

## PART II

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# THE DEMOCRATIZATION OF WEALTH

A THEORETICAL MODEL IS A beginning point for serious discussion. The obvious question is whether there are any reasons to believe that the various elements of the Pluralist Commonwealth—separately and taken together—might ever build to significant scale and power.

At the very heart of the Pluralist Commonwealth is the principle that ownership of the nation's wealth must ultimately be shifted, institutionally, to benefit the vast majority. Are strategies based upon this fundamental principle technically feasible? Can they be politically viable?

Although theorists who urge wealth-oriented strategies occasionally cite illustrations from real-world experience (like the well-known Mondragon worker cooperatives in Spain), practical applications have not been at the center of the debate. Furthermore, even when one or another writer has pointed to current developments, it has commonly been within a narrow frame of reference and, even more commonly, viewed in static terms.

The fact is, literally thousands of on-the-ground efforts that illuminate how wealth-holding principles can work in practice have developed in communities throughout the nation over the last several decades. The range of practical activity—and the growing trend—have rarely been appreciated even by experts working on such matters. Specialists in narrowly defined sectors are aware of developments in their own field of expertise, but because of what is sometimes termed the “silo” effect, they often do not know of experiences in other areas.

Important political-economic forces have produced—and are likely to continue to produce—the conditions and unusual political alliances that have generated the new institutional developments and related policy activity. Moreover, opportunities for much broader political support appear all but certain to develop as the efforts gain momentum and as external political-economic conditions narrow the choices facing different groups.

The key question is not whether practical ways to implement wealth-owning principles are viable, but how rapidly they may move to substantial scale as the century progresses.

And whether the emerging efforts might one day establish foundations for a broader institution-shaping politics, and—as the external environment continues to change—perhaps thereafter of more fundamental system-wide political-economic restructuring in the direction of the Pluralist Commonwealth.

## A Direct Stake in Economic Life

### *Worker-Owned Firms*

THAT INDIVIDUALS WORK harder, better, and with greater enthusiasm when they have a direct interest in the outcome is self-evident to most people. The obvious question is: why aren't large numbers of businesses organized on this principle?

The answer is: in fact, thousands and thousands of them are. Indeed, more Americans now work in firms that are partly or wholly owned by the employees than are members of unions in the private sector!<sup>1</sup>

The Appleton company, a world leader in specialty paper production in Appleton, Wisconsin, became employee-owned when the company was put up for sale by Ario Wiggins Appleton, the multinational corporation that owned it—and the 2,500 employees decided they had just as much right to buy it as anyone else. Reflexite, an optics company based in New Avon, Connecticut, became employee-owned in 1985 after 3M made a strong bid for the company and the founding owners, loyal to their workers and the town, preferred to sell to the employees instead.<sup>2</sup> In the case of Science Applications International Corporation, the founder, Dr. J. Robert Beyster, has for more than thirty years simply believed that people “involved in the company should share in its success.”<sup>3</sup>

One factor that has contributed to the rise of employee-owned firms is that multinational corporations often must seek the very highest profit they can make on invested

capital—whereas workers living in a community are content with substantial profits (rather than the highest possible) since the other benefits of keeping a plant in town outweigh differences in profit rates. (Often, of course, when employees take ownership, the change produces greater efficiency—and greater profits than those which the multinational registered.)

A major boost to employee-ownership came from passage in 1974 (and thereafter) of federal legislation providing special tax benefits to Employee Stock Ownership Plans (ESOPs)—the legal structure that most such firms now utilize. Technically an ESOP involves a trust that receives and holds stock in a given corporation on behalf of its employees.

At the heart of the ESOP idea is the basic financing concept urged by Louis Kelso for broadening the ownership of wealth—namely, if some form of guarantee or collateral can be arranged to provide loans for productive investment, new wealth ownership by diverse groups (in this case employees of a firm) can be developed and paid for by the profits that the investment itself generates (see 25–26).

Although ESOPs based on this principle date from the 1950s, the modern federal legislation gave tax incentives to corporations contributing stock to an employee trust and to retiring owners of businesses who sell their corporations to employees and reinvest the proceeds within a defined time frame.

There are approximately 11,000 ESOPs now operating in communities in all regions of the United States. Asset holdings total more than \$400 billion. The National Center for Employee Ownership (NCEO) estimates that total worker holdings (of all forms of stock ownership and stock options) reached approximately \$800 billion in 2002—that is, roughly 8 percent of all U.S. corporate stock.<sup>\*4</sup>

\* There are also a smaller number of worker-cooperatives (perhaps two to three hundred) that are commonly organized along one-person, one-vote lines and on the basis of equal shares. Ownership can be structured in a number of other ways as well. An example is the Bureau of National Affairs (BNA) in Washington, D.C., a leading pub-

W. L. Gore, the maker of Gore-Tex apparel, is one of the most impressive modern ESOPs. The company, owned since 1974 by (currently 6,000) worker-owners in forty-five locations around the world, has no bosses or formal titles. To ensure communication and innovation, those working at any one site number no more than 200. Depending on their particular skills, workers may lead one task one week and follow other leaders the next week; teams disband after projects are completed, with team members moving on to other teams. W. L. Gore revenues totaled \$1.33 billion in 2003; the firm regularly ranks on the *Fortune* “Best Companies to Work For” list.<sup>5</sup>

Another impressive ESOP, Weston Solutions, Inc., is the second largest environmental firm in the country. Its highly specialized services range from forestry and urban planning to high-hazard nuclear and chemical waste cleanups. The company has helped rehabilitate “sick” (asbestos, lead paint) school buildings from New York and Chicago to Decatur, Alabama. It was the lead information technology contractor in recovery operations after the space shuttle *Columbia* disaster. The company is 100 percent owned by its 1,800 employees. In recognition of its creative structure and its “consistent record of profitability, growth and financial stability,” Weston received the *Environmental Business Journals* top “gold” award for 2003.<sup>6</sup>

ESOP firms are also common in nonspecialized areas: Fetter Printing Company in Louisville, Kentucky, is 100 percent owned by its 200-plus workers. The firm has annual revenues of \$17.5 million and was recently ranked as one of the top twenty-five printers in the United States. Fastener Industries

lister of legal and regulatory information, which has been employee-owned since 1947 through a non-ESOP employee stock purchase plan. Roughly three-quarters of approximately 1,900 employees, along with a number of retirees, elect the board of directors. Annual revenues are over \$250 million. BNA has been named to *Fortune*'s list of “100 Best Companies to Work For in America” three times, and has been included in *Working Mother* magazine's list of “100 Best Companies for Working Mothers” nine years running. It won the Employee Ownership 2000 Business Ethics award. BNA, “About BNA,” [www.bna.com/about](http://www.bna.com/about) (accessed 03/10/03).

in Berea, Ohio, is owned by more than 100 worker-owners. Machinists who have participated in the ESOP since 1980 commonly receive the equivalent of an additional three months' pay in dividends each year and retire with personal shareholding accounts of up to \$350,000. Parametrix—100 percent owned by over 350 employees—is an environmental engineering firm headquartered in Sumner, Washington. The company was recently selected as one of the best companies to work for in Washington State—and was named 2001 National ESOP of the Year by the ESOP Association. In Harrisonburg, Virginia, ComSonics—100 percent owned by 160 employees—makes cable television (CATV) test and analysis devices and boasts the largest CATV repair facility in the United States.<sup>7</sup>

A 1998 survey of Washington State firms found that median hourly pay in ESOP firms was 12 percent higher than pay for comparable work in non-ESOP firms. Worker-owners of ESOPs also ended their careers with almost three times the retirement benefits of others with similar jobs. A 1990 study by the National Center for Employee Ownership estimated that an employee making \$20,000 a year in a typical ESOP would accumulate \$31,000 in stock over ten years—no small feat, considering that median financial wealth was just \$11,700 during this period. A 2000 Massachusetts survey found ESOP accounts averaging just under \$40,000.<sup>\*8</sup>

\* As these (and other) studies suggest, excessive media coverage sometimes given to failed worker-owned firms badly distorts the general picture of efficiency. Again, the bankruptcy of United Airlines is sometimes mistakenly attributed to the fact that it was significantly owned by employees. Aside from the fact that most airlines have experienced extraordinary difficulties in the wake of September 11, 2001—and that most ESOPs have been organized in (and work best in) small- and medium-size non-publicly traded firms—many worker-ownership experts judge that United's failure to deal with participation and related organizational issues (not its ownership structure) was a major factor in its poor performance. Southwest, which also has significant worker ownership—and a strong participatory culture—is one of the few profitable bright spots in the airline industry. J. Michael Keeling, "Statement Regarding United Airlines," 2003, [www.esopassociation.org/media/united\\_airlines.html](http://www.esopassociation.org/media/united_airlines.html) (accessed 03/07/03); James Flanagan, "United Is a Poor Model for Employee Ownership," *Los Angeles Times*, December 4, 2002.

