction. The co-op's 15 locations in the heart of Iowa's corn and soybean growing region grant its members access to three major grain shipping lines — the Union Pacific, Burlington Northern, and Iowa Interstate.²²² Multiple locations also allow the co-op to serve its diverse members and their unique farmsteads with site-specialized operations and expertise.

The co-op's operating divisions include grain, agronomy, feed, soy processing, and administration. Each year, West Central markets 65 million bushels of grain and processes around 175,00 bushels of seed beans, over 130,000 tons of feed, 6 million bushels of soybeans, and 2.2 million pounds of soy oil (at its \$25 million soy processing center in Ralston).²²³ A recent estimate of West Central's annual sales puts the co-op squarely at the large end of the financial spectrum for co-ops at \$257 million.²²⁴

“Most of our members are medium- to large-sized farmers,” says Jeff Stroburg, Chief Executive Officer of West Central Cooperative.²²⁵ Faced with the same intense pressure to “get big or get out” of agriculture, many co-op members' operations (even though family-owned) now approach the scale of those contracting to major agribusiness firms. But unlike their counterparts, all members share in the ownership and governance

²²² West Central Cooperative, *Portrait of a Partner* (Ralston, Iowa: WCC, 2001), 1-2.

²²³ West Central Cooperative, “About West Central Co-op,” 2001, available from <http://www.west-central.com/about.htm>.

²²⁴ Kris Todd, “Water Guardian Award to West Central Cooperative,” Raccoon River Watershed Project website, January 1998, available from <http://www.rrowp.org/News/wccoop.htm>.

²²⁵ Jeff Stroburg, personal interview (in-person) in Ralston, Iowa, June 6, 2001.

of their marketing, service, development and distribution hub — thereby enhancing their ability to earn a living on the farm, both large and small.

To own stock in the co-op, each West Central owner has paid a nominal, one-time \$100 membership fee. Earnings are distributed annually to members in the form of dividends, based on the amount of business they have done with the co-op. To become a voting member, over half of each person's business needs to come from farming. Although some West Central members are out-of-state, most have operations in Iowa, which helps to keep the co-op's governance more locally accountable.

By the investments that producers have made in West Central, more opportunities have been created for area farmers to market their products. “Farmers have been better able to maintain a strong market for their products — allowing them to keep more money in their pockets, which also benefits their communities,” says Stroburg. “If you look at the multiplication value of the dollars kept locally, it amounts to a ratio of around 1:7 for rural areas.”²²⁶

Stroburg says the biggest challenge faced by farmers today is the low prices that result from fierce competition in the world commodity markets. “There are a lot of soybeans out there,” he says. “China's now a net exporter of corn and South America is selling more soybeans.” In response to these conditions, West Central has created risk-management tools to help cushion farmers against dramatic price swings in the market. One such tool has been the use of sophisticated computer programs that allow co-op producers to market their grain over a period of time to achieve the best price. “We have

²²⁶ Stroburg interview, June 6, 2001.

programs that automatically trigger a sale, say after 3 days of price decline, which enables farmers to capture the best high-end price of the market cycle,” says Stroburg.²²⁷

Knowing that commodity grains and other traditional agricultural products can only yield so much return for its members, West Central helps producers develop advance marketing strategies over the long-term and explore niche markets for new value-added products. For example, the co-op has worked with farmers to develop and market strains of non-genetically modified beans, high sucrose beans, organic soy, and white hilum beans, which are typically sold to Japan.

West Central’s most recent innovation is soy-based biodiesel, a fuel particularly well-suited to Iowa, where considerable soybean surpluses are produced during each year’s harvest. In August 2002, the co-op held an open house for its new West Central Soy facility, which can produce up to 10 million gallons of biodiesel fuel each year. Among other advantages, West Central’s biodiesel blend is cleaner burning than purely petroleum-based fuel and can be used in any diesel engine with little or no modifications.²²⁸ To demonstrate its environmental benefits, rock singer Bonnie Raitt used West Central’s biodiesel fuel to power a bus tour in Southern California.²²⁹

West Central Cooperative has also been a leader in helping to minimize pollution in the region. “We started a group to help improve water quality in the Raccoon River Watershed,” says Stroburg. “All the retailers in the area got together to institute a series

²²⁷ Stroburg interview, June 6, 2001.

²²⁸ Rod Swoboda, “Iowa Co-op Unveils America’s Largest Biodiesel Facility,” *Agritech News*, October 9, 2002, available from <http://www.agriukraine.com/news.jsp?id=6971&lan=3>.

²²⁹ West Central Coop, “Bonnie Raitt Fuels Up with Cleaner Burning Biodiesel on Tour,” 2002, available from <http://www.west-central.com/NewsReleases/Bonnie%20Raitt.pdf>.

of best practices to reduce the amount of nitrogen that was getting into the watershed. We also worked with area businesses and community members to hold each other accountable.”²³⁰ In 1998, the Raccoon River Watershed Project awarded West Central with its annual Water Guardian Award in recognition of the co-op’s leadership in increasing awareness of watershed issues and helping residents improve water quality.²³¹ West Central’s extensive use of global positioning technology has also reduced the need for chemical applications, thereby lessening incidences of groundwater contamination.

Heart of Iowa Co-op: A Mid-Sized Member-Focused Agricultural Cooperative

Around 100 farmers got together in 1937 to form a joint operation to market their feed corn, oil, and fuel, which later became known as the Heart of Iowa Co-op. Based in Roland, Iowa, with subsidiaries in seven other municipalities, the cooperative now has around 800 voting members (landowners or tenants that actively produce and market grain to the association) and around 120 non-voting members (those who do not qualify as producers, and so, cannot serve on the Board of Directors).²³²

Heart of Iowa’s farmers produce feed, ethanol, grain, and a few other specialty products. In 2001, Heart of Iowa Co-op generated over \$62 million in total sales.²³³ Its operations are divided into three specialized product departments, an accounting

²³⁰ Stroburg interview, June 6, 2001.

²³¹ Todd, January 1998.

²³² Jim Penney, personal interview (in-person) in Roland, Iowa, June 5, 2001.

²³³ Heart of Iowa Co-op, *2001 Annual Report* (Roland, Iowa, Heart of Iowa Co-op, 2001), 4.

department, maintenance division, agronomy business and transportation unit. On-site field managers serve area members at nine different locations.

Heart of Iowa Co-op members range in size from small hobby farmers to farmers with 7,000 acres or more. Around 80 percent of Heart of Iowa's business comes from relatively large farms. "That's a situation we're attempting to address," says General Manager Jim Penney. "There are just no young farmers starting out."²³⁴ In the 1960s, farmers could make it on 120 acres with livestock or 400 without, he says. "Now, an economic unit has to be around 1,500 acres to justify the equipment."

Among other activities, Heart of Iowa Co-op's primary function is to buy grain from its members for profitable sale in the open market. Co-op members may enter into futures contracts or participate in a "price grain later" program (so that when they are not busy in the field, they can haul grain in for later sale). Other Heart of Iowa services include feed sales, product grinding, mixing and delivery, and special project financing. The co-op's agronomy business has a diverse research and application program focused on fertilizers, chemicals, seed planting, crop consulting, and soil sampling.

Despite the many opportunities that Heart of Iowa provides to its members, Penney says they remain vulnerable by the near-exclusive focus on feed and grain production. "Our members are paid to grow corn and soybeans. The more acres they can cover, the more profitable they can be. That gets their overhead down," he says. But the downward pressure on commodity prices that results from overproduction makes it very difficult for many to stay in business, which only helps fuel consolidation within the

²³⁴ Penney interview, June 5, 2001.

agricultural sector. What's more, most government programs are written to promote corn and soybeans, says Penney, which makes shifting to new varieties a risky proposition.

Nonetheless, Penney says his co-op is making a difference for Iowa farmers. "We work long hours in the spring and fall, enabling farmers to stay in business with good benefits," he says. "And with our flexible marketing programs, we help keep farmers abreast of new opportunities. All of our programs, especially agronomy, have helped our members compete with other producers and keep them somewhat independent."²³⁵

In the long-term, Penney fears that farmers will no longer own livestock or seed, but will only produce through contract to large agribusiness. By keeping the money and financing local through the co-op, "[w]e've helped to reduce the growth of the contract-production system," he says. But if more farmers borrow from Ag Services of America or similar corporate entities, "that takes the borrowing and crop insurance funds out of the community," Penney says. "The major agribusiness firms are not contributing to the local infrastructure of the community at all. There's a constant flow of contributions that local co-ops and independent businesses make to the community — none of those things happen when you take all the business out of the community. If farmers don't realize that they should be supporting local business, they're not going to last long."²³⁶

In addition to offering marketing and general agronomy services to its members, Heart of Iowa Co-op has committed time and resources to the development of ecologically sound farming practices. In 1988, the cooperative started an integrated pest management (IPM) program, which Penney says has attracted the participation of some

²³⁵ Penney interview, June 5, 2001.

²³⁶ Ibid.

of its more astute growers.²³⁷ IPM is a set of techniques designed to minimize the need for pesticide applications, including increased crop rotation and the use of biological controls (e.g., insects that ward off pests and plants with natural resistance). In 2001, Heart of Iowa contributed to a multifaceted study assessing a wide range of IPM techniques at the Muscatine Island Research Farm in Fruitland, Iowa.²³⁸

Heart of Iowa has also worked on conservation issues in the region. “We’ve worked with Iowa State University’s Leopold Center for Sustainable Agriculture on the Bear Creek watershed project,” says Penney. “We planted grasses, shrubs and trees along the banks, which slowed down the water as it runs off the land and helped purify it before it gets to the stream. The project has reduced erosion in the area, which has also cut down on the amount of chemicals that are going into the creek.”²³⁹ Penney has also spent the last seven years serving as a member of the Board of Directors at the Leopold Center, a research and education group with statewide programs aimed at developing sustainable agricultural practices.

The Role of Ag Co-ops in Creating a Sustainable Farming Future

Although contemporary agricultural cooperatives have greatly benefited farmers by helping them stay on the land, most remain caught up in the vicious cycle of trying to produce more and more product for less and less return. However, in the face of

²³⁷ Penney interview, June 5, 2001.

²³⁸ Muscatine Island Research Farm, *2001 Annual Progress Report* (Fruitland, Iowa: Muscatine Island Research Farm, 2001), iii.

²³⁹ Penney interview, June 5, 2001.

plummeting commodity prices, co-op managers are increasingly recognizing that they must explore new avenues of generating sustainable opportunities for their members, both from a livelihood and ecological perspective.

Fred Kirschenmann heads up Iowa State University's Leopold Center for Sustainable Agriculture, which has worked since its founding to promote conservation-focused, community-oriented farming. The center was created by the Iowa General Assembly as part of the 1987 Iowa Groundwater Protection Act to identify negative impacts of agriculture, contribute to the development of profitable farming systems that conserve natural resources, and support those activities that maintain economic and social viability while preserving the high productivity and quality of the land.²⁴⁰

Kirschenmann says that a family farmer-focused vision will not remain viable if agriculture continues in the direction it is now going. "Producing more and more soybeans for less and less cost is not going to work. As a whole, our industrial agriculture system has been a success. But in the last 20 years, it has been very difficult for farmers," he says. "The industrial system was successful because we had adequate natural resources and an abundance of pollution sinks. It's going to take more and more energy to extract the oil needed to fuel our energy-intensive system."²⁴¹

As energy and environmental issues become increasingly important, Kirschenmann says productive efficiency will become key. "We have to figure out how to increase production by using less. On the waste side, because of the concentration of our production, pollution has been exacerbated. If we continue our current level of

²⁴⁰ Leopold Center for Sustainable Agriculture, "Frequently Asked Questions about the Leopold Center," 2000, available from <http://www.leopold.iastate.edu/aboutcenter/whatis.htm>.

²⁴¹ Fred Kirschenmann, personal interview (in-person) in Ames, Iowa, June 6, 2001.

activity, we will double the amount of nitrogen pollution in the next 25 years,” he warns. Given these realities, he says even the most industrially minded farmers are realizing that agriculture needs to change course. “We already have 50 dead zones on the planet. We have to change how we produce food, market it, and shape public policies to move us in the right direction.”²⁴²

Robert Gottlieb, professor of urban and environmental policy at Occidental College, agrees, adding that great potential exists to transform modern agriculture were environmentalists, consumers, and farmers to join forces around the issue of community food security. In his recent book, *Environmentalism Unbound*, he notes that supermarkets have been abandoning inner cities since the 1970s, making food access an increasingly important issue in urban centers. Over the past few decades, these trends have been followed by an increasing number of social experiments (e.g., farmers’ markets, community-supported agriculture, food cooperatives) designed to create more direct relationships between farmers and consumers.²⁴³ Although these have shown some degree of success, their development has been shackled due to the failure of the food security movement to connect up across issues and constituencies. Nonetheless, Gottlieb believes that “[t]he food movement, more than other social movements, has the capacity to, by its very nature, create the need to link to other domains and issues. For the food movement to succeed it needs to draw up an agenda and tie to other movements.”²⁴⁴

²⁴² Kirschenmann interview, June 6, 2001.

²⁴³ Gottlieb, Robert, *Environmentalism Unbound* (Cambridge: MIT Press, 2001), 252-255.

²⁴⁴ Sara Marcellino, “Community Food Security,” *Ecoliteracy News*, Spring 2002, available from http://www.ecoliteracy.org/pages/newsletter3_gottlieb.html.

As part of any such agenda, Kirschenmann believes cooperative farming arrangements, whether formal or not, will be critical. “Right now, we have a very bifurcated agricultural system. We have 1.3 million farms (mostly smaller family farms) capturing 9 percent of the sales. They’re increasingly moving into direct markets like Community-Supported Agriculture arrangements, where they can bypass traditional selling channels. We now have over 1,000 of these in America,” he says. By contrast, around 163,000 larger farms now capture over 60 percent of all sales, 63 of which are in contracting relationships with larger companies to produce basic commodities. In the middle group, as of 1997, 575,000 of farms captured 30 percent of all sales (80 percent of Iowa farms fall in this group).²⁴⁵ “These are the farmers who are most vulnerable. Increasingly they’re being cut off from the market,” Kirschenmann says. To address this, cooperatives can help connect mid-sized farmers, retailers, and consumers.

In particular, Kirschenmann sees great potential for cooperatives to help farmers sell and market food that has a positive story behind it. In Denmark, for example, distributors and sellers are using scanning technology to track the entire production story of agricultural products in the food chain showing family farmer pictures, product attributes, and so forth. A recent marketing survey by the Heartmann Group indicated that as much as 30 percent of the public is willing to pay up to 20 percent more for goods made by small producers in an environmental and health-conscious manner.²⁴⁶ But only by building an interconnected food chain can such information be passed from producer to consumer. “In a cooperative enterprise, you can create that marketing chain,” says

²⁴⁵ Kirschenmann interview, June 6, 2001.

²⁴⁶ Ibid.

