

## BIG PICTURE

# Cooperatives — A Principled Model

by Kevin Edberg, Executive Director of Cooperative Development Services



Friends, you and I live in a democratic nation that is home to the world's largest economy. We also live in a nation that is in deep economic doo-doo. Over the past four years, our lives, and the lives of families around the world, have been upended by the way we practice capitalism inside this economy.

There are many reasons for our economic issues, and you and I bear responsibility for some of them. Equally, you and I can be a part of the solution to the dire issues faced by ordinary Americans in the early years of the 21st century.

### A pattern of greed and fraud

December 2011 marked the 10th anniversary of the bankruptcy of Enron, and the demise of the fabled accounting firm Arthur Anderson. This was a story of corporate greed, deceit, a failure of corporate governance, and the failure of professional auditors to provide honest third-party financial review.

The go-go years of the new century found the nation's finest young Ivy League MBAs creating new financial instruments that would, crudely speaking, slice and dice home mortgages and shift risk to secondary markets, in exchange for huge fees and profits. In front of Congress and in federal courts, Wall Street CEOs would later claim they didn't know about the work of their rising young stars, and that they had no idea of the risks being foisted on financial institutions and economies worldwide.

Buyers of these toxic assets stopped trading because they couldn't trust each other, precipitating a worldwide credit freeze and a cascade of defaults and foreclosures that continues today. (It's true they couldn't trust each other. CitiGroup was subsequently charged with misleading investors to whom they were marketing securities, while simultaneously betting against the success of the very securities they were selling! A federal judge rejected a proposed \$285 million settlement with the SEC. There are other cases like it).

Though holders of mortgage-backed securities could not, in many cases, demonstrate that they legally held title to homes, they nonetheless initiated foreclosures backed by robo-signers fraudulently attesting to due diligence that had in fact never been done. An action by state attorney generals is in process.

Then throw in the Ponzi schemes of Bernie Madoff and Tom Petters, and how they undermined the well-being of Polaroid, Sun Country Airlines, numerous charitable foundations, and individual families.

There can be little doubt that the fundamental behavior of economic and business institutions has changed within our lifetimes. Today we live inside a hyper-virulent form of capitalism-run-amok; Wall Street is a casino operated without principles or values, fueled not just by greed, but greed and fraud. It's not enough that we must live by the risky flip of the coin, but indeed, the games have been rigged: heads they win, tails we lose.

In my opinion, this behavior is rooted in the very narrow (and relatively recent) belief that corporate enterprises have a sole obligation to deliver profit to shareholders, without regard for other stakeholders. This interpretation is aided and abetted through a corrupted system of corporate governance, resulting in a system that perniciously privatizes gains while socializing costs, benefitting the few while sticking it to the many.

We cry for leadership and stewardship. Local business leaders like Bill George of Medtronic and John Taft of RBC Wealth Management document and lament the absence of character and the loss of trust in our traditional institutions, and call for a return to an earlier kind of business leadership. Some of the solutions will require a political response, akin to Teddy Roosevelt's trust-busting in the Gilded Age of the robber barons. Whether solutions include Dodd-Frank legislation, reinstatement of the Glass-Steagall Act, or something else, I don't know. But I do know that other solutions will come from ordinary day-to-day actions by people like you and me.

You see, my friends, we know about businesses that operate with principles and values: we know about cooperatives.

### A principled model

The artisans who started the Rochdale co-op on Toad Lane in England were in the same boat that we are today. They were tired of being ripped off by merchants selling poor quality goods through slimy business practices. They pooled their capital to create their own business to provide goods and services to meet their needs, inside a paradigm of trusted, ethical behavior. (When you're selling to yourself, there's really

no incentive to screw the customer, right?)

To their everlasting credit, they also surrounded their business with a set of principles that would, to this day, distinguish the cooperative model as the only business structure with a set of internationally agreed-upon principles, and those principles have guided succeeding generations in the wisest, best use of the cooperative model.

For 150 years, principled cooperation has proven to be a powerful economic model in the transformation of communities and individual lives. So much so, that the United Nations has declared 2012 as the International Year of Cooperatives, using the tagline "Cooperative enterprises build a better world." (Check out more at [www.2012.coop](http://www.2012.coop))

I believe that tagline to be true. It becomes even more true as we practice economic cooperation and create cooperative economy in our everyday lives. Since the fundamental competitive advantage of a co-op is the business loyalty of its owner-members, we strengthen our co-ops whenever we use their services. We further advance the democratic control of capital when co-ops buy, sell, lend, and invest with each other through cooperative structures.

I contend that the intentional, principled creation of a larger and more robust cooperative economy is a necessary part of creating an economy that works for all of us.

### Creating a cooperative economy

In part, you and I live inside "the economy", and our fortunes rise and fall with external factors, as though we are simply along for the ride. But it is equally true that people create economies...through the ways we shop, invest, think, engage, and govern. The ability of cooperatives to change the norms of competition within sectors is well-proven. But citizens of the Basque region of Spain, the province of Quebec, or the Emilia-Romagna region of northern Italy all provide ready examples of entire cooperative economies at work.

By now, you and I well know what our Dominant Economic Paradigm will give us. So if indeed we want cooperative economy, what might it take to get something different?

Cooperative entrepreneurs: We need people in the cooperative movement who can recognize and act on a need for cooperative action. I find those folks most commonly as trusted and respected board members, managers, and members of other co-ops, folks who have learned enough about the model that they can confidently provide servant leadership with and through others.

Cooperators: Good leadership needs good followership. We need plain ordinary folk who see a vision of a world that they want for themselves and their neighbors, who will become the member-owners that make co-ops viable businesses through their investment, engagement, and commerce.

Capital: Yes, we need cash, both as equity and debt. But this is where the conversation gets really exciting. Today about 90 million Americans have an account at a member-owned credit union (though that doesn't mean they use that account for the majority of their financial services needs). What if the capital held in credit unions was wisely lent to support expansions of other cooperatives, or where "cooperative development certificates" were offered that provided a less-than-market return to investors, but with proceeds used to capitalize new and expanding co-ops? How would our financial services sector be different if it were member-owned and controlled?

I will repeat what I said earlier. We live in a time when greed and fraud are rampant in our economy, abetted by broken governance and failed business leadership. Through our (mostly unthinking) support of that system, you and I share responsibility for some of the economic morass that we are experiencing, and that we have inflicted on others throughout the world.

But you and I can also be part of the solution, by more thoughtfully examining the question: what kind of economy do I want to create for my family, and my neighbors, and our community, and what kinds of businesses will I support that will provide trustworthy and principled leadership and service? The answer: Cooperative enterprises build a better world.

*Kevin is the Executive Director of Cooperative Development Services, a non-profit organization created to help new co-ops get started in the Upper Midwest, and to help existing co-ops grow and expand. Since joining CDS in October 2000, Kevin has helped create regional and national capacity to meet needs of communities starting natural foods co-ops, and in developing the supply of locally produced natural and organic foods. His prior work with the MN Department of Agriculture included the creation of the Minnesota Grown program, and service as the state's organic coordinator. He lives in White Bear Lake, MN.*