It is also clear that ESOPs—and worker ownership in general—have broad political appeal for both practical and philosophical reasons. The ESOP concept has been endorsed by (among others) Ronald Reagan, Ralph Nader, Mario Cuomo, William F. Buckley, William Greider, Jack Kemp, Richard Gephardt, Mikhail Gorbachev, and Coretta Scott King. Both parties backed the tax legislation that now provides over \$2 billion in annual support to ESOPs. Other forms of federal help include loan guarantees and the financing of worker-ownership feasibility studies in the event of plant closures or major layoffs.<sup>9</sup>

A number of state programs also provide support for worker ownership. One of the most widely recognized, the Ohio Employee Ownership Center, conducts feasibility studies for potential independent worker buyouts and for transition buyouts from retiring owners. The Michigan Workforce Transition Unit offers employee-ownership efforts feasibility-assessment assistance. Massachusetts funds the quasi-governmental Commonwealth Corporation, which provides technical and financial assistance to firms seeking to establish an ESOP.<sup>10</sup>

The extraordinary growth of ESOPs over the last thirty years has brought with it growing sophistication, the development of expert advisory and technical assistance organizations, a group of advocates and a group of critics, and—what is important—an expanding and diverse constituency interested in next-stage development of the institution.

Critics of ESOPs commonly decry the lack of democratic control offered to workers in most trust arrangements. They point out that unlike such leaders as W. L. Gore, many—indeed, most—ESOPs do not involve real participation; they often function mainly as a tax-favored legal mechanism to help employees accumulate additional assets over time. (It is estimated that only between a quarter and a third of ESOP companies pass through full voting rights to worker shareholders.) Moreover, since ESOPs commonly award stock in

proportions related to wage and salary levels, they do little to improve overall compensation ratios and in some cases actually increase internal firm disparities due to compounding effects when stock values increase or dividends are received.\*<sup>11</sup>

Several considerations suggest that greater democratic participation and control of ESOPs is likely to develop as time goes on—hence, also open the way for broader support. First, a significant share of ESOP companies (some three thousand, or nearly 30 percent of ESOPs in privately held companies) are already majority-owned by workers. Of these, 40 to 50 percent already pass voting rights through to plan participants. Second, as workers within specific firms steadily accumulate stock they become majority owners as time goes on. Surveys by the National Center for Employee Ownership reveal that the proportion of privately held ESOPs that are majority-owned increased approximately 50 percent during the past decade. Majority-owned firms increased from 38 percent of ESOP association members in 1989 to 68 percent in 2000.<sup>12</sup>

It is conceivable that as more and more ESOPs become majority-owned, workers will ignore the fact that in many firms they have little power. On the other hand, the more likely result—as *Business Week* observed in 1991—is that ultimately workers “who own a significant share of their companies will want a voice in corporate governance.” In Ohio (which has been closely studied) a survey completed in the mid-1990s found that 53 percent of majority-owned ESOPs passed through voting rights. It also found that employee ownership was becoming more democratic over time, with three times as many closely held companies passing through full voting rights to ESOP participants as had been the case in a previous 1985–1986 survey.<sup>13</sup>

\* Since ESOPs in general compensate workers better than non-ESOP firms, however, as the number of ESOPs grows nationally, the overall impact is in the direction of reducing inequality in the economy as a whole. Also, federal law does not offer tax deductions for stock contributions above a certain level, and since turnover among managers is also higher at the top than among blue-collar workers at the bottom, in practice internal compounding effects are commonly reduced.

The third—and perhaps most important—reason to expect change is that several studies demonstrate that greater participation leads to greater productivity and thus greater competitiveness in the marketplace. In general, ESOPs have been found to be as productive or more productive than comparable non-ESOP firms. Annual sales growth, on average, is also greater in ESOP than in non-ESOP firms. When ESOPs are structured to include greater participation, however, the advantages of worker ownership increase substantially. Studies undertaken by the National Center for Employee Ownership, by several teams of economists, and by the U.S. General Accounting Office all confirm that combining worker ownership with employee participation commonly produces greater productivity gains, in some cases over 50 percent.<sup>14</sup>

The number of ESOP-style worker-owned firms increased from 1,600 in 1975 to 4,000 in 1980, to 8,080 in 1990, and as we have noted, to roughly 11,000 in 2003. The number of worker-owners involved rose, correspondingly, from a mere 248,000 in 1975 to 8.8 million in 2003. There is no question that the feasibility and efficiency of wealth owning through worker institutions has been demonstrated, and that the basic concept has substantial potential for future development.<sup>15</sup>

Likely directions for next-stage advances have been outlined in systematic proposals put forward on both the left and the right. During the Clinton administration one expert, Joseph Blasi, developed a comprehensive package that included tax and other benefits, along with substantial support for state-based technical assistance efforts. The Blasi plan also proposed restructuring tax benefits to redress the greater concentration of ownership among higher-paid employees as a result of awarding stock in amounts related to salary and wage level.<sup>16</sup>

One of the most conservative Republican members of Congress, Dana Rohrabacher, has gone further. Rohrabacher has introduced legislation—the Employee Ownership Act of 2001—the goal of which is to have “30 percent of all United



States corporations . . . owned and controlled by employees of the corporations" by 2010. The proposed legislation would define a new entity, the Employee Owned and Controlled Corporation, (which Rohnbacher calls "ESOP-plus-plus"), in which over 50 percent of stock is held by employees, 90 percent of regular employees are enrolled in the plan, and all employees vote their stock on a one-person, one-vote basis. Various tax benefits would encourage adoption of the ESOP-plus-plus form.<sup>17</sup>

The development in the 1970s and 1980s of broad Democratic and Republican political backing for employee-ownership ideas and supportive state and federal policies was in part related to the economic difficulties experienced by many communities during this period. Employee-owned firms not only embody new wealth-owning principles, they help local economies. The law that established New York State's program makes the connection particularly clear: "The general welfare is directly dependent on the economy and plant closures are a problem. The purpose of this Act is to encourage employees of these plants to continue them as employee-owned enterprises, thereby retaining jobs."<sup>18</sup>

The 1990s economic boom tended to obviate such concerns. With the return of increased economic difficulties and the uncertainties created by globalization, supportive efforts are likely to build upon, and expand, the now well-developed and growing foundation of accumulated experience.<sup>19</sup>

Traditional cooperatives also, of course, have long been based on democratic ownership ideas related to the Pluralist Commonwealth vision. It is rarely realized that there are more than 48,000 co-ops operating in the United States—and that 120 million Americans are co-op members. Roughly 10,000 credit unions (with total assets of over \$600 billion) supply financial services to 83 million members; 36 million Americans purchase their electricity from rural electric cooperatives; more than a thousand mutual insurance companies (with more than \$80 billion in assets) are owned

by their policyholders; and approximately 30 percent of farm products are marketed through cooperatives.<sup>20</sup>

Ongoing co-op development is likely to draw upon the experience of successful modern models like Recreational Equipment, Inc.—an outdoor equipment retailer and producer that employs six thousand people, operates sixty stores, and had revenues of \$735 million in 2002. Recreational Equipment is owned by its 2 million members, each of whom receives a refund—usually about 10 percent—on purchases at the end of the year. Named one of the "100 Best Companies to Work For in America" by *Fortune* magazine from 1997 to 2002, Recreational Equipment offers employees a substantial profit-sharing plan and has taken part in numerous joint ventures with local environmental groups.<sup>21</sup>

## Enterprising Cities

*Right, Left, and Center*

A DECADE AGO DAVID OSBORNE and Ted Gaebler devoted a chapter of their classic book, *Reinventing Government*, to the emergence of new forms of municipal businesses. The chapter's title is indicative both of the trend and of the driving force behind it—"Enterprising Government: Earning Rather Than Spending." As they observed, "[p]ressed hard by the tax revolts of the 1970s and 1980s and the fiscal crisis of the early 1990s, entrepreneurial governments are increasingly . . . searching for nontax revenues."<sup>1</sup>

The trend Osborne and Gaebler spotted has continued to develop—and though few have paid close attention to the emerging experience, an extraordinary range of local municipal efforts embodying Pluralist Commonwealth wealth-related principles now exists. Moreover, the massive Bush-era cutbacks in federal funding now hitting cities and states have dramatically increased pressures to explore such new sources of revenue for public services.