Kirschenmann. “Of course, the larger producers will resist telling a story about food, but the world is changing. We’re now in a conversation era. Companies that don’t engage in conversations about their products are becoming at a disadvantage.”²⁴⁷

Kirschenmann points to Midwestern “new wave co-ops” as on-the-ground examples of enterprises that are capitalizing on their ability to produce — and market — quality foods using innovative farming practices. Since the mid-1970s, new wave co-ops have emerged as highly attractive models for farmers seeking new opportunities to earn a living from the land. In the words of Jennifer Waner at the Illinois Institute for Rural Affairs, “They represent the latest generation of cooperatives; the 1920s and 1940s saw the development of previous cooperative generations. The main focal point of [new wave co-ops] is value-added processing.”²⁴⁸

Many success stories can be found in the region: “There are new wave co-ops in North Dakota that are succeeding such as Dakota Growers Pasta,” says Kirschenmann. “These farmers got together and pooled their capital to become the second largest pasta manufacturer in the country. The North American Bison Co-op, a group of farmers and ranchers who got together in [New] Rockford, North Dakota, is also doing very well.”²⁴⁹ Iowa-based Heartland Organic Marketing Cooperative is another that has succeeded in selling organic soybeans, corn, and oats to its home state market, while keeping more of the added value in the local economy by completing its own processing.²⁵⁰ Other

²⁴⁷ Kirschenmann interview, June 6, 2001.

²⁴⁸ Jennifer Waner, *New Generation Cooperatives and The Future of Agriculture* (Macomb, Illinois: Illinois Institute for Rural Affairs, May 1, 2000), 1.

²⁴⁹ Kirschenmann interview, June 6, 2001.

²⁵⁰ Waner, May 1, 2000, 9.

prominent success stories include the Missouri-based Golden Triangle Energy Cooperative, Inc., the Southwest Iowa Soy Cooperative, and Home Grown Wisconsin.²⁵¹

According to Waner, increasing awareness of the successes of new wave co-ops has “ignited a wave of [new co-op] development across the Midwest.”²⁵² Indeed, a recent assessment by the Minnesota-based St. Paul Pioneer Bank listed 50 new wave and community development cooperative ventures in Minnesota, North Dakota and Wisconsin and noted that plans were being studied for at least another 50.²⁵³ These ranged from dairy, pork, corn, pasta, potato and vegetable to other production and marketing cooperatives, many of which have received financing from the St. Paul Bank.

Generally speaking, new wave co-ops have been or are being formed to move the producer one or more steps up the food chain and one or more steps closer to the consumer of agricultural products. By increasing the economic viability of farming, these co-ops raise the value of local farm commodities and natural resources, provide much-needed income opportunities, and help stabilize the rural communities that foster them. Writes Waner: “The possibilities with increasing technology and expanding niche markets are only limited by the imaginations of farmer-producers. [New wave co-ops] and other ventures offer many opportunities for producers to participate more fully in the value chain as the food products head for the consumers’ tables.” As such, they have been and hold great potential for “helping producers organize in such a way that they can

²⁵¹ Waner, May 1, 2000, 8-9.

²⁵² Ibid, 2.

²⁵³ Dennis A. Johnson, “Surfing the New-Wave Cooperatives,” *Farmer Cooperatives*, Vol. 62, No. 7 (October 1995), available from <http://www.wisc.edu/uwcc/info/farmer/pre2001/627surf.html>.

capture a larger share of the food dollar.”²⁵⁴ With commodity values plummeting, exploring alternatives can mean the difference between success or survival.

“Most co-ops are a bit nervous about changing at this point,” Kirschenmann admits. Nonetheless, there are vast untapped opportunities for taking advantage of existing cooperatives’ infrastructure to move into new alternatives, he says. “The future of raw materials commodities isn’t very bright for anyone in this country. We can’t win at that game in the global marketplace.”²⁵⁵

²⁵⁴ Waner, May 1, 2000, 16-17.

²⁵⁵ Kirschenmann interview, June 6, 2001.

CHAPTER 4: COOPERATIVE HEALTH CARE VS. CORPORATE HEALTH MAINTENANCE

The Worsening State of the World's Health, Soaring Health Care Costs, Dwindling Benefits, and the Swelling Underserved Under Corporate Management

By many official accounts, particularly those of the World Health Organization (WHO), the state of health for people around the world has shown definite signs of improvement during the latter half of the twentieth century. According to the WHO's *World Health Report 1998*, average world life expectancy increased from 48 years in 1955 to 66 in 1998, the average worldwide infant mortality rate declined from 148 per 1,000 births in 1955 to 59 per 1,000 four decades later, and the overall number of children who died before reaching age five fell from 21 million in 1955 to just under 11 million in 1997.²⁵⁶

Behind this set of comforting statistics, however, lies the disturbing reality of rapidly growing disparities in health care access between the wealthy and the poor. This fundamental fact prompted WHO Director-general Gro Harlem Brundtland to comment in 2000 that “[n]ever have so many had such broad and advanced access to health care. But never have so many been denied access to health care. The developing world carries 90 percent of the disease burden, yet poorer countries have access to only 10 percent of the resources that go to health.”²⁵⁷

²⁵⁶ World Health Organization, *World Health Report 1998* (Geneva: WHO, 1998), 2-3.

²⁵⁷ Quoted in *Dying for Growth: Global Inequality and the Health of the Poor*, eds. Jim Yong Kim; Joyce V. Millen; Alec Irwin; and John Monroe Gershman (Maine: Common Courage Press, 2000), 4.

Indeed, the sheer lack of resources available for health care services among poor peoples throughout the world is responsible for increasingly needless human suffering, insecurity, and untimely death. An holistic assessment of the state of the world's health must take account of the following facts: (1.) a sixteen-fold difference in infant mortality rates has emerged between the wealthiest and least developed countries, (2.) more than 50 percent of those in the 46 poorest countries have no access to modern health care, (3.) roughly three billion in the so-called "developing" countries have no access to sanitation facilities, (4.) more than one billion in these same countries lack access to safe drinking water, (5.) at least 600 million urban dwellers in Africa, Asia, and Latin America live in life- and health-threatening homes and neighborhoods, (6.) two-fifths of all who died around the world in 1998 did so prematurely, and (7.) fully 97 percent of the 10 million deaths of children under five occurred in developing nations.²⁵⁸

Sadly, the picture provided by these salient statistics has been further corroborated in a recent study commissioned by the Rockefeller Foundation and the Swedish International Development Cooperation Agency entitled, "Challenging Inequities in Health: From Ethics to Action." Based on research in thirteen countries, the study confirmed that health disparities and "stark social inequalities" within countries are having a negative impact on life expectancy and health status among populations worldwide.²⁵⁹ What follows are selected findings from various regions:

²⁵⁸ Kim; Millen; Irwin; and Gershman, "Introduction: What is Growing? Who is Dying?" in *Dying for Growth*; 2000, 4-5.

²⁵⁹ Rockefeller Foundation, "Major Global Study Reveals Unacceptable Health Gap In Rich And Poor Countries Alike," June 1, 2001, available from <http://www.rockfound.org/display.asp?context=1&Collection=1&DocID=446>.

- In mainland China, the process of economic liberalization has prompted increasingly uneven development whereby urban prosperity has risen as rural poverty has deepened, with a parallel, growing divide in access to health care.
- In Russia, where Western economic planners have pushed a “fast track” approach to privatization and corporate-directed liberalization since the collapse of the Soviet Union, the country’s men are dying at an increasingly younger age, and the least educated are being hit the hardest.
- In Latin America, where some economic policies have helped reduce the numbers of people living in poverty, the circumstances among those left behind have worsened. In Mexico in particular, persistent poverty and its attendant health risks are now at their worst among indigenous populations living in barren communities cut-off from most health services and provisions.
- In Africa, the increasing retrenchment of the social sector, rapid urbanization, and the loss of fragile social safety nets that families and government agencies once provided have contributed to “rampant health inequity.” In impoverished Tanzania, an “alarming” number of adolescents who cannot afford newly introduced school fees are working in dangerous mines, plantations and on the streets with “dire health risks” due to exposure to work hazards and HIV/AIDS. And in South Africa, the shameful legacy of apartheid is clearly evident: infant mortality among blacks is five times that among whites.

- In industrialized countries, health inequities are similarly widespread. For example, poor U.S. men and women have far lower life expectancy than their more affluent counterparts, with even greater risk for the African American population. British and Swedish men from unskilled occupations have nearly double the rate of chronic illness than those from professional and managerial occupations. Even in Japan, a nation that enjoys the highest life expectancy, mortality rates for agricultural and service workers are far higher than for their counterparts in managerial and professional jobs.

In a summary statement of the Rockefeller Foundation's findings, Executive Vice President Dr. Lincoln Chen wrote that the results of the study "point unambiguously to stark disparities in health around the globe — in rich and poor countries alike. These differentials are an important barometer of social injustice and are largely unfair and avoidable. Disparities within countries — industrialized or developing — can be as great as disparities between the richest and poorest countries on earth."²⁶⁰

As outlined previously, the growing number and global reach of transnational corporations (TNCs) have in no small way contributed to this increasing economic inequality within and between nations. This process, in turn, has exacerbated the disparities in health care access among the world's peoples.

Within the health care sector, transnational pharmaceutical companies, biotechnology firms, for-profit health care corporations, and health insurance providers have made far-reaching progress in transforming the medical field from one of

²⁶⁰ Rockefeller Foundation, June 1, 2001.

maintaining and improving public health to maximizing private commercial gain. This shift toward privatization has been aided and abetted by neoliberal trade treaties like the North American Free Trade Agreement (NAFTA), top-down structural adjustment programs spearheaded by the World Bank and the International Monetary Fund, and the sanction-backed provisions of the World Trade Organization (WTO). With declining public encumbrances and oversight of their activities, for-profit managed care companies and health insurance concerns have made unprecedented inroads into a wide range of developing countries and regions (e.g., Argentina, Brazil, Chile, China, Ecuador, Peru, Puerto Rico, and Uganda).²⁶¹

Since for-profit interests by their very nature focus their energies on maximizing financial return, they tend to tailor their coverage plans and care services to those with the greatest ability to pay and those who are already the healthiest or least in need. “This trend does not bode well for the poor, who, even when enrolled, face restricted access to care and expensive co-payments,” write health researchers Joyce Millen and Timothy Holtz in a recent book on the effects of corporate neoliberal development on world health. “As health services are privatized and made increasingly subservient to market forces, and as the health industry worldwide is increasingly deregulated, we move farther from protecting the health of the most vulnerable populations.”²⁶²

To be sure, transnational pharmaceutical companies have developed vital medicines and drugs that have saved millions of lives the world over; however, these

²⁶¹ Joyce Millen and Timothy H. Holtz; “Dying for Growth, Part I: Transnational Corporations and the Health of the Poor,” in *Dying for Growth*, 2000, 220; Jim Yong Kim; Aaron Shakow; Jaime Bayona; Joe Rhatigan; and Emma L. Rubín de Celis, “Sickness Amidst Recovery: Public Debt and Private Suffering in Peru,” in *Dying for Growth*; 2000; 146-148.

²⁶² *Ibid*, 220.

same corporations have also engaged in relentless advertising and promotional campaigns that have taken shameful advantage of widespread poverty and desperation to market either unneeded or unsafe products. In particular, they have: (1.) sold drugs that have been explicitly banned or withdrawn from Western countries, (2.) used misleading public relations and ad drives to persuade people to buy their products, (3.) promoted antibiotics for trivial maladies, reducing their effectiveness in combating serious diseases, and (4.) pushed expensive vitamin pills and stimulants, leading the poverty-stricken to rely excessively on them as malnutrition “solutions-in-a-packet” instead of seeking nourishing, well-balanced food.²⁶³

What is worse is that pharmaceutical TNCs have used their raw market clout to undermine effective health care programs in developing and developed countries and prevent affordable and universal access to vital medicines. Among other strategies for protecting their market share at all costs, they have: (1.) rigorously defended long-term international patent rights so as to maintain their monopoly control over the research, enhancement, distribution, and sale of drugs that they have had a hand in developing (no matter how miniscule) — a strong-arm tactic that has literally forced millions to choose between feeding themselves and their families or purchasing pricey, yet vital medicines just to stay alive (especially in regions like Africa where access to much-needed HIV/AIDS medication is severely constrained due to sheer cost and where the development of cheaper generics is either restricted or banned); (2.) charged more for the same medicines in developing countries than they do in developed ones; (3.) fought measures and initiatives that would encourage generic drug research and development at

²⁶³ Madeley, 1999, 145-150.

lower cost; (4.) resisted the emergence of national drug policies; and (5.) used their home governments to support their aggressive sales and marketing activities and, armed with specific economic threats, opposed a variety of public efforts that may have compromised their financial interests.²⁶⁴

As global pharmaceutical and medical TNCs have increased their control within the health care sector, for-profit Health Maintenance Organizations (HMOs) have been following suit with a vengeance. Despite being historically anathema to physicians and even the American Medical Association, HMOs received a major shot in the arm in 1972 when the U.S. government passed the Health Maintenance Organization Act.²⁶⁵ As a response to the growing public costs of America's piecemeal and high-tech-biased health care system, the act helped stimulate the development and expansion of HMOs with the explicit purpose of restraining costs and reducing the federal government's responsibility within the health sector. In particular, HMOs — with their traditional non-profit status and preventive health orientation — were thought to be well-positioned to help curb excessive charges to Medicare and Medicaid programs. Over time, however, new for-profit HMOs began to emerge and grow through rapid acquisition of customers, corporate mergers and consolidations.

The effect that this trend had on health care in America was nothing short of dramatic. Consumer advocate Ralph Nader notes that as HMOs became more prominent, “[a] series of perverse economic incentives were insinuated from top to bottom so as to

²⁶⁴ Madeley, 1999, 145-146.

²⁶⁵ Philip R. Lee; A. E. Benjamin; and Donald A. Barr, “Health Care and Health Care Policy in a Changing World,” in *Health and Welfare for Families in the 21st Century*, eds. Helen M. Wallace; Gordon Green; Kenneth J Jaros; Lisa L. Paine; and Mary Story (Sudbury, Massachusetts: Jones and Bartlett Publishers, 1999), 24-25.

seriously compromise the independent clinical judgments of physicians and other health professionals and often turn the pocketbook allegiance of the health care servers against the interests of their patients, as with gag rules, bonuses for not referring and the like.”²⁶⁶

Unfortunately, the allegations of this cantankerous activist have been amply supported by public testimony. According to recent Kaiser Family Foundation and Harvard surveys, 65% of Americans now worry that their managed care company will have greater interest in saving money than in providing them with the best health service. Almost half report that they or someone they know has had difficulty seeing a specialist through their HMO, getting a plan to pay an emergency-room bill, or being able to file an appeal to an independent agency for a denied claim.²⁶⁷ Another study has noted that HMO patients are 59% more likely to have problems getting treatment than those under traditional fee-for-service care. Public dissatisfaction with HMOs had become so great in the mid-to-late 1990s that significant attempts were made by both Democratic and Republican lawmakers to enact a “Patients’ Bill of Rights” ensuring base-level standards for care, medical delivery, and consumer rights.

Despite claims that HMOs would reduce costs for consumers and the government, health care has continued to rise in price, even as services have been compromised. By the turn of the century, Americans — 61% of whom were covered by HMO plans — were paying more per capita on health care than those in any other nation in the world. What’s more, 30% of U.S. health care dollars were going to cover corporate profits and

²⁶⁶ Ralph Nader, from the foreword of *Making A Killing: HMOs and the Threat to Your Health*, ed. Jamie Court and Francis Smith (Monroe, Maine: Common Courage Press, 1999), vi.

²⁶⁷ Jamie Court and Francis Smith, from the introduction of *Making A Killing*, 1999, 4.

overhead.²⁶⁸ To help pay for this, consumers faced double-digit premium increases and rising co-payments and deductibles. Adding insult to injury, HMOs imposed strict limits on physical and mental therapy (in favor of medication), restricted patient choice among doctors and physicians, replaced some of the most effective prescription remedies with older and cheaper drugs, and prompted employers to scale back retiree health benefits.²⁶⁹ As costs skyrocketed, the number of uninsured in America grew from 36 million (or 17% of the public) in 1988 to 43.4 million (or 19% of the public) a decade later.²⁷⁰

In the aftermath of the airliner terrorist attacks against the United States and the subsequent anthrax scare, some commentators warned that America's worsening public health care system could pose a serious liability in the event of a bioterror assault, whether due to anthrax or a similar pathogen with even greater capacity for dispersal. "[S]hould the number of cases or the distribution of spores grow more widespread, the greatest danger comes not from the easily treatable disease but from the long degradation of the nation's public-health infrastructure," notes Bruce Shapiro writing in *The Nation* magazine. For the past twenty years, Republicans and Democrats have regarded public health, and any excess capacity in the healthcare system, as an "insult" to the free market, he says. "In large cities, public hospitals have been closed and privatized and community clinics converted to bottom-line-driven HMOs. Understaffed and underfunded city and state health departments track illness with out-of-date computer software; 10 percent of local health departments don't even have e-mail. Last year, the federal government spent

²⁶⁸ Court and Smith, 1999, 4.

²⁶⁹ Ibid, 99-103.

²⁷⁰ Ibid, 104.

less than \$50 million on improving state and local public health infrastructure — a piddling amount when spread among fifty states.”²⁷¹

Despite these apparent drawbacks, the corporate-managed health care model is being vigorously exported to other regions around the globe as part of the highly industrialized nations’ drive for increasingly liberalized markets. “As early as 1995, foreign insurance companies and HMOs were already looking eagerly southward to the opportunities presented by neoliberal reformers,” writes a group of researchers documenting the growing health care challenges posed by privatization in Latin America. And with the recent worrying history of health care in wealthy countries in mind, they warn that such a trend bodes ill for the world’s most vulnerable populations. In one South American case study, they note that the plight of the “uninsured and underserved in the United States is nothing in comparison to what awaits the poor of Peru, a country whose poverty is much deeper and whose needs are concomitantly greater ... To a significant segment of the population, the intensified privatization of health will be almost as bad as no health care at all.”²⁷²

Background on Health Care Co-ops in Selected Regions

As the negative effects of corporate-managed health care and the challenges of economic globalization have mounted, one response by consumers, medical practitioners,

²⁷¹ Bruce Shapiro, “Anthrax Anxiety,” *The Nation*, November 5, 2001, available from <http://www.thenation.com/doc.mhtml?i=20011105&s=shapiro>.

²⁷² Kim; Shakow; Bayona; Rhatigan; and Rubin de Celis, 2000, 148.

and community health advocates has been to form health care cooperatives and reinvigorate those already in existence. Worldwide, health cooperatives now serve or have members in at least 100 million households, according to the International Health Cooperatives Organization (IHCO), an international NGO founded in 1996 to represent all types of health cooperatives.²⁷³ IHCO's membership encompasses health co-ops operating under widely varying socioeconomic circumstances in a spectrum of countries that includes Belgium, Brazil, Canada, Chile, Estonia, Japan, Malaysia, Paraguay, Russia, the Slovak Republic, Spain, and Sweden.²⁷⁴

In the industrialized nations, where birth rates are falling and life expectancy is steadily increasing, existing health co-ops are diversifying their services and new ones are being established to meet the specialized needs of underserved areas and populations. Since the 1980s, new types of cooperatives have begun to emerge focusing on care for the elderly and basic health care services.²⁷⁵

In the developing countries, where mass migration to urban areas and high birth rates predominate, cooperatives are stepping in as government-supported health services recede under the budget-cutting axe of structural adjustment programs. According to the 89th International Labour Conference, such liberalization programs provide “a golden opportunity for the rich and educated — and sometimes also unscrupulous and powerful — to profit at the expense of the weaker sections of society.” The need to respond to

²⁷³ NGO Ad Hoc Advisory Group on Health Promotion, *NGOs and Health Promotion: Why Work with NGOs?* (Geneva: NGO-AHAGHP, 1999), 10.

²⁷⁴ International Health Cooperatives Organization, “IHCO Members,” 2000, available from <http://www.coop.org/ihco/about.htm>.

²⁷⁵ International Labour Conference, *89th Session 2001: Report V* (Geneva: ILO, 2000), 7.

such consequences offers “a classic scenario for the development of cooperatives.”²⁷⁶

While perhaps not occurring under ideal circumstances, newly-formed health co-ops do help to pool scarce resources and marshal them toward the delivery of vital services that are not being sufficiently provided in the corporate health care sector.

Generally speaking, two organizational types prevail within the cooperative health care sector — provider-owned co-ops and user- or patient-owned co-ops. Provider-owned health cooperatives typically have been organized by physicians, clinicians, and other practitioners seeking to provide reliable, broad-based, and comprehensive care to their communities. They have pooled their finances, brought hospitals and clinics into coordinated operation, organized structures to administer their collective services, and elected boards responsible for fiscal management and service provision within their respective jurisdictions. Provider-owned health cooperatives exist in Argentina, Benin, Bolivia, Germany, Italy, Malaysia, Mongolia, Philippines, Poland, Portugal, Spain, Sweden, the United Kingdom and the United States. User- or patient-owned cooperatives, while also providing all of health care functions of provider-owned co-ops, are more democratic in that members contribute shares of capital to the organizations and are granted explicit voting rights within them (e.g., in trustee board elections, on health advisory or consultative committees, and during referenda on actual policy or management issues). As of 1995, thirty-nine million members obtained health care services directly from user-owned cooperatives around the world.²⁷⁷

²⁷⁶ International Labour Conference, 2000, 5.

²⁷⁷ *Ibid.*, 49.

A common feature of cooperatives active in the health sector is their prevailing concern for the prevention and the promotion of healthy lifestyles. Given the increasing recognition that social and physical well-being are deeply interconnected, many health cooperatives also provide social care services — particularly to persons with disabilities, special risks (e.g., people with psychosomatic symptoms, diabetes, chronic heart or circulatory problems) or to those at risk of self-injury through substance abuse. Also common are community outreach programs directed at adolescents, single mothers, the disabled, and the elderly.

The following sections provide an overview of health co-ops' historic beginnings in postwar Japan and document their successful emergence as community-based alternatives for meeting peoples' day-to-day needs, both in so-called “developing” and industrialized nations.

Japanese Welfare Associations: A Promising Beginning for User-Owned Health Co-ops

Health care cooperatives are believed by some researchers to have begun first in Japan toward the mid-20th century.²⁷⁸ Indeed, as early as 1964, approximately 6,000 Japanese agricultural cooperatives had, with public subsidies, formed welfare associations that networked some 137 hospitals, 80 clinics and more than 1,000 doctors. Since poorer members traditionally did not have access to private health care, a public health insurance system was introduced in 1961. Instead of putting cooperatives out of

²⁷⁸ International Labour Conference, 2000, 49.

business, limiting their ability to provide services or compensating them only for state-approved activities, the new system allowed them to adapt to changing circumstances by concentrating their efforts on preventive and educational measures as well as care of chronically ill and geriatric patients.

Since that formative period began, the welfare associations linked to Japanese agricultural cooperatives have enlarged their services to include beds for 38,000 patients, 3,200 doctors and almost 19,000 nurses. In addition, consumer cooperatives have also become engaged in the provision of preventive health care services through 125 health service co-ops offering 13,000 beds in 80 hospitals and 246 clinics in 1998, which together employed 1,600 doctors, 9,000 nurses and 9,400 other staff.²⁷⁹ Most members of Japanese health cooperatives are healthy but elderly patients.

In addition to emphasizing health maintenance, they disseminate information on ways that members can choose among various treatments and participate in the cooperatives' administration in collaboration with medical care specialists. In particular, the Han groups form an integral part of the cooperatives' prevention strategy by facilitating patient self-examination (including blood and urine checks, etc.) and helping them monitor one another's eating habits, inform each other of health issues and problems, and provide open feedback on their satisfaction with the health services provided. As such, the health cooperatives are empowering their patients to look after their own health.

²⁷⁹ International Labour Conference, 2000, 50.

Health Care Cooperative Advancements in “Developing” Countries

Within much of the so-called “developing” world, a common approach to medical service provision has involved establishing state-run clinics offering various treatments to the general public. Depending on available funds, such clinics have traditionally engaged in inoculation campaigns and preventative health measures such as education among expecting and breast-feeding mothers, community gardening and nutritional and hygiene workshops. In addition, they often initiated anti-malaria measures such as draining stagnant pools, constructing latrines, improving waste disposal, and safeguarding water supplies against contamination.

Facing increasingly high debt burdens, tightening public budgets and diminishing development aid, these latter functions have frequently fallen away from state or municipal control and have been picked up by user- or provider-run cooperatives. At the turn of the century, user-owned health cooperatives existed in a wide range of developing countries, including Bolivia, Brazil, India, the Philippines, Senegal, South Africa, Sri Lanka, and Tanzania. The number of health care cooperatives in all of Asia is currently estimated at about 465.²⁸⁰

The largest known provider-owned health cooperative within the “developing” countries is UNIMED of Brazil, which operates in 80% of the country’s territory.²⁸¹ In the mid-1960s, Brazilian doctors had difficulty finding employment due to the government’s neglect of its public health infrastructure. Moreover, the growing

²⁸⁰ International Labour Conference, 2000, 50.

²⁸¹ Unimed do Brasil, “Nossa Rede” (“Our Net”), 2001-2002, available from http://www.unimed.com.br/unimed/portal/unimed/unimed_25/rede.jsp.

commercialization of health care posed serious difficulty for medical practitioners.

Under the direction of Dr. Edmundo Castilho, various syndicates of doctors responded by coming together in medical service co-ops to improve their employment opportunities, limit their fixed costs, and improve health care in the region.

Since UNIMED's founding, 90,000 doctors (approximately one-third of all Brazilian medical practitioners) have become cooperative members. Its 364 primary cooperatives are composed of group consulting rooms or networks of practicing doctors serving roughly 11 million people.²⁸² Recent estimates put the total number of UNIMED employees at 148,000.²⁸³ Its health cooperative system comprises several hospitals, laboratories and X-ray facilities.

UNIMED's successful health care activities eventually led to the creation of an array of related service cooperatives. These have been organized under the umbrella of the UNIMED Multi-Cooperative Business Complex, which includes UNIMED cooperatives for users, UNIMED savings and credit co-operatives (inspired by Spain's Mondragon cooperative system), UNIMED Systems to co-ordinate information technology in the provision of services, UNIMED Products and Health Services, the UNIMED Study Center Foundation, UNIMED Air for emergency services, and UNIMED Insurance covering some 2.5 million clients.²⁸⁴ Products offered by UNIMED Insurance include medical insurance, group life, income guarantee, loan insurance, reinsurance for operational risks of cooperatives, and a private pension plan. A sister

²⁸² Unimed do Brasil, "Uma História de Sucesso" ("Our History of Success"), 2001-2002, from http://www.unimed.com.br/unimed/portal/unimed/unimed_25/historia.jsp.

²⁸³ International Labour Conference, 2000, 32.

²⁸⁴ Zahid Qureshi, "UNIMED: A Unique Cooperative Model," *ICA News*, April 1997, 2.

cooperative, USIMED, has also been formed to provide additional health insurance coverage. More recently, provider-owned co-ops have also encouraged the establishment of consumer-owned cooperatives, associated with them through individual and enterprise contracts.

In June 1995, UNIMED organized an International Forum on Health Care Cooperation in conjunction with the International Cooperative Alliance (ICA) and put forward a proposal to include health issues among the ongoing affairs of the ICA. With Dr. Castilho as the driving force behind the proposal and with assistance from cooperative organizations in Japan and Spain, a new specialized organization of the ICA was created called the International Health Co-operative Organization (IHCO). The IHCO held its official founding meeting in San Jose, Costa Rica in November 1996.

Brazil's unique cooperative health care system has served as a model for Chile, Colombia, Costa Rica and Paraguay. "UNIMED is a unique model whose success is proven by numbers," says Dr. Castilho. "It is the result of hard work and vigorous ethics. We present this victorious model to fellow co-operators in all countries of the world."²⁸⁵

European and North American Health Care Cooperatives

In Europe and North America, consumer concern over exploding health costs and the ongoing decay of public health systems has prompted either the formation of health care co-ops or the provision of health care services by related cooperatives.

²⁸⁵ Qureshi, April 1997, 2.

Significant networks of health care cooperatives exist in both Canada and the United States. Throughout Canada, 37 health cooperatives and nine cooperative clinics cover 228,000 people.²⁸⁶ In the province of Quebec, Cooperative du Service Régional d'Approvisionnement (CSRA) is owned by 60 clinics and hospitals, and five ambulance cooperatives provide thirteen percent of emergency services. In the United States, user-owned health co-ops reach an estimated one million households. In Wisconsin, for example, the Rural Wisconsin Health Cooperative (RWHC) has significantly enhanced access to quality health care among rural residents in the southern part of the state through its expanding network of hospitals. Founded in 1979 in response to the lack of quality health care among rural communities, the RWHC network has grown from just under a dozen to twenty-five general medical-surgical hospitals in its short history.²⁸⁷ According to Academy Health, an independent research and policy organization based in Washington, D.C., "RWHC has a long history of achievement," having created a successful network that "combines the strengths of each member institution to achieve what none could alone and that offers the community a diverse array of services."²⁸⁸ At present, these include: providing its hospitals with operational support along with a wide range of common services such as credentials verification, quality control, clinical services, educational programs, financial consulting, a health benefits program, legal services, marketing and communications assistance, patient satisfaction and peer review, professional roundtables, reimbursement credentialing, and technology management.

²⁸⁶ International Labour Conference, 2000, 49.

²⁸⁷ Rural Wisconsin Health Cooperative, "Products and Services," 2001, available from <http://www.rwhc.com/products.services/index.html>.

²⁸⁸ Academy Health, "Rural Wisconsin Health Cooperative," May 1, 2002, available from <http://www.academyhealth.org/ruralhealth/rwhc.htm>.

Secondary pharmacy cooperatives have also been started by health providers and pharmacists in order to obtain more readily vital medicines and medical equipment. They also undertake bulk purchasing as well as common service and marketing functions. Such co-ops are widely developed in the United States. In 1994, an association called the Independent Pharmacy Cooperatives in Wisconsin had 400 members.²⁸⁹

In Spain, primary health cooperatives exist as user-owned care facilities (family cooperatives). These co-ops, which accept both doctors and patients as members, have consolidated their provision of common services, including insurance, computer services and central research and promotion (through the Espriu foundation). The largest of the Spanish providers' cooperatives is Lavinia, a national operation encompassing approximately 22,000 doctors and servicing around 1 million people. A Barcelona-based health co-op by the name of Autogestió Sanitària has 4,027 member doctors, providing health care to 200,000 patients, who are also members of users' cooperatives.²⁹⁰

In some European countries, multi-stakeholder organizations have become critical to cooperative health care. In Italy, special societies of social cooperatives were recognized via legislation in 1991 for their contribution to improved public health. Within such societies, eligible beneficiaries extend beyond co-op members to include certain disadvantaged groups or even the community at large. Certain financing institutions and individual volunteers can also obtain membership in the societies, which helps expand available services and integrate marginalized groups into the wider health system and area labor markets. In the United Kingdom, an act passed in 1988 helped

²⁸⁹ International Labour Conference, 2000, 51.