One of the most important areas of activity is real estate. As early as 1970 the city of Boston embarked upon a joint venture with the Rouse Company to develop the Faneuil Hall Marketplace (a downtown retail complex). Boston kept the property under municipal ownership and negotiated a lease agreement that provided the city with a portion of the developer's profits in lieu of property taxes. By the mid-1980s Boston was collecting some \$2.5 million per year from the

Marketplace. One expert estimates that Boston took in "40 percent more revenue than it would have collected through conventional property tax channels."<sup>2</sup>

Another innovating 1970s city was Hartford, Connecticut, under the leadership of then city council leader Nicholas Carbone. When Hartford's new Civic Center complex was constructed, the city decided to retain title to the land, leasing out the rights for office space, retail establishments, and a hotel to private-sector operators. The city also took over an abandoned department store and leased it to a major airline for office space. As Carbone stressed, a basic goal was to "give the city control over land use [so as to allow it] to realize the increasing value as land prices increased."<sup>3</sup>

Entrepreneurial "participating lease" arrangements for the use of publicly owned property are now common in many parts of the country—including, by way of illustration, New York, San Diego, Los Angeles, and Washington, D.C. Under such leases a developer pays the public landlord both a yearly base rent and an additional amount pegged to project performance (e.g., private profits or gross income). The principle at work is similar to that which private developers commonly use in shopping center leasing: "The more money the developer makes, the higher the rent."<sup>4</sup>

Alhambra, California, earns approximately \$1 million a year in rent revenues from a six-acre holding it leases to commercial tenants. (It also requires tenant businesses to reserve a majority of jobs for low- and moderate-income community residents.) Cincinnati, San Antonio, and Louisville, Kentucky, have all acted as partners in commercial developments, reaping a share (e.g., 10 to 15 percent of net cash flow) of revenues from hotels and other ventures. In 2002 Louisville announced plans to build a new downtown hotel on a similar basis. San Diego holds almost seven hundred leases—including Mission Bay Park, Sea World, and a variety of retail, agricultural, and commercial sites. Annual revenues are more than \$40 million.<sup>5</sup>

Land development is so-called old economy. A fast-growing arena of new activity involves high-tech Internet and related services. In Glasgow, Kentucky, the municipally owned utility offers residents electricity, cable, telephone services, and high-speed Internet access—all at costs lower than private competitors. The city also has access to an intranet that links local government, businesses, libraries, schools, and neighbors. Residents can choose their cable TV provider: the municipality offers a package of eighty digital cable channels for under \$15.95 a month (in 2003).<sup>6</sup>

Tacoma, Washington's, broadband network Click! also offers individuals and private companies Internet and cable service, as does Cedar Falls, Iowa. Almost three hundred communities as of this writing were operating networks like those in Glasgow, Tacoma, and Cedar Falls.<sup>7</sup>

Municipalities have also been active in the venture capital area, offering start-up investments and retaining stock in businesses that hold promise for the city's economy. In 1987 a survey of 322 cities found that only 32 (9.9 percent) used venture capital investments as an 'economic development tool. A similar survey roughly a decade later found more than a third of responding city governments reporting venture capital efforts of one kind or another. Working with the New York Power Authority and two private companies, a New York City agency, for instance, put together an initial investment pool of \$60 million. All profits and other gains were reinvested, yielding a fund worth \$175 million at the end of the first five years of operation.<sup>8</sup>

Municipally owned sports teams are also widespread. Communities that own (or have owned) minor-league baseball teams include Indianapolis; Rochester, New York; Franklin County (Columbus), Ohio; Lucas County (Toledo), Ohio; Harrisburg, Pennsylvania; Lackawanna County (Scranton), Pennsylvania; and Visalia, California.<sup>9</sup>

At the major-league level, the Green Bay Packers football team is owned by a nonprofit corporation rather than a private corporation or wealthy private individual. The particu-

lar ownership structure, while not precisely the Pluralist Commonwealth model, does not permit any individual to own more than a small part of the team and makes it all but impossible for the team to be relocated to another city or purchased by outsiders.<sup>10</sup>

Other developing areas include health services and environmental management. Denver Health, an innovative publically accountable enterprise, transformed itself from an insolvent city agency (\$39 million in debt in 1991) to a competitive, quasi-public health-care system with positive earnings of over \$10 million annually during the 1990s. Among other things, it operates a satellite system of eleven primary care centers and twelve school based clinics that employ some three thousand Denver-area residents.<sup>11</sup>

Hundreds of municipalities generate revenues through landfill gas recovery operations that turn the greenhouse gas methane (a by-product of waste storage) into energy. Riverview, Michigan, one of the largest such recovery operations, illustrates the trend. In the mid-1980s Riverview contracted with DTE Biomass to build a gas recovery facility at its Riverview Land Preserve. More than 4 million cubic feet of methane gas are now recovered daily. In turn, the sale of gas for power production helps produce over forty thousand megawatt hours of electricity per year. Riverview's royalties covered initial costs of the effort in the first two years of operation and now add to the city's cash flows. (Among the many other innovative and successful methane recovery operations are those run by the Illinois Department of Commerce and Community Affairs, the South Carolina Energy Office, Los Angeles County, and Portland, Oregon.)<sup>12</sup>

The basic principle at work in municipally owned real estate development is that appreciation of land should be turned to public advantage. In many communities, Community Land Trusts (CLTs) following this principle also use ownership strategies to help produce stable and affordable housing for low- and moderate-income residents.



A Community Land Trust is a nonprofit corporation established to develop and own housing (or own land leased for housing) especially in neighborhoods undergoing development that is driving prices beyond the reach of low-income residents. One of the earliest and most influential is the Burlington (Vermont) Community Land Trust (BCLT), organized with bipartisan support when an early 1980s economic boom caused housing costs to spiral out of reach for many long-term residents.<sup>13</sup>

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

A recent report by PolicyLink in Oakland, California, observes that CLTs are also reaching out to other groups and constituencies:

[T]he community land trust in Concord, New Hampshire, is working with the Neighborhood Reinvestment Corporation on an IDA program to help families save for homeownership. North Camden CLT in New Jersey has spear-headed a comprehensive community planning initiative. Durham Community Land Trust in North Carolina provides construction job training for community residents. The Burlington Community Land Trust has been a mainstay of the city's Enterprise Community, cleaning brownfield sites, developing community facilities for various social service organizations, and redeveloping abandoned commercial buildings.<sup>14</sup>

Various groups are also beginning to extend the CLT concept in new directions. In 2001 the Nehemiah Corporation announced a new multimillion urban trust to purchase land and provide below-market leases to community service organizations. (Nehemiah is making its initial land purchases

in Atlanta, Baltimore, Charlotte, Indianapolis, and North Camden, New Jersey. A similar approach has been adopted by the New Columbia CLT in Washington, D.C.—which is purchasing land to help support low-income residents who, in turn, are also developing cooperatives.<sup>15</sup>

An important related approach utilizes ownership strategies that capitalize on other public investments: when a municipality invests in mass transit development—as, for instance, in connection with new subway construction—land values near transit exits commonly rise. Traditionally, most municipalities have relied on “after-the-fact” taxation of developers and others who build stores, apartments, and other developments to take advantage of the public investment in such areas. In recent years, however, many municipalities have realized that public ownership—as opposed to traditional tax strategies—offers the possibility of greater returns (and other advantages as well).