²⁹⁰ Ibid, 50.

boost official recognition of small, community-oriented health service providers. Since then cooperatives have been increasingly contracted by the state to provide much-needed care for children and the disabled in partnership with volunteer organizations.

Special service co-ops also serve important auxiliary functions within the European cooperative health care sector. Contracting cooperatives provide building maintenance, catering, cleaning, security and other services to various health facilities, or act as employment agencies for their members. In addition, primary pharmacy services are provided by many general retail cooperatives or other cooperatives for their members. And special consumer-owned pharmaceutical retail cooperatives — geared exclusively to making medicines more affordable through bulk purchasing — exist in Belgium, France, Italy, the Netherlands and the United Kingdom, where they are covered by special legislation. In 1961, these cooperatives, together with Swiss pharmacy co-ops, joined together to form the European Union of Social Pharmacies serving 2,556 individual cooperatives, 21,367,000 members, about 55,000 pharmacies and 358,974 employees. In 1992, the Union held approximately 10 percent of the European market for retail pharmaceuticals and achieved earnings of about \$48 billion (in U.S. dollars).²⁹¹

Washington State's Group Health Cooperative vs. Aetna

As noted earlier, the growth of for-profit health maintenance organizations combined with the increasing drive for privatization of public health services and

²⁹¹ International Labour Conference, 2000, 51.

products have posed a considerable challenge for communities seeking to provide broad-based access to quality care and critical medicines for their populations. In the United States, the “doctor-patient relationship and its concomitant social values of trust and confidentiality [have] been eroded by the search for profits,” write Jamie Court and Francis Smith in their recent book, *Making A Killing*. They go on to conclude that a “decade after HMOs began to dominate Americans’ health coverage options, the verdict on for-profit health care is in: unsound and unsafe at all costs.”²⁹²

Aetna: A Tale of Diminished Services, Gagged Doctors, and Higher Costs

Aetna Inc. has become the leading health care and related benefits corporation in the United States, largely through rigorous acquisitions and mergers with other insurance providers. In 1996, Aetna acquired U.S. Healthcare; in 1998, it absorbed New York Life; and in 1999, the company integrated its operations with Prudential Healthcare.

Following this impressive period of corporate consolidation, Aetna could boast of being the health insurance provider to 17.5 million, the dental plan provider to 13.7 million, and the group insurance plan provider to 11.7 million (as of September 2001).²⁹³

Of course, this wave of merger mania did not go unnoticed among medical practitioners, hospitals, nursing staff, insurance plan holders, and public interest groups. Indeed, considerable fear and dismay permeated the debates leading up to Aetna’s recent acquisitions, especially with regard to the takeover agreement reached with Prudential.

²⁹² Court and Smith, 1999, 4.

²⁹³ Aetna, Inc., “Business Profiles,” 2001, available from <http://www.aetna.com/guide/businpro.htm>.

In public testimony provided to the State of California in early 1999, the watchdog group Consumers For Quality Care urged the state's lawmakers to block the proposed union, claiming that it "would result in an HMO industry leviathan that will cover one out of ten Americans and will downsize patient care to unreasonable levels, unduly leverage physicians, undermine competition and cause the potential for unfair business practices."²⁹⁴ Even the traditionally conservative American Medical Association (AMA) weighed in against the merger, apparently fearing that ever-growing corporate consolidation in the health care sector would undermine doctors' freedom to practice quality medicine. "The market power that would be created or exacerbated by this merger would limit the choices of patients and employers, reduce competition, and further erode the ability of physicians to make medical decisions based on science and the medical needs of their patients, not share price," said AMA Executive Vice President, E. Ratcliffe Anderson, Jr., in an open letter to Joel I. Klein, head of the U.S. Department of Justice's Antitrust Division.²⁹⁵

Unfortunately, the concerns of these critics have been borne out by Aetna's disconcerting corporate history. The following are but a few of the company's more recently documented problems:

- Consumer and Doctor Dissatisfaction: According to a recent customer satisfaction survey of corporate and cooperative-run health plans published in *U.S. News and World Report*, Aetna ranked last among insurers in nine states — Connecticut,

²⁹⁴ Consumers For Quality Care, "California Regulators Called Upon To Stop Aetna-Prudential Merger," March 3, 1999, available from <http://www.consumerwatchdog.org/healthcare/pr/pr000177.php3>.

²⁹⁵ State Medical Society of Wisconsin, open letter from AMA Executive Vice President E. Ratcliffe Anderson, Jr., *Medigram* newsletter, January 13, 1999, available from <http://www.wismed.org/news/medigram/medi11399.htm>.

Georgia, Illinois, Maryland, Massachusetts, New Hampshire, New York, Texas, and Virginia — five of which counted the company among their top three biggest insurers. In California, a statewide survey of doctors conducted by the Pacific Business Group on Health Negotiating Alliance ranked Aetna last among the state’s various health plan providers.²⁹⁶

- Diminished Physician Freedom: Aetna has issued so-called “gag orders” to doctors participating in its health plans, urging them to provide only limited explanations of available medical options to their patients, especially more costly forms of treatment. This tactic, however helpful to Aetna’s bottom line, was nonetheless illegal in some states: regulators in Florida and New York both concluded in 1998 that by restricting physicians’ speech, the company was in violation of state laws guaranteeing consumers’ right to know the full range of services covered.²⁹⁷ In protest over Aetna’s restrictive policy requirements and inflexible contract terms, 400 doctors in Texas and 1,100 in California recently walked out of their arrangements with the company. The company’s bullying behavior has become so problematic in Texas, Illinois, Rhode Island, and North Carolina that these states have either passed or are considering prohibitions on “all-or-nothing” clauses forced by Aetna upon doctors requiring them to offer all of the HMO’s health plans.²⁹⁸

²⁹⁶ Court and Smith, 1999, 111.

²⁹⁷ Ibid.

²⁹⁸ Ibid, 112.

- Denial of Care: In January 1999, Aetna was penalized with the largest jury award ever issued against an HMO. In California, a San Bernardino County jury sent Aetna a \$116 million punitive damage assessment in the case of schoolteacher Teresa Goodrich, whose husband, a district attorney, died in the early 1990s after trying to get Aetna to approve treatment recommended by his doctors for his rare form of stomach cancer, leiomyosarcoma. When Mr. Goodrich could wait no longer, his doctors administered the treatment without HMO approval, but to no avail. He died believing he had left his wife with \$750,000 in medical bills. The jury decided to punish Aetna for, among other things, its finding that the company acted in bad faith and with malice toward Goodrich in denying him coverage based on exclusive treatment that was never spelled out in his contract.²⁹⁹
- Loss of Coverage: In 2001, over 68,000 federal workers and retirees lost their health coverage from Aetna U.S. Healthcare/Prudential, either because the company chose to drop out of the Federal Employees Health Benefits Program (FEHPB) or because it chose to pull out of certain markets.³⁰⁰ The need to increase profitability was cited as a principal reason for the move. That same year, Aetna dropped a number of its small business plans in order to focus on the more lucrative medium-sized business markets. Citing inadequate reimbursement

²⁹⁹ Consumers For Quality Care, 1999.

³⁰⁰ Brian Friel, "Health Plans to Drop 135,000 Federal Workers and Retirees," GovExec.com, September 24, 2001, available from <http://www.govexec.com/dailyfed/0901/092401b1.htm>.

from the federal government, Aetna also dropped nearly 55% of its Medicare enrollees in 2001, forcing 340,000 seniors to seek alternative coverage.³⁰¹

- **Unaffordable Rates:** With ever-increasing shareholder demands for higher profit margins, corporate HMOs like Aetna have become notorious for rising insurance rates and premiums. As Aetna increased its share within health care markets across the country through mergers and acquisitions, it effectively undermined consumer choice, thereby allowing the company to engage more readily in price-setting behavior. In 2000, Aetna was planning to increase its premium rates by 13 percent, part of a trend of HMO rate hikes that was leading employers to scramble for other more affordable means of offering health care to their workforces.³⁰²

The various problems outlined above stem from a wide range of factors, but the 500-pound gorilla constantly lurking in the background is the incessant need for HMOs to maximize financial returns to their shareholders, to whom their boards of directors and policymakers are ultimately responsible. Doctors, nurses, and hospitals — rather than serving as fully involved partners in the ongoing development of their communities' health care — are frequently forced to hold HMOs accountable through protest, mass organizing, public interest legislation, and legal action. These are not the moves of contented and willing participants in our increasingly corporate-run health care system.

³⁰¹ The Riner Group, "From the Strategy Doctor's Desk," Mar. 14, 2001, available from <http://www.rinergroup.com/StrategyDoctor031401.htm>.

³⁰² Milt Freudenheim, "H.M.O. Costs Spur Employers To Shift Plans," *New York Times*, September 6, 2000, available from <http://query.nytimes.com/gst/abstract.html?res=F10610FD3C5D0C758CDDA00894D8404482>.

Fortunately, other more responsive and effective arrangements are possible which provide patients, physicians, care givers, hospitals, and administrators with a determining voice in helping to meet their communities' health care needs.

Group Health Cooperative: Broadening Community Access to Quality Health Care

From its meager beginnings in 1946 as a small coalition of doctors, nurses, farmers, laborers, and political activists determined to establish affordable hospitals and clinics in the Pacific Northwest, Group Health Cooperative of Puget Sound has become the largest consumer-run health care organization in the United States. The co-op was established during the heady optimism of the post-World War II years by a set of idealistic reformers who “believed that consumer-owned cooperative enterprises could steer an economic ‘middle-way’ between the excesses of laissez faire capitalism and Soviet-style state socialism,” writes Walt Crowley, author of a recent 50-year history of Group Health Cooperative.³⁰³

At the time, many reformers in the field had pinned their hopes on medical professionals and government officials to achieve broad-based health care access to the public. But the would-be founders of Group Health were uncertain about such prospects. That skepticism, combined with the sense of urgency they felt about providing an alternative to the illness-focused, fee-for-service system then prevalent in the country, helped spur a group of medical practitioners into action.

³⁰³ Walt Crowley, *To Serve the Greatest Number: A History of Group Health Cooperative of Puget Sound* (Seattle: University of Washington Press, 1996), xi.

Of course, none of their aspirations could have materialized without available facilities or funding. Serendipitously, Group Health care found both in early 1946. On March 14, Group Health's attorney Jack Cluck attended a health care forum where he met Dr. Sandy MacColl, a pediatrician from the Seattle-based Medical Security Clinic. MacNoll's clinic was unusual in that it was a group medical practice that offered pre-paid plans to its clientele. Pre-paid plans not only moved health care away from merely treating symptoms and complications from illness, they also provided a steady stream of income for physicians to broaden their focus to practicing preventative medicine and promoting general wellness. Even so, "[s]uch plans inspired near-hysterical opposition from solo, fee-for-service physicians, and the American Medical Association and local medical societies denounced prepaid programs as stalking horses for socialized medicine," notes Crowley.³⁰⁴

Despite its controversial nature, Cluck saw incredible potential for this type of financing and its potential synergies with Group Health. In recognition of their shared objectives, Group Health Cooperative's founders proposed merging with the Medical Security Clinic, a plan that sparked fiery debates within the organization. The controversy brewed for months and finally culminated in a narrow victory for proponents at a special membership meeting of Group Health's original trustees in October 1946. Having acquired operational control of Medical Security (along with St. Luke's Hospital), the co-op was able to begin delivering health care to 400 area consumer-members and 8,000 worker-enrollees on January 1, 1947.³⁰⁵

³⁰⁴ Crowley, 1996, xiii.

³⁰⁵ Ibid, xii.

Group Health's promising organizational start was not greeted with open arms by the prevailing medical establishment. Physicians involved in private practice denounced the co-op, referring to it as "Group Death" in public pronouncements. The King County Medical Society even went so far as to blacklist doctors working with Group Health, complaining of their "unethical" behavior for accepting monthly dues from patients. Eventually, this concerted campaign led to legal action, which culminated in a Washington State Supreme Court ruling that found the medical society guilty of monopolistic conspiracy against the co-op.³⁰⁶

This victory helped clear the way for Group Health to move forward on its mission "to serve the greatest possible number of people" (as stated in the cooperative's bylaws). The imperative to increase its membership and enrollees continually helped guard the co-op against stagnation, encouraged innovation, and assured its survival in an increasingly competitive health care market. Of course, this inclination did not come without a price. As Group Health expanded, it had to feverishly balance business values like profit and loss with cooperative values like mutual aid, shared sacrifice, common ownership, member equality, and democratic decision-making. In the words of one of the co-op's long-time trustees, "Group Health must survive as a business in order to survive as a cooperative, not the other way around."³⁰⁷

Despite the difficulty, Group Health has been able to meet this challenge through a healthy combination of economic prudence and broadly accountable self-governance structure, allowing it to continue to offer high quality care at relatively low cost.

³⁰⁶ Crowley, 1996, xiii.

³⁰⁷ Ibid, xiv.

The co-op's founding institutional arrangement was that of a non-profit charitable association in which members elect their trustees. Initially, Group Health was composed of four distinct compartments:

- (1.) a membership of consumers responsible for voting for the co-op's Board of Trustees;
- (2.) an elected Board of Trustees responsible for managing business financials and contracting with an independent set of medical and support staff;
- (3.) a self-governing staff of physicians and medical professionals; and
- (4.) an organized group of nurses and support staff.

Eventually, a fifth compartment emerged in the form of a class of professional business administrators. Group Health's many non-voting group enrollees have also played a pivotal role in that their needs have shaped the contours and nature of the care provided. Over time, a number of advisory committees to the Board of Trustees have been created to help increase input from various Group Health constituencies, including an active senior caucus.

The question of who is eligible to become a voting member — always a contentious issue within cooperatives — has been resolved procedurally. “Any patient can become a voting member simply by filling out a form. There is no charge,” said Lee Tucker Therriault, Group Health's Senior Media Consultant.³⁰⁸ “We have about 32,500 voting members,” she said, who elect people to the 11-member Board of Trustees in annual elections. Members also serve on advisory councils, the Board of Trustees, and

³⁰⁸ Lee Tucker Therriault, personal interview (over e-mail) to Seattle, Washington, Feb. 22, 2002.

on board committees. To ensure patient-physician accountability, a formal consumer grievance procedure was implemented that includes a binding independent, third-party review for appeals on issues of medical necessity. In addition, consumers serve on an Ethics Council that advises the trustees on a wide range of issues.

Group Health provides comprehensive care at two hospitals, 30 primary care or family medical centers, and five specialty centers. It holds alliances with 48 additional institutions that provide specialty care in areas where the co-op has no hospitals. “[W]e have about 1,000 doctors on staff and an additional 6,000 in our contracted network, and patients can change their doctor at any time,” said Therriault.³⁰⁹ In addition, Group Health employs nearly 9,500 people in health care and administrative positions.

Headquartered in Seattle, Group Health Cooperative operates in all or parts of 20 counties in Washington, and two counties in northern Idaho. The co-op provides insurance and care for 1 in 10 Washingtonians, with an enrollment of nearly 600,000 as of March 2002. “As one of the three largest health care insurers in Washington state, Group Health had revenues in year 2001 of \$1.6 billion, with a margin of \$23.9 million,” according to a financial overview on the co-op’s website.³¹⁰

The co-op provides primary, specialty, hospital, home health, and in-patient skilled nursing care on a pre-paid basis. Mental health and substance abuse services are also available. Whether as individuals within group plans, members choose their primary care medical center and their primary care doctor or practitioner within that medical center. Plans range from those with comprehensive benefits and no co-payments to those

³⁰⁹ Therriault interview, 2002.