In Miami for instance, Metro-Dade Transit participates in two large transit-linked joint development ventures. Dadeland South Station includes two office buildings totaling 472,000 square feet, a 305-room luxury Marriott Hotel, 350,000 square feet of retail space, and 3,500 parking spaces, generating annual revenues in excess of \$600,000 for Miami-Dade County. Dadeland North Station currently consists of 320,000 square feet of retail space and forty-eight apartments and ultimately will include a mix of hotel, office, and residential development. Total city revenues over the

\* Support for Community Land Trust development is also increasing from both private and public sources. The Institute for Community Economics, founded in 1967, operates a Revolving Loan Fund and provides technical assistance to community groups interested in establishing CLTs. Federal support is also available through Community Development Block Grant and HOME Investment Partnerships programs aimed at developing affordable housing. Vermont, Massachusetts, and other states have also provided assistance to CLTs, and such cities as Burlington, Vermont; Portland, Oregon; and San Francisco have demonstrated techniques municipalities can use to help.

term of the lease for the latter (through minimum rent payments and a percentage of gross income) are projected to run between \$40 and \$100 million.<sup>16</sup>

The Valley Transportation Authority of Santa Clara County, California, has designed its Transit Oriented Development program to encourage mixed-use development within two thousand feet of transit stops. Its Almaden Lake Village Project is expected to generate \$266,000 a year for the city through a long-term ground lease with a private developer—and will also offer one in five of the newly developed residential units at below-market cost to low-income households. The Washington Metropolitan Area Transit Authority in Washington, D.C., has established fifty-six revenue-generating joint development projects that earned \$14 million in 2002, making it the public authority's largest nonfare box revenue source.<sup>17</sup>

The expanding experience and growing sophistication of such ownership efforts suggest the likelihood of additional applications of Pluralist Commonwealth principles as time goes on—especially given the severity of growing municipal financial problems. As we shall explore further in Chapter 13, such efforts also have implications for long-range population dispersion strategies designed to recapture increased land values brought about as the result of public investment policies that target jobs to smaller towns and rural growth points (see pp. 148–151).

It is often held that public ownership must be inefficient. Studies of municipal electric utilities, however, belie this view. One out of seven Americans (a total of roughly 40 million people) rely on power from the two thousand public utilities currently operating in urban and rural settings. Although the majority of such systems are located in smaller communities, publicly owned systems are also found in large urban areas such as Los Angeles, Long Island, San Antonio, Sacramento, Nashville, Jacksonville, and Memphis.<sup>18</sup>

Residential customers of investor-owned utilities (IOUs) commonly pay electricity rates roughly 20 percent higher

than those paid by public power customers. Commercial IOU customers pay rates 11 percent higher. Industry studies suggest that most of public power's price advantage is due to the fact of public ownership itself; locally controlled public utilities often can be especially responsive to customers' needs and do not need to pay dividends to private shareholders. At the same time, public utilities—through payments in lieu of taxes and payments to municipal general funds—contribute substantially more to state and local governments than do private utilities through taxes. During the 2000 California electricity crisis municipally owned utilities were also able to maintain lower costs and provide secure ongoing service.\* A number of public utilities have pioneered ways to protect the environment and improve sustainability by promoting conservation and by becoming industry leaders in the use of wind, solar, geothermal, biomass, hydroelectric power, and other renewable sources of energy.<sup>19</sup>

Related both to the new forms of local public ownership and the experience with municipal electric utilities is the question of privatization. Columbia University professor Elliot Sclar's studies suggest that many of the hoped-for gains of contracting public services to private firms have proven to be exaggerated or illusory. Superficial assessments, he notes, often ignore the high costs of monitoring and rewriting contracts to maintain quality control. In addition, often cost savings are simply the result of lower-quality services. Sometimes corruption enters into the picture. It is estimated that difficulties in the privatization of waste collection in New York City, for instance, cost businesses \$500 million.<sup>20</sup>

There is evidence, however, that the *threat* of privatization can sometimes improve the efficiency of public enterprise,

\* A typical residential customer of Sacramento's public utility paid about \$70 a month; in Los Angeles, public power might cost \$78 a month (May 2002 data). The same customer paid \$114.38 to PG&E, \$114.17 to SDG&E, or \$122.62 to Southern California Edison, the three largest private utilities—40 to 50 percent more. Sacramento Municipal Utility District, "Rate Comparison," [www.smd.org/rates/res\\_comparison.html](http://www.smd.org/rates/res_comparison.html) (May 2002) (accessed 06/12/03).

even when privatization does not, in the end, occur. Stephen Goldsmith, a former Republican mayor of Indianapolis—subsequently a high-level adviser in the Bush administration and as of this writing the chairman of the Corporation for National Service—ran for election on a platform of widespread privatization. After taking office as mayor, Goldsmith became convinced that “competition—not privatization per se—provided the key to improving city services and reducing costs.” Public employees were allowed to bid on city contracts, and to redesign their offices and operations in the process. Public employees won a majority of the first sixty contracts put out to bid, with estimated savings of \$135 million in the program’s first three years.<sup>21</sup>

Sclar’s assessment is that much of Goldsmith’s achievement was also related to his administration’s “ability to exhibit a genuine willingness to take the unit’s employees seriously. Goldsmith, in effect, officially sanctioned [them] to go ahead with changes that the employees had wanted for more than a decade.”<sup>22</sup>

The result—a creative integration of the (local) public ownership and democratization principles of the Pluralist Commonwealth vision—defines an obvious area for development and refinement as the fiscal crisis continues to force further change.

## Building Community

### *Neighborhoods and Nonprofits with a Mission*

THE BEDFORD-STUYVESANT neighborhood in Brooklyn, New York, was hit hard. Redlining by banks, blockbusting by real estate speculators, and extortionate rents devastated low-income housing. Between 1940 and 1960 “Bed-Stuy” went from three-quarters white to almost 85 percent African American and Latino. Nearly 30 percent of families lived on less than \$3,000 a year. Infant mortality was the highest in the nation.<sup>1</sup>

Was there anything that could be done? Especially given that public funds available were inevitably minimal compared to the scale of need?

Some things were obvious. First, local residents themselves would have to take the lead. Second, if public support was not going to do the job, some other source of funding would have to be found. Third, anyone who expected a quick fix was naive. The only way forward was to think long-term—and to start organizing now to solve immediate problems, step-by-step, in a manner that also laid foundations for an approach that might ultimately build to a new answer.

But this required a new institutional form—one that combined the community-serving mission of a nonprofit organization with the wealth-building and ownership capacities of an economic enterprise.

The neighborhood-based Community Development Corporation (CDC) grew out of such circumstances—a hybrid

self-help entity that operates at both the community-building level and the economic level, and that exhibits micro-level applications of Pluralist Commonwealth principles. The Bedford-Stuyvesant Restoration Corporation—a CDC developed in the 1960s with the bipartisan support of then senators Robert F. Kennedy and Jacob Javits—helped set the terms of reference for an institution that can now be found in thousands of communities.

In its initial ten years of operation, the Bedford Stuyvesant Restoration Corporation provided start-up capital and other assistance to 116 new businesses, helped create 3,300 jobs, arranged training programs or new jobs for 7,000 local residents, and renovated or built some 650 new housing units.<sup>2</sup> It also launched and still owns a major commercial development (Restoration Plaza), a property management company, and a construction firm. It receives two-thirds of the profits of a Pathmark supermarket that had over \$28 million in annual sales by 2001. The Bedford Stuyvesant Restoration Corporation also operates a two-hundred-seat theater and a revolving loan fund for local start-up businesses. As of 2002, the CDC had roughly \$26 million in assets. Its 2002 budget was \$10.5 million, \$7 million of which was funded by income from rental and other commercial ventures.<sup>3</sup>

Another leading example is the New Community Corporation in Newark, New Jersey, a CDC established after urban riots during the 1960s left many dead and over a thousand injured. New Community now owns an estimated \$500 million in real estate and other ventures, including a shopping center, a supermarket, and three thousand units of housing. New Community Corporation enterprises employ 2,000 neighborhood residents and create roughly \$200 million in economic activity each year. Profits help operate day care and after-school programs, a nursing home, and two medical day care centers for seniors. Proceeds from business activities help support job-training, educational, health, and other programs.<sup>4</sup> The New Community Corporation also runs a Youth Automotive Training

Center; young people who complete its courses are guaranteed jobs offering \$20,000-plus starting salaries.<sup>5</sup>

A well-known rural example is the Kentucky Highlands Investment Corporation. This CDC provides both venture capital and small-business loans to assist rural firms. Over the last several decades Kentucky Highlands has made or helped generate more than \$175 million in investments in 140 companies, creating some 7,900 jobs in rural southeast Kentucky. It has assets of roughly \$30 million.<sup>6</sup>

Since the 1960s almost four thousand neighborhood-based CDCs have come into existence in U.S. communities. The majority are not nearly as large and sophisticated as the leaders, but all employ wealth-related principles to serve “small publics” in geographically defined areas. The assets that the far more numerous smaller CDCs commonly develop center, above all, on housing, but many also own retail firms and, in several cases, larger businesses.<sup>7</sup>

The more than thirty-five-year developmental trend that has produced the modern CDC is intimately related to the U.S. political economy’s declining capacity to address problems of inequality and poverty directly through redistribution or through major job-creation strategies. Fiscal considerations have set the terms of reference from the beginning. At the time of the 1960s “War on Poverty,” which gave the institution its first major backing, the Johnson administration explicitly rejected as financially and politically infeasible a large-scale public jobs program to deal with poverty in a more explicit and comprehensive manner.<sup>8</sup>

The trajectory of development has also been instructive. The first generation of CDCs began with a broad strategic conception that directly echoed Pluralist Commonwealth themes. The initial goal involved a community-building vision and included the provision of services, the ownership of productive enterprise, and advocacy on behalf of local residents. As the political scientist Rita Mae Kelly observes, institutional development, community control, and community

ownership of property and other resources were "expected to foster, support, and sustain the development of managerial and entrepreneurial leadership within the community—and to keep it there."<sup>9</sup>

The advent of the Nixon administration, decisions by the Ford Foundation, and generally reduced funding in the Reagan years forced many CDCs to alter their initial approach. Two important ideas of the early period—direct ownership of assets beyond housing and community organizing and advocacy—were often abandoned or reduced to minor functions. Instead, most CDCs concentrated primarily on an important but narrow form of wealth ownership (the development of low-income housing); and secondarily on technical assistance and small-business loans to individual entrepreneurs.<sup>10</sup>

The basic concept, however, proved to be resilient. The number of CDCs expanded steadily; more than a thousand new CDCs emerged during the Reagan era alone. CDC housing development was strongly assisted by special tax incentives for investors who helped CDCs and others build low-income housing. (Numerous financial intermediaries now develop and market tax-based packages to facilitate the financing of a broad range of efforts.)<sup>11</sup> Although CDCs encountered financial difficulties, and some were victims of poor and occasionally corrupt leadership, the overall trial and error learning curve was impressive.<sup>12</sup>

Community Development Corporations also developed a number of new strategies that added to their strength during this period. "The lack of federal support," former Local Initiatives Support Corporation (LISC) president Paul Grogan and his coauthor Tony Proscio point out, "meant there was no federal bureaucracy prescribing what was supposed to happen." They go on:

"CDCs were free to develop and pursue their local agendas. And as they scrounged for dollars and technical help, they were building a web of relationships and a diversified funding base that would be with them for the long term, not for the short cycle of the latest federal program. . . . CDCs in

city after city are now raising capital both for projects and for overhead from a wide range of charities, banks and other financial institutions, private corporations, city governments, and increasingly, state governments."<sup>13</sup>

CDC development also capitalized on the achievements of a parallel citizens movement that used the Community Reinvestment Act to fight redlining by banks—thereby helping allocate more than \$60 billion to neighborhood investment by the early 1990s. The emergence of new Community Development Financial Institutions (CDFIs) like Chicago's South Shore Bank (now "Shore Bank") also provided new support for neighborhood development. During the Clinton years federal legislation gave CDFIs—and thus also CDCs—a further significant boost.<sup>14</sup>

A number of organized support efforts have also been critical. One of the most important, the Local Initiatives Support Corporation was established with broad foundation and corporate backing. Since 1979 LISC has raised over \$4 billion—and leveraged almost \$7 billion in additional investment—to help some 1,700 CDCs. In a development that acknowledged both the CDCs' important role and the coming-of-age of the movement in general, former Clinton treasury secretary Robert Rubin accepted chairmanship of the Local Initiatives board in 1999.<sup>15</sup>

Some critics charge that in turning primarily to housing production during the second phase of development, many CDCs lost touch with their local communities. Urban Studies professor Robert Fisher writes that most "avoided political

\* Another important organization, the Enterprise Foundation, founded by the late James Rouse, has made \$3.9 billion in grants, loans, and investments to more than a thousand local organizations. In 1991 seventeen major foundations, banks, and corporations, together with HUD, established and funded the National Community Development Initiative—now known as Living Cities. Other significant support efforts include the Fannie Mae Foundation, the National Community Capital Association, the National Congress for Community Economic Development, and PolicyLink. Enterprise Foundation, "About Us," [www.enterprisefoundation.org/about/index.asp](http://www.enterprisefoundation.org/about/index.asp) (accessed 11/14/02); Living Cities, "History," [www.livingcities.org/new\\_look/history.html](http://www.livingcities.org/new_look/history.html) (accessed 05/06/03).



controversy, were dominated by professionals with a technical orientation, had narrow membership bases, and rejected social action activity." On the other hand, another close observer—Andy Mott (at the time executive director of the Center for Community Change)—concluded in 2000 that an "increasing number of CDC coalitions are offering community organizing training to their members, and CDC associations . . . have taken on—and won—major policy battles on jobs, housing and reinvestment."<sup>16</sup>

In general, housing production remains central to Community Development Corporation efforts—along with the principle of public-benefiting ownership. Roughly three-quarters of new or rehabbed housing units are owned directly by the CDC that produces them. In addition, by 1998 CDCs had developed 71 million square feet of commercial and industrial space.<sup>17</sup>

In recent years a number of CDCs have also begun to explore (and return to) the broader ownership ideas envisioned in the early years of their development. Inspired in part by New Community Corporation's successful ownership of a supermarket, LISC established the Retail Initiative in 1994 to help CDCs develop shopping centers anchored by supermarkets or other large retailers in their neighborhoods. By 2002 the Retail Initiative had committed over \$20 million to ten major projects in New Haven, Connecticut; North Philadelphia; Chicago; and other cities.<sup>18</sup>

The experience of Dudley Street Neighborhood Initiative in Boston—a nonprofit community-based institution similar to a traditional CDC—suggests additional possibilities for future change. The Initiative has won the right of eminent domain to acquire abandoned parcels of land, a unique development in modern urban policy. The Initiative also manages residential properties as part of a community land trust and has established several village commons, a series of "Tot Lots," two community centers, and commercial developments at key points in the neighborhood.<sup>19</sup>

In general, a 1998 survey found 40 percent of urban CDCs reported owning and/or operating a business (34 percent of rural CDCs did so). Over half also reported some form of business-lending activity with a total of nearly \$2 billion in outstanding loans.<sup>20</sup>

Substantial economic projects continue to be exceptional. However, given the level of experience developed over the past several decades—and the example being set by the leaders—increasing numbers of CDCs appear likely to slowly broaden their ownership focus beyond housing and commercial real estate development in coming years.<sup>21</sup>

Louis Winnick of the Institute for Public Administration suggests that the "meteoric growth of CDCs and related grassroots initiatives owes much to their appeal across the political spectrum." As he observes: "The anti-statist Right saluted community development as a proxy for government, which might shield the succored poor from the dead hand of bureaucracy. . . . On the opposite end of the ideological spectrum, radical activists envisioned community-based organizations as weapons of political empowerment, instruments to liberate the poor from chronic neglect."<sup>22</sup>

Many states and local municipalities now back CDC activity—both directly and indirectly. In cities with a large number of cooperating CDCs, local governments have often become active development partners, making foreclosed properties available to them or earmarking Community Development Block Grant funds for housing subsidies. Particularly innovative state programs include New York's Neighborhood Preservation Companies Program, the North Carolina Community Development Initiative, and two efforts of the Commonwealth of Massachusetts: the Community Economic Development Assistance Corporation and the Community Enterprise Economic Development Program, the latter of which provides both financial and technical assistance to CDCs in economically depressed communities.<sup>23</sup>

Federal programs also provide significant support to CDCs, including Community Development Block Grants, the HOME Program, the Low Income Housing Tax Credit, and Empowerment Zone/Enterprise Communities tax credits. One of the last pieces of legislation of the Clinton administration, the Community Renewal Tax Relief Act of 2000, provides additional "new-market" tax and other assistance. The 2000 Act—which enjoyed the broad backing of Republican leaders in the House of Representatives—also suggests the potential for expanding the base of political support for housing and other wealth-ownership principles at the community and neighborhood level.<sup>24</sup>

There is little likelihood that the social and financial pressures that helped produce the CDC hybrid will let up—or that the steady step-by-step developmental trend will come to a halt. Indeed, given the fiscal problems facing the nation, the prospect is for more rather than less pressure to create additional forms of ownership—and of further forms of revenue-generating institutional change. Community organizing and advocacy efforts by CDCs also appear likely to increase.

Other nonprofit organizations with a service mission at the community, state, and national levels have picked up on the underlying principles exhibited by CDC development—and here, too, it is clear that the overarching fiscal crisis is producing forces that make ongoing evolutionary development all but certain.<sup>25</sup> Esperanza Unida, Inc., in Milwaukee suggests some of the possibilities.