³¹⁰ Group Health Cooperative, “Group Health Overview,” 2002, available from http://www.ghc.org/web/about_gh/co-op_overview/index.jhtml.

with deductibles. Other point-of-service plans are also offered through a subsidiary, which allow patients to choose doctors from both inside and outside the Group Health network.

Group Health has also been a willing partner with government agencies in expanding coverage to those who need it most. The co-op joined Washington's first managed-care Medicaid plan in 1969, entered its first Medicare risk contract in 1976, became the first participant in the state's Basic Health Plan in 1988, and joined the Medicaid Healthy Options program in 1992.³¹¹ When Washington's state legislature approved the new Basic Health Plan, which enrolled 30,000 low-income families in private insurance plans, Group Health took on ten percent of the applicants.³¹²

To ensure that the co-op's physicians are held accountable, they are reviewed regularly based on patient feedback, proven clinical ability, and performance history. The vast majority of Group Health's medical practitioners are also board-certified: 92% of primary care and pediatric MDs, 86% of Ob/Gyns, and 91% of those working in specialty areas.³¹³ Nearly 200 physicians from Group Health Cooperative also hold clinical appointments at academic institutions.

The co-op's hospitals, labs, long-term nursing facility, and home care services have also been accredited by the Joint Commission for the Accreditation of Healthcare Organizations (JCAHO). "In addition, we have consistently ranked high in third-party

³¹¹ Group Health Cooperative, *Group Health Facts* (Seattle: GHC, January 2001), 2.

³¹² Crowley, 1996, 149.

³¹³ *Ibid.*, 1.

evaluations of our care and service, including ranking among the top 5 health care systems in the country,” said Therriault.³¹⁴

Indeed, Group Health has excelled in areas where Aetna and many other corporate HMOs have come up short:

- **Consumer Satisfaction:** The co-op’s quality of care has received top marks from accreditation groups and consumers alike. Accredited by the National Committee for Quality Assurance (NCQA), Group Health’s commercial and Medicare plans were awarded the top rating of “Excellent.” In a special *Newsweek* report on U.S. providers, Group Health’s plans scored an overall “A” rating and came in fifth out of more than 200 plans surveyed.³¹⁵ A similar assessment by *U.S. News and World Report* ranked Group Health first among managed care providers in the state of Washington.³¹⁶ The co-op, along with Group Health Cooperative of South Central Wisconsin and Group Health Cooperative of Eau Claire, also earned top-quintile scores among the 271 American providers assessed.³¹⁷
- **Physician Freedom to Prescribe Care:** Articles in various media have lauded Group Health’s empowerment of physicians in an increasingly top-down health market. In 1999, the *Seattle Times* noted that the co-op gives “doctors — not health plan administrators — the final say in treatment decisions.”³¹⁸ Unlike many for-profit HMOs where contracts with physicians set limits on patient care,

³¹⁴ Therriault interview, 2002.

³¹⁵ Ellyn E. Spragins, “Does Managed Care Work?” *Newsweek* special report, September 28, 1998, 7.

³¹⁶ Avery Comarow, “Best HMOs: America’s Most Complete Guide,” *U.S. News and World Report* special report, October 5, 1998, 8.

³¹⁷ *Ibid.*, 2, 8.

³¹⁸ Anita Boser, “Six Fundamental Myths of American Health Care,” *Seattle Times*, December 17, 1999.

the co-op's member-governed structure functions to promote quality service and accountability. For example, long before the national furor over denial of care at HMOs had begun, Group Health adopted a Patients' Bill of Rights allowing patients to choose their own physicians, set standards for informed consent, confer with outside physicians, review medical records, and receive advance notice of any treatment that might cost extra.³¹⁹

- **Expanding Pioneer Coverage:** Group Health has long been a pioneer provider of new and expanded care options to its patients. The co-op was decades ahead of its time in the late 1940s, when enrollees insisted upon and eventually gained prescription drug coverage, notes Michael T. McCue in *Managed Healthcare Executive*.³²⁰ A similar expansion happened in the 1960s, with members successfully adding mental health care to their benefits plan. In 1992, Group Health broadened its coverage to include vital organ transplants and prosthetic breasts following mastectomies.³²¹ True to its commitment to holistic medicine and preventative care, members have also recently gained access to naturopathy, chiropractic care, acupuncture, and massage therapy.
- **Affordability and Value of Care:** While Group Health does not offer across-the-board lower premiums compared to other managed care providers, it has earned recognition for offering affordable plans that deliver high-value care. According

³¹⁹ Crowley, 1996, 149.

³²⁰ Michael T. McCue, "Consumer Governed, Patient Focused," *Managed Healthcare Executive*, January 2001, 3.

³²¹ Crowley, 1996, 217.

to Dr. Arnold Relman, former editor of the *New England Journal of Medicine*, Group Health's plans contain "no incentive for doing more tests than indicated, but every incentive to do all that is indicated," resulting in "quality care at a reasonable price."³²² Moreover, its focus on preventative care has lowered hospitalization rates, helping to improve patients' health while cutting costs. In Washington, the co-op "provides by far the best value for Medicare members," said CEO Cheryl Scott, noting that its rates are much lower than the next-lowest-priced plan.³²³ In 2000, Group Health also began offering unlimited discounted health care to those in need under its Complementary Choices program.

Group Health has been noted for its wide-ranging innovations in health promotion and care delivery. Among others, these include:

- Community Health Promotion and Preventative Care: Group Health's Center for Health Promotion and its Department of Preventive Care develop, implement, and evaluate health promotion and health care programs for patients and the broader community. The HealthPays plan offers members with healthy lifestyles a dues reduction in a selected individual plan. Post-acute and community-based care options include a skilled nursing facility, home health, hospice, parent and child services, family outreach, volunteers, and HIV/AIDS case management. The co-op also sponsors free workshops to further public health, as well as continuing education courses and seminars for health care professionals.

³²² Quoted from the *New York Times* by Group Health Cooperative, *What Others Say* (Seattle: GHC, February 2000).

³²³ McCue, 2001, 4.

- Community Resource and Information Services: In 1970, Group Health established a special hotline where consulting nurses can be reached 24 hours a day. In 1985, a Group Health Resource Line was set up by volunteers that now answers 31,000 calls a year and provides information on health education and how to connect up with available community resources.³²⁴
- Special Constituency Programs: Established in 1992, Group Health's Mother Mentor Project matches teenage mothers-to-be with trained volunteers who have had successful parenting experiences. Senior programs include Lifetime Fitness and Silver Sneakers fitness benefits, along with the Senior Care Roadmap.
- Population-Based Medicine: Group Health operates under a framework that assesses individuals' overall health within the context of the different populations to which they belong (e.g., those with certain chronic conditions). This method allows health care teams to systematically identify the most effective preventive care and treatments available. Clinical roadmaps are also conducted to identify priority areas where improvements would have the greatest impact on patients' health at the most affordable rates available. Current Group Health priorities include: tobacco-use cessation, diabetes, heart care, breast care, depression, immunizations, asthma, and senior care.
- Evidence-Based Medicine: Group Health seeks to provide care that uses the best available scientific research. Clinical information systems are used to allow

³²⁴ Group Health Cooperative, *Group Health Facts*, January 2001, 2.

health care teams to practice with greater knowledge, efficiency, and relevance for individual patients. Case managers focus on improving care for specific high-risk patients, such as diabetic or frail elderly patients. In addition, the co-op coordinates interaction among social workers, health educators, and medical staff to ensure that comprehensive care is being provided.

As evidenced by its long history of success, innovation, and continuously expanding enrollment, Group Health Cooperative of Puget Sound has shown that health care does not have to be governed by a top-down board of directors seeking mainly to maximize shareholder profits. Instead, first-rate health care can be conducted involving the democratic participation of patients and medical practitioners. Indeed, through active engagement with its members and staff in setting policies and developing methods of care, Group Health Cooperative and a growing network of health co-ops around the globe are earning high marks from consumers, employees, and their communities. As such, cooperative health care serves as a noteworthy alternative to corporate HMOs and deserves due consideration in future health policy.

CHAPTER 5: CREDIT UNIONS VS. BANKS

Under-investment, Redlining, and Unaccountable Community Financing by Banks and Traditional Lending Institutions

Long before the protests against the back-room deals and questionable activities of the IMF and World Bank were even a murmur, community improvement activists, credit-poor farmers, and concerned citizens had been struggling for decades against the often discriminatory and unaccountable lending practices of banks and related financial institutions and agencies.

While banks have historically been essential institutions in fostering community development — even helping to supplant the overbearing power of the papal aristocracy in Renaissance Italy — they have also faced popular resentment for their tendency to under-serve the poor, discriminate against ethnic minorities in loans and credit (often referred to as “redlining”), and hoard critical resources from would-be entrepreneurs, organizations, and localities that desperately need them.

Given the vital role that banks play as providers of credit, development analyst Michael H. Shuman argues that their practice of lending money, however reluctantly, is critical to fighting poverty. “Without a history of borrowing and repayment, a poor person cannot qualify for housing or business loans. A neighborhood made up of renters rather than owners remains transient, and if the renters cannot borrow for repairs and upgrade, the housing stock steadily deteriorates, and the riskiness — and interest rates — of all housing loans in the area increases,” writes Shuman in a comparative study of local community

development strategies.³²⁵ He goes on to note that the lack of affordable business loans in poor communities perpetuates a vicious cycle in which residents are frequently unable to become entrepreneurs, and are often consigned to low-wage work or unemployment, usually for businesses outside of their neighborhoods.

The scarcity of development financing has been even more acute within inner cities and minority communities. Within the United States, as the economy became increasingly industrialized in the early 20th century, manufacturers and developers started leaving city centers in order to set up factories and neighborhoods where they could buy land more cheaply, pay less in taxes, and hire workers at lower wage rates. When whites began leaving urban areas for the suburbs, minorities took their place, only to find municipal cores with inadequate schools, decaying infrastructure, declining employment opportunities, and minimal public services.

In the 1930s, these trends accelerated via policies designed by lenders, realtors, and the Federal Housing Administration (FHA) to encourage suburban growth and favor certain ethnic groups over others. The real estate industry even helped prepare a report for the FHA ranking fifteen racial and ethnic groups according to the “impact” of their presence on property values. Not surprisingly, politically favored ethnicities like English, German, and Scandinavian ranked among the most preferred, while “Negro” and Mexican were listed as most detrimental.³²⁶ This kind of overt prejudice became part of official policy under FHA guidelines published in a 1938 underwriting manual for banks urging loan officers to “determine whether *incompatible* racial and social groups are present, for the purpose of

³²⁵ Michael H. Shuman, *Going Local* (New York: The Free Press, 1998), 108.

³²⁶ Peter Medoff and Holly Sklar, *Streets of Hope* (Boston: South End Press, 1994), 14-15.

making a prediction regarding the probability of the location being *invaded* by such groups...” (Emphasis added.) The manual went on to warn that a “change in social or racial occupancy generally contributes to instability and a decline in values.”³²⁷

With such discriminatory attitudes receiving official sanction from the federal government, developers and lenders began issuing “restrictive covenants” that denied certain ethnic groups the right to occupy specified residences. Throughout the 1930s and ‘40s, restrictive covenants were even a requirement for receiving FHA-insured financing, according to political scientist Dennis Judd.³²⁸ In effect, such policies shut out most African Americans from federally insured housing and credit programs, and all but ensured their exclusion from the newly emerging suburbs.

In 1948, the U.S. Supreme Court issued a ruling that declared restrictive covenants illegal, but *de facto* segregation continued. According to Gregory Squires in his book *From Redlining to Reinvestment*, less than two percent of FHA-insured loans went to blacks from the mid-1940s through the mid-1950s.³²⁹ Indeed, during the early postwar years, “the vast majority of FHA as well as [Veteran’s Administration] loans went to white suburbanites,” writes Squires, a process that greatly helped to encourage highly segregated and inequitable development patterns throughout America. By 1968, a scathing report on urban development financing issued by the National Commission on Urban Problems described a “tacit agreement among all groups — lending institutions, fire insurance companies, and FHA

³²⁷ Medoff and Sklar, 1994, 14-15.

³²⁸ Ibid, 15.

³²⁹ Gregory D. Squires (ed.), *From Redlining to Reinvestment* (Philadelphia: Temple University Press, 1992), 6.

— to ‘redline’ inner city neighborhoods,” denying them critical access to credit and insurance.³³⁰

In response to this enduring pattern of overt discrimination and chronic under-investment, activists in the United States lobbied diligently for reform and eventually persuaded Congress to pass the Community Reinvestment Act (CRA) in 1977. Although far from comprehensive in its approach, the act did at least outlaw lending discrimination by banks and other traditional financial institutions, particularly the practice of redlining poor neighborhoods as “bad credit risks.” In addition, obligations were placed on all federally-insured depository institutions to reinvest some of their capital within their host communities, especially within low- and moderate-income areas.³³¹ With the passage of the CRA, community improvement advocates and grassroots organizations like the Association for Community Organizations for Reform Now (ACORN) were able to exert newfound leverage over banks to ensure that they behaved more accountably and responsibly. “Fear of losing business because of a veto by federal regulators, or customers because of adverse publicity and boycotts, has motivated banks to extend \$30 billion in new credit to poor communities,” writes Shuman.³³²

Despite these modest gains, however, lax enforcement by regulators and new attacks on the CRA by the banking industry have ensured a continuing legacy of discriminatory lending to the disenfranchised. Even the \$30 billion cited above constituted only one percent of the assets of banks at the time. Of the 26,000 banks reviewed in the 1980s by federal regulators, fewer than three percent received a rating of “less than satisfactory” or below in

³³⁰ Medoff and Sklar, 1994, 15.

³³¹ Shuman, 1998, 109.

³³² Ibid, 110.

accordance with the act's standards of compliance. Moreover, of the 40,000 applications for bank expansion received during the first decade of the act's operation, a total of eight were ever denied based on CRA deficiencies.³³³

Unfortunately, these statistics are no indication of an increasingly equitable attitude by banks in their lending practices and community investment policies. Rather, they are largely the result of what Squires calls a "dilution of law enforcement efforts ... in civil rights generally and fair housing in particular," especially by the U.S. Department of Housing and Urban Development, the U.S. Department of Justice, and the Federal Deposit Insurance Corporation.³³⁴ "Throughout the 1980s and into the early 1990s blacks continued to be rejected for mortgages twice as often as whites even among applicants with comparable incomes," reports Squires.³³⁵ In a recent study of five municipalities, economist John Caskey discovered that African American neighborhoods were still far less likely to have a local bank present than were non-black areas.³³⁶

Despite placing only modest requirements on the banking sector, the CRA was apparently too much of a burden to be allowed to remain on the books unscathed. Under strong pressure from banks and financial corporations, Congress passed the Gramm-Leach-Bliley Financial Services Modernization Act of 1999, which helped "undermine much of the progress that has been made in lending to low- and moderate-income communities," according to the National Community Reinvestment Coalition (NCRC).³³⁷

³³³ Shuman, 1998, 110.

³³⁴ Squires, 1992, 14-15.

³³⁵ Ibid, 12.

³³⁶ Shuman, 1998, 108.

³³⁷ Eugene T. Lowe, "Gramm-Leach-Bliley Act Undermines CRA," *U.S. Mayor Newspaper*, December 6, 1999, available from http://www.usmayors.org/uscm/us_mayor_newspaper/documents/12_06_99/Gramm_Leach_Blileytxt.htm.