Esperanza Unida began as an organization that initially focused on helping Hispanic workers deal with workplace issues and file unemployment and worker's compensation claims. In the early 1980s it started running businesses with a dual mission—raising funds for other operations and training. In what came to be called the "Training Business Model," Esperanza Unida now employs local citizens in enterprises involved in auto repair, construction, printing, child care, customer service skills, and welding. It also runs

a coffeehouse/bookstore, ¿Que Pasa?, which hosts community events and offers books and periodicals in both Spanish and English. Roughly 50 to 70 percent of Esperanza Unida's annual revenues come from its business activities.<sup>26</sup>

Pioneer Human Services in Seattle, Washington—an organization initially established with donations and grants—is now almost entirely self-supporting. It provides drug-and-alcohol-free housing, employment, job training, counseling, and education to recovering alcoholics and drug addicts. Its annual operating budget is \$54 million—over 99 percent is earned through fees for services or sales of products.

Pioneer Human Services and its subsidiaries own and manage a light-metal fabricator that employs people traditionally thought to be unemployable and that has contracts with Boeing, Xantrex, Leviton, and others; a Food Buying Service that distributes roughly 7 million pounds of food to nonprofit organizations in twenty states; a 132-room St. Regis Hotel that offers drug- and alcohol-free housing for tourists and low-income individuals; and a 150-seat Mezza Café, along with its satellite, Pronto, and two smaller Mezza Cafés.<sup>27</sup>

The Roberts Enterprise Development Fund in the San Francisco Bay Area works with nonprofit umbrella organizations. These, in turn, have operated roughly twenty businesses—from thrift stores and janitorial services to a bakery and a furniture manufacturer—that also both make money and help specific groups in the community. Revenues grew from \$10 million in 1997 to \$20 million in 2000, with profits increasing from \$230,000 to \$630,000. Enterprises target specific employee/trainee populations—including landscaping and packaging and shipping services for individuals with developmental disabilities; bike repair training for young people; and a cleaning service, a café, and a temp agency that provide jobs for individuals with psychiatric disabilities.<sup>28</sup>

Educational and health institutions in many areas, of course, have also long operated as nonprofits-in-business charging fees for services. A recent study found that in the twenty largest U.S. cities, sixty-nine of the two hundred

largest private enterprises (35 percent) were universities and medical institutions, most of which were nonprofit. In four cities—Washington, Philadelphia, San Diego, and Baltimore—what the study called “eds” and “meds” accounted for more than 50 percent of all jobs generated.<sup>29</sup>

Some analysts who have studied hybrid nonprofits have raised serious questions about whether important service missions may be compromised by their economic activities, and several have suggested guidelines to maintain institutional integrity.<sup>30</sup> Conversely, others point out that by reducing the reliance of organizations on public (often politically influenced) funding and from foundation and individual donor support, new sources of revenue can often produce offsetting advantages in terms of institutional independence.

Such questions are certain to take on increasing urgency as time goes on. Given the fiscal pressures driving change and the growing support the strategies are beginning to attract, the trend is unlikely to be reversed. The real question is how the conflict between organizational goals can be managed intelligently—and whether those concerned with critical public missions organize themselves to ensure the integrity of the various efforts.<sup>31</sup>

A recent *Chronicle of Philanthropy* study estimates that over \$60 billion was earned from business activities by the fourteen thousand largest nonprofits in 1998. Income from fees, charges, and related business activities is estimated in other studies to have grown from 13 percent of nonprofit social service organization revenues in 1977 to 43 percent in 1996.<sup>32</sup>

A powerful indication of the developing and likely future trend—and of the growing sophistication of Pluralist

\* A related, increasingly debated issue concerns taxation of unrelated business activities. For an overview of the questions involved, see Evelyn Brody and Joseph J. Cordes, “The Unrelated Business Income Tax: All Bark and No Bite?” *Emerging Issues in Philanthropy Series Seminar No. 3*, Urban-Brookings Tax Policy Center, March 1, 2001, [www.urban.org/UploadedPDF/philanthropy\\_3.pdf](http://www.urban.org/UploadedPDF/philanthropy_3.pdf) (accessed 09/26/03).

Commonwealth-related strategies in general—is Harvard Business School’s decision to launch a new “Initiative on Social Enterprise” offering research, teaching, and other programs to “catalyze . . . nonprofit, private, and public sector enterprises for the creation of social and economic value.” Similar programs are under way at Yale, Stanford, and several other business schools.<sup>33</sup>

## State and National Innovators

JUST BELOW THE RADAR OF conventional media reporting, a number of larger efforts based on Pluralist Commonwealth principles have also emerged in recent years, especially at the state level. Some are new and innovative; many are in advanced stages of development; several others illustrate long-standing but little-discussed practices that are likely to be extended if current trends continue—and if states continue to function in the future, as they have in the past, as laboratories for subsequent national activity.

Particularly interesting are a group of sophisticated developments that point in the direction of practical—even dramatic—applications of the most radical and far-reaching system-wide Pluralist Commonwealth strategies.

The Individual Development Accounts (IDAs) reviewed in Chapter 1, which match savings of the poor to build wealth-ownership, are no longer a matter of theory. Since 1990 some five hundred different projects and more than 20,000 IDA holders have been established. One of the most important is a four-year test conducted by the Corporation for Enterprise Development and the Center for Social Development, which has found that significant savings by even very low income participants can be achieved through IDA strategies.<sup>1</sup>

The federal government has also begun testing IDAs. Provisions for allocating funds to IDAs were included in the welfare reforms of 1996 (TANF, Temporary Assistance to

Needy Families). Passage in 1998 of the Assets for Independence Act established a five-year, \$125 million demonstration effort aimed at creating roughly 50,000 IDAs. (As of 2003, \$95 million had been appropriated.) Unexpected political alliances have also appeared in connection with this strategy. Significantly, the Bush administration included substantial funding for the Clinton-initiated IDA concept in each of its first four budgets.<sup>2</sup>

Shortly after passage of the Assets for Independence Act, the *St. Louis Post-Dispatch* commented, "It's hard to decide if this is radical policy or an outgrowth of conservative economic ideals. Legislators who supported the idea in Congress didn't bother deciding. They came from both sides of the political aisle."<sup>3</sup>

Historically, several states have had considerable experience with the application of larger-scale Pluralist Commonwealth principles. The Bank of North Dakota—founded in 1919—currently has nearly \$2 billion in assets. The bank's earnings (net income) now provide the fifth-largest source of revenue for the state government; an estimated \$75 to \$80 million will be returned to North Dakota for the two-year period, 2001 to 2003. The bank makes student loans (27 percent of the total), commercial loans (33 percent), agricultural loans (17 percent), and residential loans (23 percent). Return on equity was 21.3 percent for 2000, a year of record profitability; it was still 18.7 percent in 2001, a year of national economic difficulty.<sup>4</sup>

The Wisconsin State Life Insurance Fund, in operation since 1911, is also instructive. The fund has assets of over \$75 million, manages roughly thirty thousand active life

\* The Bush administration's proposed Faith Based Initiative legislation also includes \$450 million in tax credits to support IDAs. If approved, banks that match the savings of the poor in IDAs would receive a 100 percent tax write-off for their contributions (up to \$500 per person per year). Corporation for Enterprise Development, "Federal Policy Update," *Assets: A Quarterly Update for Innovators* (Winter 2002), [www.idanetwork.org/assets/index.html](http://www.idanetwork.org/assets/index.html) (accessed 02/04/03), p. 3. Further references at [www.idanetwork.org](http://www.idanetwork.org).

insurance policies, and has coverage in force totaling over \$200 million. The fund distributed between \$3.7 and \$3.9 million annually in dividends to policyholders throughout the late 1990s. Premiums are 10 to 40 percent lower than comparable private insurance coverage. Such gains have been recorded even though the fund is subject to statutory restrictions—including a prohibition on advertising and maximum coverage of \$10,000—which limit its capacity to compete with other companies.<sup>5</sup>

More recent state developments include venture capital initiatives that involve direct investment and stock ownership in local companies by state agencies. Though little discussed in the media, this form of public investment and ownership is extremely common. A recent National Governors Association survey found that more than half the states have allocated state funds to venture capital investments. Most involve direct investment by state agencies, often utilizing private firms to help manage the process.<sup>6</sup>

One of the most successful efforts, Maryland's Enterprise Investment Fund, provides promising high-tech start-ups with up to \$500,000 in capital in exchange for equity shares and a guarantee from the firm that it will continue to operate in the state for at least five years. The fund has performed exceptionally well, investing \$19 million in fifty-two Maryland companies and helping create an estimated 2,500 jobs as of this writing. From 1994 to 2002 the state made a 32 percent annual return on its investments—with total returns over \$64 million. Successful ventures range from such companies as Visual Networks of Rockville, a network management and consulting firm, to Gene Logic of Gaithersburg, which specializes in "gene expression" technology—that is, examining tissues to determine whether particular genes are turned "on" or "off."<sup>7</sup>