Among other changes, the act reduced the frequency with which small banks and thrifts must be examined from every two to every four or five years. “Small banks will become adept at gaming the CRA process,” predicts the NCRC. “They will relax their CRA lending in underserved communities for four years, and then hustle to make loans the last year before a ‘twice in a decade’ CRA exam.” Another new provision requires banks and community groups to report annually to Federal agencies on their CRA agreements (i.e., bank commitments and pledges to provide loans and investments to minority communities), although these same agencies are prohibited from following up to see if the banks are actually fulfilling their promises. “Without accountability to meet goals established in CRA agreements, banks can announce grand sums of reinvestment and then fail to actually make the loans and investments,” notes the NCRC.³³⁸

Lurking in the background of this enduring struggle over development resources is an increasingly concentrated and powerful financial services industry that in recent decades has undergone a dramatic transformation.

Despite a continuing history of under-serving select populations, the activities of American banks did at least once have a greater community focus. As recently as the early 1970s, a bank typically “raised most of its own funds through local deposits and made most of its loans to local borrowers. The money was local, it was owned locally, and the commercial bank evaluated its loan opportunities relative to other local borrowers,” note community banking experts Julia Parzen and Michael Kieschnick.³³⁹ Of course, this had much to do with the fact that between 1927 and 1994 national banks could only open

³³⁸ Lowe, 1999.

³³⁹ Quoted in Shuman, 1998, 108.

branches within the cities where they were situated, thereby encouraging local reinvestment and preventing interstate monopolies. Banking scholar Martin Mayer describes the banks of yesteryear as economic providers that were “expected to serve the needs of their communities before they looked elsewhere for business. The money the bank lent was the community’s money, and local people resented its export to the big cities, to be lent for the benefit of others far away.”³⁴⁰ He goes on to note that such attitudes accounted for the public’s preference for the local bank, which was expressed officially through legislation from the 1860s all the way through the 1980s.

However, with the rise in importance of pension plans, stocks, bonds, securities, mutual funds, trusts, new Internet-based financial services, and non-traditional investments, banks face ever-increasing competition. All the while, deregulation of the banking sector and the growing globalization of investment have been added to the mix. These combined trends and pressures have prompted banks to loosen or abandon their long-standing ties with communities by merging, consolidating, and establishing branches across state lines, even nationally. Indeed, the large U.S. banks that still operate (those with more than \$1 billion in assets) now control 75 percent of all banking assets.³⁴¹ “Free of any loyalties to any place, the managers of these ever-larger inter-state banks seek out profitable loan opportunities wherever they might be found, even if thousands of miles away,” writes Shuman.

All too often, the social consequences of these trends can be devastating. Investigative journalists Russell Mokhiber and Robert Weissman describe some of the more far-reaching impacts of banking consolidation in their book *Corporate Predators*.

³⁴⁰ Martin Mayer, *The Bankers: The Next Generation* (New York: Truman Talley Books/Dutton, 1997), 8.

³⁴¹ Shuman, 1998, 109.

“Decreased competition has led to: increased consumer banking rates; widespread bank closures; the creation of ‘too-big-to-fail’ banks that receive de facto, free insurance from the federal government; and perhaps most disturbingly, a credit crunch for small businesses and borrowers from poor communities,” they write.³⁴² Mayer’s findings would seem to confirm this analysis. “The number of independent banks — banks not owned by a holding company — dropped from 9,482 in 1980 to 2,920 in 1993,” he writes, adding that the combined share of assets in banks with less than \$100 million dropped from 19.2 percent to 9.1 percent. Based on a survey of around 1.7 million small U.S. business loans, the recent decline in assets of independent banks corresponded with nearly a 40 percent contraction in loans to low-end borrowers during the early 1990s.³⁴³

Given the ongoing difficulty of securing sustainable access to development financing throughout the 20th and into the 21st century, credit-poor individuals, communities, and nations have been developing their own institutions to meet long-term economic needs. Some of the most successful of these innovations include: “community development” banks, which were designed to improve access to credit in urban and rural areas (e.g., the Chicago-based South Shore Bank and the widely hailed Grameen Bank of Bangladesh); venture capital funds, which in Canada have provided considerable equity to small and medium-sized businesses through federal tax credits given to labor-sponsored investment funds; and credit unions, or financial cooperatives, which were first established in America during the populist years of the early 20th century.

³⁴² Russell Mokhiber and Robert Weissman, *Corporate Predators: The Hunt for Mega-Profits and the Attack on Democracy* (Monroe, Maine: Common Courage Press, 1999), 121.

³⁴³ Mayer, 1997, 214-215.

What makes credit unions particularly noteworthy is their longstanding record of success in providing workers, associations, the credit-poor, and underserved communities with critical financial services while also offering their member-owners a voice in ongoing investment and policy decisions. The following section documents the emergence of credit unions in the United States and the continuing role they have played in community development through to the present day.

Background on Credit Unions in the United States

In the decades following the American Civil War, farmers and rural communities in the country's western and southern regions found themselves with a new battle on their hands: how to finance their struggling agricultural operations and maintain market access for their output. In the words of political scientist Susan Hoffmann, "The rise of the corporation or trust was the central reality on their screen. Resources without which they could not work, as well as routes to market for their products, were privatized, becoming inaccessible to them on terms they could meet."³⁴⁴

Although heavily subsidized as "public goods" through bonds and taxes (both state and federal), railroad companies began charging farmers shipping rates higher than half the price they could get for select commodities. As the railroads' power and influence grew within state legislatures, so too did the frequency of fraud, stock manipulation, price gouging, and corporate mismanagement — all of which took their toll on farmers' livelihoods.

³⁴⁴ Susan Hoffmann, *Politics and Banking* (Baltimore: John Hopkins University Press, 2001), 183.

Farmers also faced mounting financial hurdles from grain elevator companies, which colluded with rail trusts to force producers to sell to them at low-ball prices. Equipment dealers were increasingly combining as well, allowing them to set the price for critical farm implements along with the interest rates for installment payments.

Perhaps the greatest burden fell on farmers in the U.S. South, where a devastated post-war economy left the region with no coherent banking system whatsoever. “With no place for southern farmers to turn for money to produce a crop, the crop lien system emerged as the dominant economic and social reality in their lives,” writes Hoffmann. Of course, farmers in the new western states were also beholden to others for access to much-needed capital, usually in the form of high-interest land and chattel mortgages offered by loan companies from outside the region. Deflationary banking policies coming out of Washington decreased the availability of money even further, forcing farmers to accept ever-lower prices for their commodities.³⁴⁵

In the face of such mounting threats to their viability, farmers began organizing themselves into groups like the Grange, the Patrons of Husbandry, the Farmers Alliance, and the Non-Partisan League. Regional and national alliances formed in the 1890s to educate citizens and members about political and economic issues and to form cooperative enterprises for buying, selling, and marketing agricultural products. And while these measures proved critical in re-establishing some semblance of community control over development in rural America, banks’ growing control over available capital presented an enduring economic obstacle to sustainable agrarian existence.

³⁴⁵ Hoffmann, 2001, 185.

Building on this growing populist movement for economic justice, progressive reformers in the early 20th century began calling for wholesale banking reform and alternative institutions to serve the unmet needs of credit-poor individuals, families, and communities. One such mechanism — the credit union — had already proven itself useful in other parts of the world, most notably within the Rochdale societies of England (1844), through the work of Germany’s cooperative movement (early to late 1800s), and in Canada via the pioneering efforts of Alphonse Desjardins (who established the country’s first credit union in 1900).³⁴⁶

With help from Desjardins, the first American statute enabling a state to charter credit unions was drafted in Massachusetts in 1909. But the first U.S. credit union, St. Mary’s Cooperative Credit Association, began in 1908 in Manchester, New Hampshire by authority of a special act of the legislature and continues to operate to this day. In time, a growing range of progressive businesspeople, philanthropists, politicians, and citizen reformers began investing their time, energy, and resources into what became known as “credit unionism.” “Through their progressive lenses they saw an institution particularly suited to the purpose of providing small loans to working people, delivering them from the hands of unscrupulous loan sharks,” writes Hoffmann.³⁴⁷

One progressive reformer, Roy F. Bergengren, was a young lawyer who saw credit unions from the standpoint of enhancing economic democracy in America. In his view, credit unions were much more than financial institutions that provided small loans to those that needed them. Rather, they were critical instruments for establishing

³⁴⁶ Hoffmann, 2001, 192.

³⁴⁷ Ibid, 193.

community control over the allocation of scarce resources. “A credit union is a cooperative credit society ... [that furnishes] its members with the machinery which enables them to accumulate savings in a common pool,” he later wrote in a piece for the Credit Union National Association. He went on to outline the uniquely democratic character of credit unions, noting that members’ savings are managed by a group of officers chosen freely from among their ranks. “There is no exterior capital and no one outside the specific group in question may have anything to do with the credit union in question directly or indirectly. In all matters each member has a single vote, whatever his share holding.”³⁴⁸

Echoing the populist themes of the times, Bergengren argued that credit unions were critical to the goal of preventing ever-greater control of the nation’s wealth by a smaller and smaller class of people. Such concentrated ownership of capital was a direct threat to political democracy itself, he wrote. By contrast, a healthy base of credit unions would enable a “new accumulation of democratically controlled wealth” owned and managed through cooperatively constituted business organizations instead of profit-seeking corporations. Bergengren viewed this strategy as an ideal application of the principles of political democracy to the affairs to the marketplace. Indeed, he once remarked that the widespread establishment of credit unions could well be the “soundest guarantee of ... political democracy.”³⁴⁹

Eventually, Bergengren’s faith in credit unions as vehicles for realizing democratic community development prompted him to assume the role of persistent

³⁴⁸ Quoted in Hoffmann, 2001, 194.

³⁴⁹ Ibid, 195.

organizer and advocate. With a favorable legal environment emerging in Massachusetts, he proceeded to promote credit unions under the umbrella of a state league, or chapter, which he helped set up in 1920. The following year, he assisted with the establishment of nineteen new credit unions, bringing the total to 82 throughout the state.³⁵⁰

Impressed by the success of his efforts, a progressive reformer and wealthy entrepreneur by the name of Edward Filene offered Bergengren the chance to take the credit union movement to the national level. “We talked it over and we formed a partnership — without any papers,” he later recalled in an interview published in 1938. “We decided that we must have a name and created ‘The Credit Union National Extension Bureau,’” which began lobbying in 1921 for the passage of state laws permitting the chartering of credit unions and promoting them nationwide through a national association.³⁵¹ Through extensive outreach, education, and campaigns co-organized with local advocates, the CUNEB succeeded in passing favorable credit union legislation in five states, secured amendments to two existing statutes, and laid the foundation for future efforts in at least a dozen other states during its first two years of operation.

In order to put the credit union movement on more solid political footing, Bergengren argued that proponents needed to gain the support of conservatives like businessmen, bankers, trade unionists, and others who could identify with democratic, self-help institutions that aided citizens in securing better lives for themselves and improved the nation’s economy. In a letter to Filene, he described “the problem of the

³⁵⁰ J. Carroll Moody and Gilbert C. Fite, *The Credit Union Movement* (Lincoln: University of Nebraska Press, 1971), 80.

³⁵¹ *Ibid.*, 82.

wage worker in a crowded city, who, without credit goes to the usurer and who, without savings, is the sort of raw material out of which bolshevism is manufactured.”³⁵² In this sense, Bergengren saw credit unions not only as providers of reasonable credit to those who most need it, but as mechanisms for staving off more fundamental discontent that, if left unaddressed, could threaten more radical change.

By the mid-to-latter 1920s, it became clear that the rapid expansion of credit unions envisioned by Filene and Bergengren would simply not take place without a more concerted and committed group of advocates working on many fronts simultaneously. Although the volunteer organizers they had recruited were achieving considerable success — having helped establish scores of credit unions in 1926 and 1927 — there were obvious limitations to the time and resources they could apply to the effort. So Bergengren came up with a campaign called “Expansion Month” which involved enlisting credit union members to organize new credit unions (at \$25 per success) in their own communities. His goal was to catalyze the establishment of 400 new credit unions in a month’s time (twenty in twenty states). In the end, the deadline for the plan had to be extended twice, but the organizing drive ultimately led to the creation of 271 new credit unions — more than had been established throughout the United States from 1909 through 1921.³⁵³

But much more than a significant expansion of credit unions was achieved through the CUNEB campaign. More than 30 steadfast organizers also became seasoned in the movement in a wide range of states, helping to set the stage for further

³⁵² Quoted in Moody and Fite, 1971, 111.

³⁵³ Ibid, 114.

advancement of the credit union cause. Over the course of the 1920s, 32 states passed legislation favorable to credit unions, 1,100 new institutions were established among a wide range of workers and economic sectors (with combined assets totaling \$45 million), and an average of \$60 million in loans were handled annually nationwide.³⁵⁴

By the end of the decade, however, it became clear to Bergengren and other credit unionists that the American economy was showing serious signs of weakness. After the unprecedented stock market crash of 1929, an economic depression began to set in, posing a dire threat to the budding credit union movement. Many credit union members were industrial workers, railroad and utility company employees, teachers, postal workers, and others with only modest means. With layoffs and wage cuts proliferating, members frequently had to withdraw their shares, which weakened the capital base of credit unions. This, in turn, led to a dwindling funds pool for people who needed credit the most. Overall, combined loans dropped from \$54 million in 1929 to \$16 million in 1932.³⁵⁵

Nonetheless, credit unions continued to grow in number and maintain their fiscal solvency during the Great Depression. By 1933, most states had laws authorizing credit unions and the Bureau of Labor Statistics reported that 638 new institutions had formed in the previous three years. Further proof of credit unions' financial soundness came in March of 1933, when President Franklin D. Roosevelt implemented a nationwide "bank holiday" — including credit unions, much to the Bergengren's chagrin — which shut down all financial institutions pending a federal review of their solvency. While

³⁵⁴ Moody and Fite, 1971, 126.

³⁵⁵ *Ibid.*, 148.

disappointed that credit unions were lumped in together with other traditional lenders, Bergengren noted that when the holiday was over, “*every* credit union resumed normal business, most of them having found some way of getting along without banks during the holiday.”³⁵⁶ (Emphasis mine.) Indeed, although nearly 10,000 banks failed in the wake of the stock market crash, most credit unions managed to survive, with 26 of every 27 credit unions still in business as of 1936.³⁵⁷³⁵⁸

Despite the continued resiliency of credit unions during a time of economic depression, Bergengren believed there were simply too many incongruent laws among the states — and still a fair number without any at all — to ensure the long-term viability of cooperative credit practice. So in 1933, he moved to establish a national credit union law. With the critical help of the populist Texas Senator Morris Sheppard and Representative Wright Patman, federal legislation was drafted and eventually moved to the floors of both houses. The bill had temporarily stalled in the House Banking Committee where then-Chair Henry Steagall declined to report the legislation to the floor without Roosevelt’s personal endorsement. When it finally came in the waning hours of the second session of the 73rd Congress, the Federal Credit Union Act received the final boost it needed.³⁵⁹

On June 26, 1934, President Roosevelt signed the measure into law, marking what Bergengren called the “greatest single step forward in the history of the credit union

³⁵⁶ Moody and Fite, 1971, 150.

³⁵⁷ Insurance Information Institute, “Brief History: Timeline of Financial Services Events,” 2002, available from <http://www.financialservicesfacts.org/financial/history>.