Similar programs in Connecticut and Massachusetts also have achieved significant returns while at the same time helping create jobs in their respective states. Connecticut Innovations' return on investment rose from 17.3 percent in 1998 to 20.8 percent in 1999 to 39.7 percent in 2000. In

2001, a tough year when many high-tech investors lost money, it still managed a positive return (2.5 percent); and although along with many funds it experienced significant losses in 2002, its cumulative return for 1998 to 2002 was a respectable 8.4 percent. The Massachusetts Technology Development Corporation has invested in early-stage technology firms for a substantial period. Between 1980 and 2002 it recorded a 17.9 percent rate of return on total investments of \$62 million in 115 companies.<sup>8</sup>

Assessments of such efforts are complicated by the fact that states commonly invest in ventures that one, have not already been selected as promising by private firms; and that two, offer the possibility of job creation and ancillary benefits of economic value to the state in question. Some state efforts have produced extremely positive results; others have achieved more modest gains, but in the process have contributed to larger state development goals.<sup>9</sup>

At the federal level, public ownership of stock in specific corporations is also a long-established strategy. In the recent airline bailout, for instance, the Bush administration demanded a ten-year option to purchase a third of America West's stock at \$3 per share in exchange for federal guarantees that secured a \$429 million loan. It granted a \$900 million loan guarantee to US Airways—and received a 10 percent stake in the company in return.<sup>10</sup>

Similarly, in 1980 as part of a \$1.5 billion loan guarantee for the Chrysler Corporation, the government received 14.4 million warrants (representing 10 to 15 percent of Chrysler stock). Again, the government through the FDIC took a controlling ownership position (over 80 percent) in connection with the 1984 \$8 billion bailout of the Continental Illinois Bank (at the time the seventh-largest U.S. bank). Numerous other precedents can be traced back to World War II.<sup>11</sup>

\* Government loan guarantees (and related public insurance strategies) have long received bipartisan support in connection with many conventional economic development approaches and broad-based asset development efforts. These (*continues*)



We may add to this listing of Pluralist Commonwealth practices the long experience with public ownership of port authorities throughout the nation. By far the largest is the Port Authority of New York and New Jersey, which has approximately \$16.9 billion in assets. The authority has planned, developed, and operated numerous enterprises that have been critical to the economic health of the region—including major airports and seaports, and the World Trade Center. In 2000 it paid \$130 million in leases and payments in lieu of taxes to the cities of New York and Newark and to the states of New York and New Jersey. (Total payments were \$96 and \$140 million, even in the difficult years of 2001 and 2002.)<sup>12</sup>

The Port of Los Angeles owns several retail properties—including Ports O'Call Village, a large retail shopping and dining complex that generates between \$650,000 and \$1.5 million annually, and another retail/restaurant complex, the West Channel development, which is expected to bring in \$1.2 million in leases plus healthy percentages of gross receipts. In fiscal year 2002 the port generated \$289.8 million in total operating revenue, with a net income of \$96.9 million.<sup>13</sup>

The Port of Seattle manages a cruise pier and several container ship loading facilities, the Seattle-Tacoma airport, and

(continued) provide additional precedents that might be adapted to the newer strategies. Thus, the Export-Import bank currently guarantees business loans of \$7.4 billion per year. The Price-Anderson Act provides for insurance against risk in connection with the dangers associated with nuclear power plant development (without which little if any private investment would have taken place). Again, since the 1930s various government programs have expanded access to home-ownership by insuring mortgages, freeing up capital, and reducing initial asset thresholds. "Annual Report, Fiscal Year 2002," Export-Import Bank of the United States, 2002, [www.exim.gov/about/reports/index.html](http://www.exim.gov/about/reports/index.html) (accessed 06/23/03); "Price Anderson Act: The Billion Dollar Bailout for Nuclear Power Mishaps," Public Citizen, October 10, 2001, [www.citizen.org/documents/Anderson-wenonah.PDF](http://www.citizen.org/documents/Anderson-wenonah.PDF) (accessed 06/23/03); and John C. Weicher, *Housing, Federal Policies and Programs* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1980), pp. 38, 111. Ongoing discussion of new strategies that would help build community-benefiting ownership in exchange for government tax, loan, regulatory, and other support can be found at [cog.kent.edu/](http://cog.kent.edu/).

a number of additional operations that lease commercial office space. In 2003 the port's operating revenues (from property rental, parking revenues, landing fees, etc.) were expected to exceed \$375 million. When depreciation costs, accumulated tax income, and passenger facility charges are included, the port's total excess revenue in 2002 was projected to be \$64 million.<sup>14</sup>

Such activity is not restricted to large cities: the Marine Administration of Portland, Maine, holds fifty leases—including a twelve-acre naval shipyard, an inter-island ferry system, and a pier—which together generate more than \$2 million a year for the city.<sup>15</sup>

The history and successful record of different forms of public pension funds offer additional Pluralist Commonwealth precedents. There are currently more than 2,200 public employee retirement system boards operating at the municipal, state, and federal levels. The boards manage roughly \$3 trillion in assets and have for many decades demonstrated the feasibility of public investment strategies.<sup>16</sup>

One of the most conservative of all public agencies at the national level—the Federal Reserve Board—has had an employee pension and retirement fund in operation since 1934. It manages roughly \$8.2 billion in assets. Investments, as in most pension funds, are overseen by external fund managers. Again, the Federal Thrift Savings Plan, established in 1987, involves some 2.4 million federal employees in a similar plan; it has roughly \$100 billion in assets.<sup>17</sup>

In Part I we noted that a number of state pension funds have begun to explore new forms of public oversight to make corporations more accountable. Additional possibilities are suggested by other aspects of the experience of California Public Employees' Retirement System (CalPERS) and by Retirement Systems of Alabama.

CalPERS (in operation now for more than sixty-five years) oversees more than \$137 billion in pension funds for 1.4 million plan members (employees, retirees, and survivors). In

addition to previously discussed innovations, CalPERS maintains a domestic portfolio "focus list" that singles out poorly performing companies and companies with poor governance practices. The results are illuminating. Companies that have been singled out in a particular year regularly outperform the S&P 500 by roughly 14 percent in the five years after CalPERS draws attention to their failings. CalPERS also places a great deal of emphasis on information disclosure and the independence of boards of directors. As noted, CalPERS is also beginning to enforce transparency, environmental performance and other standards in its international investments (see pp. 60–61).<sup>18</sup>

Alabama—a conservative state in which fiscal pressures are particularly intense and in which traditional tax proposals are commonly blocked—is also actively pursuing Pluralist Commonwealth–related strategies. Retirement Systems of Alabama, which manages pension investments for state employees and teachers, has been in operation for more than sixty years. Under the direction of CEO David Bronner, it has aggressively invested in numerous local Alabama industries, in some cases also using its assets to help create worker-owned firms. Investments range from aerospace to tourism development and include, among others, \$100 million in the Alabama Pine Pulp Company; \$60 million in a statewide golf course network, the Robert Trent Jones Golf Trail (maintaining a 33 percent ownership stake); and \$250 million in Alabama-backed Ginnie Mae mortgages.<sup>19</sup>

Retirement Systems of Alabama has a total of \$22 billion under management. It also has invested in office buildings in such cities as Montgomery and has helped form two media conglomerates involving hundreds of local newspapers and thirty-six television and radio stations. Stock in these is jointly owned by Retirement Systems and the employees of the companies.

Even more interesting politically—and suggestive of possible other larger-scale future strategies—in 2002 Retirement

Systems purchased a 36.6 percent controlling share of US Airways, in part to bring more jobs to the state.<sup>\*20</sup>

A somewhat different but even more suggestive effort is that of the Alaska Permanent Fund. The Alaska state constitution directs that a significant portion of revenues derived from oil development be allocated to the fund for further investment on behalf of citizens of the state. Earnings are used to increase the size of the principal, offset the impact of inflation on long-run returns—and most important, provide annual dividends to the residents of the state. In 2000, a high-payout year, each individual state resident, as a matter of right, received dividends of just under \$2,000 (almost \$10,000 for a couple with three children).<sup>21</sup>

Permanent Fund operations have been efficient and economically successful. Competitively hired external managers invest roughly \$25 billion in assets. In 2000 the fund earned an overall 9.18 percent rate of return, a figure well above expected benchmarks for its diversified low-risk portfolio. Operating costs were a low 1.83 percent (leaving a 98 percent profit margin). By way of comparison, the S&P 500 ended 2000 up 7.24 percent. During the stock market collapse of 2001 and 2002, the Permanent Fund outperformed its benchmark investments and also had operating costs below those of comparable large funds.<sup>22</sup>

Income inequality in Alaska is lower than most other states, and—unlike every other state and the nation as a whole—Alaska registered a decline in income inequality during the 1980s and 1990s. Research by University of Alaska economist Scott Goldsmith indicates that Permanent Fund operations played an important role in producing the recorded gains.<sup>23</sup>

CalPERS, Retirement Systems of Alabama, and similar efforts offer precedents for using investment strategies to achieve greater public oversight of corporate practices and to

\* It is unclear whether this particular venture will succeed. As of this writing, US Airways, along with many other airlines, is experiencing considerable financial difficulty.

help achieve state and community economic goals. The Alaska Permanent Fund takes us one step further. It is an on-the-ground operating system that demonstrates the feasibility of the kinds of far-reaching proposals offered by Roemer, Meade, and Kelso—and of the Public Trust concept of the Pluralist Commonwealth. Although each approach differs in specifics, all are based on the principle that capital can and should be accumulated and managed in ways that provide individual citizens with an income stream from publicly backed investments.\*

## Coda

### *The Democratization of Wealth and the Era of Deepening Fiscal Crisis*

FEW OBSERVERS HAVE AS YET grasped the extent—or further possibilities—of wealth-related strategies that benefit the public directly. It is obvious, however, that a great deal of hands-on experience now offers practical backing for ideas at the heart of the Pluralist Commonwealth vision—including (among others) worker ownership, cooperatives, municipal ownership, neighborhood ownership, nonprofit ownership, individual development accounts, and a wide range of major public investment strategies. There is also evidence that such efforts can be efficient, especially if adequate attention is paid to developing and refining management, training, and other strategies over time.

It would be a mistake either to exaggerate or to minimize the developments. On the other hand, the steady expansion of several of the most significant new forms has been impressive. In recent years the number of Employee Stock Option Plan firms has increased from a few hundred to more than eleven thousand; Community Development Corporations have grown from a few hundred to nearly four thousand. Municipal enterprise, though less well studied, is on the rise in cities across the nation. In other areas, long-standing experience—as with public utilities and pension funds—offers solid evidence both of the economic and political viability of larger wealth-owning approaches. Former New York State comptroller H. Carl McCall is also almost certainly correct to predict “a renewed era of activism by public institutional shareholders.”<sup>1</sup>

\* See pp. 23–26. Roemer and Meade would accumulate capital through taxes and establish an agency to directly supervise investment management. Kelso proposed using government loan guarantees or insurance to develop investments—followed by temporary publicly accountable supervision before ultimately transferring ownership to individuals.

Viewed in larger historical perspective, what stands out is the simple fact that the last several decades have established practical and policy foundations that offer a solid basis for future expansion. There is a body of hard-won expertise now available in each area—along with support organizations and technical and other experts who have accumulated a very great deal of direct problem-solving knowledge.

Significantly, in each area there has also been—and continues to be—a broad base of public backing for new approaches. Moreover, a converging trajectory of concern with community economic stability has added force to many of the newer strategies—especially as global economic pressures have intensified. As we have seen, a number of the new economic institutions are inherently anchored in local communities by virtue of their ownership structure.

Beyond this there has been growing recognition of the mutual interests of—and the organization of implicit alliances between—specific investors and firms, on the one hand, and engaged citizen groups developing new institutions, on the other. Tax benefits provided to corporations and retiring business owners have helped fuel ESOP development; other incentives provided to individual investors have helped CDCs develop low-income housing.

(The last several decades have also demonstrated that it is possible for new institutions to move beyond such origins. Thus, CDCs that develop momentum regularly transcend the limits of their initial financing strategies. Again, as ESOPs move toward majority ownership—at least in states that have been subjects of study, such as Ohio—they also begin to move increasingly toward greater democratic control.)

In general, and notwithstanding ideological opposition to government involvement in the economy, many of the new wealth-ownership efforts also transcend traditional left-right political distinctions—as is evident in connection with CDCs, ESOPs, bipartisan support of Individual Development Accounts, and the experience of mayors of both parties who embrace local public enterprise strategies. That a con-

servative state like Alabama can essentially socialize control of a major airline also suggests (win or lose) that politics in the future may well be far more open to innovative change than is commonly assumed.

The emerging direction is not without major challenges. Much greater democratization of CDCs, worker-owned firms (of all kinds), and other wealth-related institutions is clearly a priority for those seeking more far-reaching change. So, too, are new strategies to deal with the difficulties facing nonprofit organizations struggling with the conflict between service goals and economic support activities. Municipalities must not be allowed to raise fees for basic services in the name of new principles. Greater and more sophisticated citizen accountability and oversight of public pension investment efforts like those of CalPERS and Retirement Systems of Alabama need to be developed to ensure that worker, community, and other concerns are fully taken into account.<sup>2</sup> On the other hand, Americans already know—and in the future are likely increasingly to understand in their own communities—that a variety of ways of owning assets on behalf of small and large publics are now feasible.

What may well be of decisive importance in the coming period is that even as the various developments have gone forward, the nation as a whole has begun to move into a radically new and unrelenting fiscal environment—one that promises to force ever greater attention to strategies that offer ways to produce additional resources at all levels. Projections for the coming decade alone suggest a combined federal fiscal deficit that could easily reach more than \$5 trillion—indeed, \$7.5 trillion if Social Security Trust Fund reserves are left aside!<sup>3</sup>

Nor is it likely that there will be an early reversal of the growing fiscal crisis. For one thing, the ongoing occupation of Iraq is likely to demand continuing large-scale financial support. Much more important is that the Bush tax cuts, though dramatic, are by no means unique. Indeed, fundamental and

long-developing political-economic trends have been moving in this direction for some time.

Corporate taxes, as we have noted, were reduced from 35.4 percent of federal receipts in 1945 to 7.4 percent in 2003. Taxation of individuals in top brackets has also been reduced over the span of the last several decades—from 91 percent in the Eisenhower, Kennedy, and early Johnson eras to 35 percent today. And long before the Bush-era reductions (and proposed reductions), domestic discretionary spending by the federal government had moved down—from 4.7 percent of GDP a quarter-century ago to 3.6 percent now, a drop during this period alone of roughly 25 percent.<sup>4</sup>

An even greater fiscal squeeze is likely as time goes on. Critically, spending on Social Security benefits and Medicare will continue to rise as the baby-boom generation retires. So will spending on Medicaid. Recent studies project these three programs alone may ultimately consume a larger share of GDP than *all* of the money the federal government collects in taxes.<sup>5</sup>

A radically new context thus is being shaped that is forcing—and will continue to force—very difficult choices. Either there will be no solution to many problems, or something new will have to be tried. The growing fiscal pressures—intersecting now with growing global uncertainties—are, in fact, producing a political-economic environment in which alternatives of the kind we have reviewed may well become the only feasible way forward in many areas.

Although it is impossible to predict the degree and extent of potential expansion, a developmental perspective on past, present, and possible future stages of institutional and political change suggests that we are approaching a point in time when once controversial and seemingly novel strategies based on Pluralist Commonwealth principles are likely to become matter-of-fact and commonplace in everyday life.<sup>6</sup>

As we shall see, the question of interest is how this development, in turn, might contribute to further, much larger order change as the demanding terms of reference for twenty-first-century political-economic change continue to evolve.

## PART III

# LOCAL DEMOCRACY AND REGIONAL DECENTRALIZATION

QUITE APART FROM CHANGES in wealth ownership, the Pluralist Commonwealth vision rests firmly on the principle (following Alexis de Tocqueville, John Stuart Mill, and several modern writers) that over the long haul rebuilding local democracy with a small d, from the bottom up, is a necessary though obviously not sufficient requirement of renewing the basis of meaningful Democracy with a big D in the political-economic system as a whole.

At one level, this means nurturing the conditions in which networks of civil society associations can flourish. At another, it requires strategic changes that foster opportunities for more meaningful participation in local governmental decision making. Both, in turn, require more stable and robust local community economies.

The conventional wisdom is that the era of globalization makes such community priorities—especially local economic stability—all but impossible to achieve. The reality, however, is that sectoral changes and a broad range of economic, social, and psychological factors have begun to converge