³⁵⁸ Illinois Community Credit Union, “General Credit Union Information,” 2000, available from <http://www.ilcomcu.org/information.htm>.

³⁵⁹ Hoffmann, 2001, 198-199.

movement.”³⁶⁰ The act created a new Credit Union Division (of the Farm Credit Administration) with the power to federally charter new credit unions in any state. Specifically, a group of at least seven individuals could form a credit society by applying for an organizational certificate, which, upon approval, became the credit union’s charter. Such institutions had the power to borrow and lend money under policies determined by a board of directors and other elected officers. In order to protect against bad loans, the credit union act also required credit unions to build a reserve fund of retained earnings (analogous to equity capital in other depository institutions).

The new federal law also codified the basic democratic structure of credit unions, declaring those involved as “members” or “member-owners” who pooled their economic resources to provide one another with financial services under the direction of an elected board of directors. Rather than being composed of depositors and stockholders who seek to maximize dividends and interest, respectively, credit union members own “shares” from which they received “dividends,” which were limited by the law to 6 percent annually. “With limited member dividends and no separate class of stockholders demanding a return to capital, the particular form of credit union ownership reduces pressure to achieve profits as a factor in the institutional decision calculus,” writes Hoffmann. She goes on to observe that this unique ownership arrangement permits decision makers (i.e., board members) to “focus on providing the services their membership wants on fair and attractive terms, even if different choices would result in higher returns.”³⁶¹

³⁶⁰ Quoted in Moody and Fite, 1971, 166.

³⁶¹ Hoffmann, 2001, 202.

Under rules laid down by the Federal Credit Union Act, every credit union member has the right to have her or his vote count equally with all other members in annual elections regardless of the number of shares owned. Proxy voting is explicitly prohibited. The elected board — comprised solely of volunteers to encourage accountability to member needs — is statutorily responsible for making credit union policy, including setting loan terms and dividend rates (within regulatory constraints) and electing the institution’s chief officers. The original statute also specified that members elected both a credit committee to evaluate loan applications as well as a supervisory committee to conduct audits, review passbooks, monitor regulatory compliance, and suspend officers, directors, and credit committee members (subject to a final vote of members).³⁶²

At a broad-based meeting organized by Bergengren at Estes Park, Colorado in 1934, credit union leaders from around the nation drafted and ratified a constitution for the Credit Union National Association (CUNA), which thereafter assumed leadership of American credit unionism. “The governance structure that was established for governing credit unionism as a movement continues today,” writes Hoffmann. “Credit unions in a particular state participate in choosing directors for the state league, and they finance its activities; states leagues, in turn, participate in choosing directors for the national association,” which develops positions on key issues involving government and internal matters.³⁶³ The CUNA also serves a wide range of service functions, including: interfacing with the legislative, executive, and judicial processes at the state and federal

³⁶² Hoffmann, 2001, 203.

³⁶³ Ibid, 197.

levels; educating credit unions' volunteer boards and committees in various technical, political, and philosophical issues; and providing business development assistance that smaller credit unions often cannot afford.

According to economist John T. Croteau, the member-service orientation of credit unions renders them effective extensions of the household economy. Rather than functioning as general banking businesses, credit unions serve the specific financial needs of well-defined groups of households associated under a common bond. As such, Croteau writes that credit unions can offer their members a number of advantages: “a ‘reasonable’ interest rate clearly stated, the terms of the loan to fit the member’s need, ... and an ‘atmosphere’ of accommodation.” But perhaps the greatest advantage of credit unions over other financial institutions is their reliable lending function, Croteau noted in *The Economics of the Credit Union*. “It is here that the credit union has been able to put some degree of order and competition into a very imperfect market.”³⁶⁴

Still, as consumer options grew throughout the 20th century, credit unions found themselves needing to adapt to a changing financial services landscape. By the early 1970s, checking accounts were fast becoming a necessity for households as American society moved away from the use of cash. As people became increasingly concerned over their financial security during the height of the Vietnam War, the market grew for high-interest bearing accounts and other long-term investment services. Since credit unions offered none of these at the time, it became clear to credit union movement leaders that significant changes were needed in federal law. CUNA took on the charge of

³⁶⁴ John, T. Croteau, *The Economics of the Credit Union* (Detroit: Wayne State University Press, 1963), 14.

forwarding popular modernization recommendations to leaders in Congress. Through the passage of a variety of legislative amendments, acts, and recodifications, credit unions increased their loan authority to cover a wider range of home-related loans, self-replenishing lines of credit, and variable-rate loans that eventually enabled credit unions to offer credit cards.³⁶⁵ They also gained the ability to invest in securities and offer savings accounts with various rates and maturities as well as certificates of deposit.

Regulatory changes from the 1960s through the early 1980s also loosened the legal definition of credit unions' "common bond" feature, which had traditionally tied membership to people's industry, union, workplace, or other formal association. Given the difficulty of forming credit unions of viable size under these constraints, regulators began permitting diverse groups of people to join together and gain chartered recognition under the umbrella of a single credit union. This gave credit unions the ability to diversify their holdings, providing a hedge against economic difficulties, and paved the way for the creation of a new generation of larger credit unions with paid professional staff administering a wider array of financial services.

These expansions of scope and service did not come without opposition from the banking industry. Already bothered by credit unions' long-standing exemption from federal tax obligations (due to their non-profit status), banks sought to prevent them from gaining any further advantages in the credit services market. Hence, when credit unions first began issuing share drafts in the form of checks, banks refused to honor them. Such discriminatory behavior eventually led to court battles in at least half a dozen states. The issue was not settled until credit unions received share draft authority in the Depository

³⁶⁵ Hoffmann, 2001, 205.

Institution's Deregulation and Monetary Control Act of 1980. "Looking back at the history of bank/credit union relations, any rational person might conclude that what the bankers have done is set a clear pattern to harass the credit union movement at every juncture," remarked CUNA President Mica in recently published article.³⁶⁶

And yet, by continually adapting to an ever-changing financial environment, American credit unions have succeeded in securing a solid financial base while attracting an ever-growing number of people to their services. As of 1998, 77 million belonged to credit unions — up from 20 million in 1970. Their combined total assets increased from \$15 billion to \$362 billion over the same time frame.³⁶⁷

Additionally, credit unions continue to out-perform banks in a number of areas:

- Superior Consumer Satisfaction: In 2000, U.S. consumers ranked credit unions as the leaders in the financial services market for the 16th year in a row, according to an American Banker/Gallup survey.³⁶⁸ Nearly 79% of those who use a credit union as their primary financial institution said they were "very satisfied" with the services they receive. By contrast, only 53% gave banks the same rating.
- Better Service to Minorities and the Poor: According to federal data published in accordance with the 1975 Home Mortgage Disclosure Act, American credit unions approved 69% of all low-income home mortgage applications in 2000, while only 46% were approved among banks and other traditional lenders. Credit

³⁶⁶ Eugene Johnson, "Credit Unions: The Last of the Mutuals," *News Now*, 2002, available from http://www.cuna.org/data/newsnow/spec_reports/intro_to_conflict/conflict2c.html.

³⁶⁷ Hoffmann, 2001, 207.

³⁶⁸ Ohio Credit Union League, "Credit Unions Rank Best in Customer Satisfaction for 16th Straight Year," 2000, available from <http://www.ohiocul.org/article/2030.htm>.

unions also approved 70% of applications from minority borrowers compared to 56% for all other lenders.³⁶⁹ Passage of the Credit Union Membership Access Act in 1998 also loosened membership requirements for occupationally-based credit unions, easing their ability to assist the underserved. Based on these changes, 16.1 million from such communities became eligible to join federally-chartered credit unions in 2001, up from 2.3 million in 2000.³⁷⁰ Still, many would like to see even greater commitment by credit unions to serve minorities and low-income groups. A healthy debate on how best to achieve this has begun between members of the CUNA and the National Federation of Community Development Credit Unions (NFCDCU), established in 1974 by a group of credit union leaders to promote low-income and minority community revitalization.

- Higher Returns on Savings and Investments: Compared with banks, credit unions provide consumers with higher-interest-bearing personal accounts as well as higher-yielding money market accounts and certificates of deposit (CDs). According to industry statistics released in early 2001, credit unions on average were offering an annual interest rate of 1.65% on their “share draft” (or checking) accounts compared to only .78% for banks, their money market accounts were boasting a rate of return of 4.15% compared to 2.04% for banks, and their one-year CDs were coming in at 5.68% compared to just 4.61% for banks.³⁷¹

³⁶⁹ Robin Lentz and Kim Bannan, “Credit Unions’ Growing Role,” *San Diego Union-Tribune*, April 26, 2002, B-9.

³⁷⁰ *Ibid.*

³⁷¹ Credit Union National Association, “Credit Union Rates,” February 2001, available from <http://www.cuna.org/data/cu/research/stats/brm.html>.

- More Affordable Financial Services: Credit unions also offer consumers a less costly, yet comprehensive range of financial services. On average, they charge lower monthly checking account and credit card fees, lower below-minimum-balance penalties, and smaller ATM fees, and offer lower-interest personal, automobile, home equity and short- to long-term mortgage loans when compared to banks (see *Credit Unions vs. Banks in Fees for Services and Lending* section).

Credit Unions vs. Banks in Fees for Services and Lending

Recent research by the Consumer Federation of America and the Credit Union National Association indicates that credit unions can save depositors hundreds of dollars per year in fees when compared to those charged by banks (see “TABLE 1: Credit Union vs. Bank Fees”).³⁷² According to Stephen Brobeck, Executive Director of the Consumer Federation of America, this should come as no surprise given the stark difference between the groups of people who each type of institution serves. “Credit unions are not-for-profit consumer cooperatives,” he notes. As such, “[t]hey’re only charging fees to cover the costs that they incur.”³⁷³ Moreover, since credit union directors are elected, they remain ultimately beholden to their members and their financial interests. On the other hand, says Brobeck, “banks are charging the highest fees that the market will permit” in order to obtain the greatest maximum return to their shareholders.

³⁷² Credit Union National Association, “Credit Union - Bank Fee Comparisons,” November 9, 1999, available from http://www.cuna.org/data/cu/press_releases/cfa_110999_data.html.

³⁷³ Credit Union National Association, “Save Up to \$200 Per Year in Bank Fees,” 2002, available from http://www.cuna.org/data/consumer/lower_fees.html.

TABLE 1: Credit Union vs. Bank Fees

A Comparison of Average Fees Assessed by American Credit Unions vs. American Banks for Key Services (as of 1999)*:

Checking Accounts:

<u>Type:</u>	<u>Service Fee:</u>	<u>Credit Unions:</u>	<u>Banks:</u>	<u>CU/Bank Ratio:</u>
Interest Checking	Min. balance to avoid fees	\$1,111	\$1,211	92%
Interest Checking	Monthly fee	\$2.05	\$7.42	28%
Interest Checking	Per check fee	\$.02	\$.08	25%
Regular Checking	Min. balance to avoid fees	\$446	\$537	83%
Regular Checking	Monthly fee	\$4.28	\$6.72	64%
Regular Checking	Per check fee	\$.05	\$.08	63%
Checking (General)	Bounced check fee	\$15.48	\$17.01	91%

Automatic Teller Machines (ATMs):

<u>Type:</u>	<u>Service Fee:</u>	<u>Credit Unions:</u>	<u>Banks:</u>	<u>CU/Bank Ratio:</u>
Owned Machine	Per transact. fee	\$.15	\$.08	187%
Non-owned Machine	Per transact. fee	\$.70	\$.76	92%
(General)	Surcharge	\$.23	\$.97	24%

Credit Cards:

<u>Type:</u>	<u>Service Fee:</u>	<u>Credit Unions:</u>	<u>Banks:</u>	<u>CU/Bank Ratio:</u>
(General)	Annual fee	\$1.51	\$3.79	40%
(General)	Late payment fee	\$7.88	\$27.45**	29%
(General)	Over-limit fee	\$8.19	\$27.45	30%

* Sources: Credit union data is from *Credit Union Executive Journal's* 1999 Fees Survey Report. Bank data is from Sheshunoff, Pricing Financial Services 1998 unless otherwise footnoted.

** Source: Faulkner & Gray, Card Industry Directory, Top 12 bank card issuers.

A comparative assessment of these financial institutions' respective lending rates also revealed a discernable competitive edge for credit unions over banks in a wide range of categories, including new automobile loans, personal loans, and credit card loans, as well as nominal advantages for various home mortgage loan types (see "TABLE 2: Credit Union vs. Bank Loans").³⁷⁴ The statistical history for the period shown suggests that the relatively lower rates offered almost uniformly by credit unions may also have exerted downward price pressure on banks' going lending rates.

Part of the reason for these trends, says Columbia University professor Charles Calomiris, is that "[c]redit unions have developed a retail presence that puts them on par in the public's thinking with banks, or even exceeding banks."³⁷⁵ This presence and record of superior service has also helped credit unions attract an increasing number of savings consumers. According to Mary Lovejoy of Callahan & Associates, recent trends have seen credit unions "systematically outpacing banks in growth" in the insured savings market, having increased their share by 62% between 1991 and 2001 (from 6.9% to 11.2%).³⁷⁶

³⁷⁴ Credit Union National Association, "Consumer Loan Rates at Banks and Credit Unions - Historical Averages," June 29, 1999, available from http://www.cuna.org/data/cu/press_releases/cfa_062999_data.html.

³⁷⁵ Quoted in Scott Barancik, "Consumer Survey: Banks Losing Their Edge in Trustworthiness Race," *American Banker*, Vol. 164, Issue 94 (May 18, 1999), 6.

³⁷⁶ Mary Lovejoy, "Credit Union Savings Market Share Outpaced Banks and S+Ls Over Last 10 Years," *CreditUnions.com*, September 6, 2002, available from <http://www.creditunions.com/Articles3/091602-cubanks.asp>.

TABLE 2: Credit Union vs. Bank Loans

An Historical Comparison of Average Lending Rates Offered by American Credit Unions vs. Banks for Key Loan Types ('94-'99)*:

Automobile Loans:

<u>Institution:</u>	<u>Year-End 1994:</u>	<u>Year-End 1996:</u>	<u>Year-End 1998:</u>	<u>May 1999:</u>
Banks	9.54%	9.34%	8.76%	8.70%
Credit Union	7.71%	7.85%	7.53%	7.63%

Personal Loans:

<u>Institution:</u>	<u>Year-End 1994:</u>	<u>Year-End 1996:</u>	<u>Year-End 1998:</u>	<u>May 1999:</u>
Banks	15.76%	15.47%	15.13%	14.77%
Credit Union	13.65%	13.80%	13.47%	13.32%

Credit Card Loans:

<u>Institution:</u>	<u>Year-End 1994:</u>	<u>Year-End 1996:</u>	<u>Year-End 1998:</u>	<u>May 1999:</u>
Banks	18.15%	18.03%	15.22%	15.74%
Credit Union	12.95%	13.14%	13.15%	13.04%

1-year Adjustable Mortgage Loan:

<u>Institution:</u>	<u>Year-End 1994:</u>	<u>Year-End 1996:</u>	<u>Year-End 1998:</u>	<u>May 1999:</u>
Banks	6.62%	5.74%	5.80%	6.01%
Credit Union	6.58%	5.80%	5.57%	5.74%

15-year Fixed Mortgage Loan:

<u>Institution:</u>	<u>Year-End 1994:</u>	<u>Year-End 1996:</u>	<u>Year-End 1998:</u>	<u>May 1999:</u>
Banks	8.75%	7.31%	6.47%	6.87%
Credit Union	8.83%	7.25%	6.46%	6.73%

30-year Fixed Mortgage Loan:

<u>Institution:</u>	<u>Year-End 1994:</u>	<u>Year-End 1996:</u>	<u>Year-End 1998:</u>	<u>May 1999:</u>
Banks	9.11%	7.80%	6.80%	7.24%
Credit Union	9.21%	7.73%	6.86%	7.16%

Home Equity Line of Credit:

<u>Institution:</u>	<u>Year-End 1994:</u>	<u>Year-End 1996:</u>	<u>Year-End 1998:</u>	<u>May 1999:</u>
Banks	8.96%	8.72%	8.41%	8.48%
Credit Union	8.80%	8.61%	7.84%	7.75%

* Source: Bank Rate Monitor.

U.S.: Coast Central Credit Union of Northern California

On the rural North Coast of California, one credit union has gained an impressive foothold in the regional economy, managing to increase its membership base by at least ten times over the past five decades. Coast Central's roots can be traced back to the 1930s when a small group of people of the Humboldt Grange pooled their resources and formed a credit union. By 1950, Coast Central had spread to include several hundred members throughout Humboldt County. "After merging with several other employee groups in the area, this financial cooperative grew and became Coast Central Credit Union," says Dennis Hunter, Vice President of Marketing. "Today, Coast Central serves over 48,000 members in Humboldt, Del Norte and Trinity counties."³⁷⁷

As a financial cooperative, Coast Central is owned and run by its members. All members — those holding at least a minimum \$50 savings account — may vote in annual elections. Candidates run for the Board of Directors and the Supervisory Committee, which are charged with setting overall credit unions policies and rates and overseeing general fiscal management and accounting procedures, respectively.

Every credit union member's vote counts equally, regardless of his or her total holdings with Coast Central. In addition, any immediate relatives of Coast Central members can also qualify for membership, even if they do not reside in any of the three counties served. Once someone joins the credit union, that individual may remain a member for life, even if he or she moves from the area.

³⁷⁷ Dennis Hunter, personal interview (telephone) to Eureka, California, June 10, 2002 with follow-up interview (e-mail) on June 25, 2002.

Coast Central's Board is composed of nine volunteer directors, each of whom serves a three-year term. These terms are staggered so that there are usually only a few openings during each annual election cycle. This also ensures that a level of experience among directors is maintained year-to-year, notes Hunter. Any member who is eighteen or over and lives in Del Norte, Humboldt, or Trinity county is eligible to run for the Board of Directors. Every February, members also have an opportunity to participate or voice specific concerns at the annual open membership meeting.

Board members are in charge of setting dividend rates and executing overall policy for the credit union. According to Hunter, they consult closely with and place a great degree of trust in the expertise and insight of Chief Executive Officer Dean Christensen. "Our directors live and work in the communities they serve, which leads them to interact with members routinely," says Hunter. The feedback they receive from members informs their decisions on the Board, which are ultimately guided by a concern for members' needs.³⁷⁸

Because members who save at the credit union provide all the money for those who wish to borrow, and the interest on those loans is used to pay dividends to savers, there is no top-down pressure to earn ever-greater profit margins for shareholders as in commercial banks. This financial structure has enabled Coast Central to provide competitive services and ongoing returns to members. "Although we cannot say that we beat all other financial institutions down the line in terms of cost of services, we can say

³⁷⁸ Hunter interview, June 10, 2002.

that we're the only one that pays dividends back to our members after the costs of our operating expenses are taken into account," says Hunter.

With consumer banking needs expanding at an ever-increasing pace, especially in recent decades, Coast Central has adapted by offering an ever-wider suite of services. "More than anything, what members have asked for over the years are more convenient and diverse services," says Hunter. Toward this end, Coast Central has provided its members with a growing range of checking accounts, convenience check cards, an expanding network of ATMs, and, most recently, online banking. Since launching online financial services in 1999, the number of Coast Central members taking advantage of this service has grown to more than 10,000 today.³⁷⁹

At present, Coast Central has a 28% market share in the tri-county North Coast area. Current demographic projections for the region predict only flat population growth through 2010, which will make it difficult for Coast Central to expand its membership base appreciably. This is especially so because unlike banks, which can continually merge to gain greater market share, Coast Central can only grow by attracting new members. "In order to overcome this challenge, we are focusing our efforts on improving and expanding our services as well as on educating the community about the benefits of credit union membership," says Hunter. A local television advertising campaign, for example, features people pleasantly surprised to learn that credit union profits go back to their members.

³⁷⁹ Hunter interview, June 10, 2002.

Coast Central has also been able to maintain a loyal membership base by offering quality no-cost, in-person services at its many branches, which now exist in nine area communities. One branch, located at a central shopping hub, is even open on Sundays. “Although we’ve expanded our electronic services considerably, we have not noticed any decrease in walk-in traffic, suggesting that our members value and benefit from the personalized service we offer them.”³⁸⁰

As an active player in the credit union movement, Coast Central has participated in considerable lobbying activity, most of which has been focused at the state level. President Christensen once served as California Credit Union League Chairman and now serves as a member of its board, representing the regional league chapter as its legislative advocate. According to Hunter, the League successfully fought attempts by banks to restrict the definition of “common bond” under federal credit union law. In essence, banks wanted credit unions only to be able to form under a common employer. Thanks to the efforts of the state credit union league, this effort was thwarted, allowing credit unions to have a community-based membership field. Coast Central’s expansion was critically dependent on being able to function under this definition of common bond.

Coast Central also serves a significant range of area businesses and has assisted many homebuyers in the region. As of 2002, the credit union boasted around 2,500 business members, most of which were small independents. “We tend to serve this segment of the private sector — the little guy — although we also have some large

³⁸⁰ Hunter interview, June 10, 2002.

member businesses as well,” says Hunter. “We have made lots of low-interest home loans over the years, many of whom have been first-time homebuyers.”

In recent years, debate has been brewing within the credit union movement over a proposed Community Action Plan (CAP) rule that would require credit unions to develop plans on how they intend to reach out to and better serve their communities. Hunter says Coast Central has opposed this requirement, agreeing with most U.S. credit unions that their membership-based structure inherently keeps them locally accountable. “Keeping paperwork to a minimum is certainly our preference,” he adds.³⁸¹ Moreover, since all of Coast Central’s net profits go back to its members, the credit union is continually reinvesting in the community, he says. And since most of its members reside in the area, this helps to keep the money local and recycles it within the region. The fact that Coast Central’s total loans to members grew 4.1% or \$10.2 million in 2001, ending the year at \$259.5 million, lends credence to this argument.³⁸² Yet the issue of increasing credit unions’ community reinvestment is not likely to go away anytime soon, especially among development advocates seeking to hold them to higher standards of accountability.

Like most credit unions, Coast Central is highly active in local member and community affairs. Although the credit union does not have specific social criteria guiding its investments and lending practices, it encourages responsible fiscal management by cultivating such skills among members through regular public seminars. In addition, Coast Central members, staff, and directors have contributed hundreds of hours of their time and have donated considerably to a broad range of community

³⁸¹ Hunter interview, June 10, 2002.

³⁸² Coast Central Credit Union, *2001 Annual Report* (Eureka: Coast Central Credit Union, 2002), 1.

organizations. Coast Central also has an annual scholarship program that grants 11 area high school seniors \$3,500 to attend Humboldt State University or College of the Redwoods over a four-year period. “During the last seventeen years, we have invested over \$200,000 in our local students,” says Hunter.³⁸³

Coast Central Credit Union has continued to have a record of solid fiscal strength. According to its 2001 annual report, the credit union experienced a record year of growth, despite the financial shock waves that hit the United States following the September 11 terrorist attacks. Indeed, members appeared to choose Coast Central as a safe haven for their savings. “Shares increased 13.24% to \$362.8 million,” notes the report. Moreover, “[t]otal assets grew \$48 million or 13.2%, to close the year at \$411.8 million³⁸⁴

Coast Central has also earned the high regard of both analysts and members alike. In late 2001, the credit union received a Five Star Superior rating from Bauer Financial Reports, a leading financial sector analyst. The Bauer report noted that it offers its members “exceptional strength and represents the very best in this country’s credit unions.”³⁸⁵ Many members also registered their satisfaction with Coast Central’s performance based on results from its tenth annual Service Quality Member Survey.

The case of Coast Central and national trends generally reveal that credit unions continue to remain viable, competitive, and widely preferred financial institutions compared with banks. Moreover, by giving members an ongoing stake in democratic governance — channeling valuable input into policy development — credit unions have remained accountable to the economic needs of their members and communities.

³⁸³ Hunter interview, June 25, 2002.

³⁸⁴ Coast Central Credit Union, 2002, 1.

³⁸⁵ Ibid.

CONCLUSION: LESSONS FROM THE COOPERATIVE EXPERIENCE: REVEALING THE UNTAPPED POTENTIAL OF SOCIAL DEMOCRACY

Social democracy, meaning self-government through democratic participation in both the political and economic spheres, is becoming less and less of an option that any given society may readily choose to manage its own affairs. Increasingly, corporations are prescribing both the terms and content of societal evolution, both domestically and internationally.

Neoliberal development advocates, of course, scoff at such claims. To them, corporate activities merely reflect the public's will, which manifests its "true" needs and desires in the form of market demand. Never mind that the swelling public relations industry, advertising departments, and lobbying arms of all the major corporations are increasingly determining what products and services the public *must* accept.

In the face of such opinion shaping and market manipulation, the neoliberal rejoinder that consumers can always just opt for better alternatives has begun to appear not only untenable, but downright absurd. Indeed, a transition to a just and ecological economy characterized by renewable energy and closed-loop materials use, reliable and low-impact public transportation, sustainable agriculture, and health care, education, and jobs for all is being blocked at every turn by huge corporate interests.

This is not to say that diverse and widespread forms of social resistance and adaptation to the neoliberal model are not occurring. Quite the contrary. They are happening with increasing frequency and increasing levels of social organization in various parts of the globe. Moreover, they tend neither to reject the market as a means of

economic organization nor the idea of community-based or socially directed development. Usually, they are a culturally specific mix of the two.

Yet their advancement and further development is being unduly stifled due to the growing power of transnational investment capital and managerial corporations. Once developing countries deny themselves tariff powers, abandon financial controls, and roll back their domestic regulations of industry, they cede control over their own cultural destinies. Moreover, as the previous chapters demonstrate, it is doubtful whether granting greater authority to corporations, especially transnational ones, will lead to overall net benefits to society at large.

Indeed, the impressive rise of cooperatives in so many social sectors has occurred in response to the inability of corporate institutions to meet people's day-to-day needs. As agribusinesses continued to exert their authority over farmers and rural communities, cooperatives stepped in to provide producers with critical technical, marketing, and distribution assistance. The escalating costs of private health care and global financiers' incessant demands upon governments to cut social services prompted many countries to adopt cooperative health care. And the diminishing service to the public by for-profit banks led various communities to establish their own cooperative financial institutions.

As these examples of cooperative development demonstrate, there are other forms of economic activity that are not only compatible with — but are often better suited to the healthy functioning of — market-oriented social democracy. Since they are economically rooted in their local and regional membership bases, cooperatives are significant instruments by which more broadly beneficial community development and democratic participation can take place. Given the increasingly inequitable consequences

associated with conventional private and public corporations, all the more reason exists to examine and consider the potential of more democratic economic arrangements.

Of course, the extent to which cooperatives can serve as effective mechanisms for participatory, ecological development is highly dependent on the laws and policies that are adopted and implemented within the states where they operate. But this is equally true for corporations: a complex set of legal traditions, cultural norms, and institutions have been specifically devised to favor the corporate model, allowing it to enjoy its current geopolitical preeminence. Moreover, this political tradition has emphasized the absolute importance of separating ownership from production and resource allocation. In the process, the vast majority of workers and citizens have been disempowered; their creativity, enthusiasm, intelligence and input into the economic process has been undervalued and underutilized; and the fruits of their labor have been largely expropriated to serve the short-term interests of owners and shareholders.

By contrast, cooperatives bridge the gap between economic ownership and decision-making by vesting at least partial control over the means of production and resource distribution in hands of workers and communities. This makes them important stakeholders in cooperatives' continuing activities, creating powerful incentives to maintain their economic soundness and embark upon coordinated social and environmental initiatives that might otherwise be eschewed in top-down corporate institutions. In addition, profits that co-op members receive can either be pocketed or reinvested in activities that they determine will reap the greatest reward — a significant benefit that their counterparts in conventional business enterprises typically do not enjoy.

Admittedly, the benefits of economic cooperatives are greatly hindered by the current legal environment favoring the corporate model. To fully function, let alone flourish, far-reaching changes in national and local policies will need to occur. Economic analysts have emphasized that appropriate legislation is critical in determining how much state control over and support for cooperatives should be provided to ensure their continued success and to safeguard their operations as independent, self-directed institutions. ILO Recommendation 127 provides some guidance in this regard by advising that nations should “detect and eliminate all provisions ... which unduly restrict the activities of cooperatives, and which fail to take account of their special nature.”³⁸⁶

Given the crisis of confidence gripping the private sector in the early part of the 21st century, the time could not be riper for recognizing the special nature of cooperatives and expanding their role in broad-based community development. Indeed, the fraying legitimacy of the neoliberal, corporate globalization model is becoming painfully self-evident as one nation or region after another experiences economic collapse, the gap between the rich and poor ever-widens, terrorism and war begin to rise in multiple parts of the world (now even in the most industrialized nations), and the life-support structures of the natural environment become increasingly threatened.

The central challenge of our age is discovering the means to put markets in the service of people and the environment, *not* the reverse. Unfortunately, the persistent hold of neoliberal fundamentalism in public decision-making bodies (especially at the national level) has given disproportionate political power to a special interest sector of the market

³⁸⁶ International Labour Organization, *The Relationship Between the State and Cooperatives in Cooperative Legislation* (Geneva: ILO, 1994), 2.

— namely, the beneficiaries of the corporate form. Proof of this is provided year-in and year-out by their increasingly sophisticated use of their cultural power to exert pressure on politicians to prevent workers from having any meaningful say in the ongoing investment, profit-sharing, or decision-making rights within private enterprise. Most neoliberal economists’ subtle, but enduring pleas for labor to be kept out of the boardroom have become institutionalized as transnational corporations have assumed commanding control over more and more sectors of the economy — in effect undermining genuine market competition and eroding the citizen and community voice in economic planning, oversight, and democratic accountability.

Through their democratic structure, cooperatives help combat these trends by empowering ordinary workers, citizens, and communities to make economic and political choices that are more attuned to their concerns and priorities — not those of absentee owners and shareholders. As a countervailing force to top-down, corporate decision-making, cooperatives serve as living examples of economic democracy in practice, contributing to a cultural landscape that affirms the value of social democracy.

Ultimately, of course, the question of cooperatives’ potential in the broader debate over economic policy is a political one. “What is needed ... is a political voice which is prepared to see virtues at both ends of the individualist/collectivist spectrum — prepared to endorse both group solidarity and self-reliance,” writes author Robert Oakeshott in a study assessing the potential of workers’ cooperatives. “For to survive at all a community must encourage both.”³⁸⁷

³⁸⁷ Robert Oakeshott, *The Case for Workers’ Co-ops* (London: Routledge Kegan & Paul, 1978), 260.

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