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The Market for Change: Community Economic Development on a Wider Stage

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**PROGRESSIVE LAWYERING,
GLOBALIZATION AND MARKETS:
RETHINKING IDEOLOGY AND STRATEGY**

**Clare Dalton
Editor**

**Project of the Program on Human Rights
and the Global Economy
Northeastern University School of Law**

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THE MARKET FOR CHANGE: COMMUNITY ECONOMIC DEVELOPMENT ON A WIDER STAGE

Peter Pitegoff

Business enterprise is a central component of economic development. Conventional economic development goals—housing and enterprise development, productivity, economic growth, workforce retention and jobs—can be facilitated by successful businesses. *Community* economic development (“CED”) is distinguished by an explicit agenda for broader benefit and accountability—for building local resources, economic capacity and political clout in low- and moderate-income communities. CED involves a wider array of participants and constituents, including those ordinarily excluded from the policy and political arenas or from the financial benefits of development.¹ It suggests a social entrepreneurship, for profit indeed, but also tapping market forces for other goals—creating stable, quality jobs; fostering opportunity for education and personal advancement; establishing grounded and credible institutions with wider influence, and driving change in distressed regions and economic sectors.²

Microenterprise is often celebrated as a strategy for community economic development.³ Clearly, organizing and development in low-income communities must take account of microenterprise as the locus of substantial economic activity. In both the formal and informal economy, self-employment appears frequently as the most accessible option for

¹ Dean and Professor, University of Maine School of Law. This essay is based upon my remarks in the panel discussion entitled, “The Market, Entrepreneurialism and the Poor,” at the Northeastern University School of Law conference, *Rethinking Ideology & Strategy: Progressive Lawyering, Globalization and Markets*, Boston, MA, November 6–8, 2003. Portions are adapted from my article, *Worker Ownership in Enron’s Wake—Revisiting a Community Development Tactic*, 8 J. SMALL & EMERGING BUS. L. 239 (2004).

² Important and subtle distinctions exist between community organizing and community economic development. See generally Scott L. Cummings, *Community Economic Development as Progressive Politics: Toward a Grassroots Movement for Economic Justice*, 54 STAN. L. REV. 399 (2001).

³ See generally WILLIAM SIMON, *THE COMMUNITY ECONOMIC DEVELOPMENT MOVEMENT* (2001) (identifying the core elements of community economic development as “(1) efforts to develop housing, jobs, or business opportunities for low-income people, (2) in which a leading role is played by nonprofit nongovernmental organizations (3) that are accountable to residentially defined communities.”) *Id.*

⁴ See, e.g., Susan R. Jones, American Bar Association, *Legal Guide to Microenterprise Development* (2004).

income-generating work by the poor, from home-based child care services to retail sales. In job development strategy, then, microenterprise is a reasonable place to begin, and organizations such as Accion USA⁴ seek to build needed technical and financial support systems to support microentrepreneurial success. Even with such support, however, autonomy and self-sufficiency remain fragile in the microenterprise arena, as Rashmi Dyal-Chand's contribution to this volume amply demonstrates.⁵

My goal here is to broaden the discussion and to situate microenterprise as a small piece of a more expansive picture of community economic development. Any discussion of markets, entrepreneurialism and the poor must account for the downside of shifting undue risk and burden on to those least able to shoulder the expense or loss. Business enterprise certainly presents opportunities for poverty alleviation. Such social entrepreneurship, however, requires the development of institutions that not only provide distressed communities with a bridge to the marketplace, but also with a buffer from its harsh extremes.

Community Economic Development on a Larger Stage: Cooperative Home Care Associates

Many CED strategies, in contrast to microenterprise, seek to build larger enterprises with the potential for greater stability, broader sharing of risk, and ultimately more influence in the market. These strategies rely upon planning and support from social entrepreneurs, often in the form of nonprofit sponsors or developers. "Sectoral" employment strategy, for instance, takes CED far beyond microenterprise and into regional markets. This approach involves sophisticated entrepreneurship—building a business in a selected economic sector, becoming deeply engaged in that sector as a socially responsible employer, and using that role to empower workers inside the enterprise and to influence the wider market and community.

A widely acclaimed example of a sectoral approach to CED is Cooperative Home Care Associates, Inc. (CHCA) in Bronx, New York.⁶ CHCA was born as a community economic development project of the Community Service Society, a large nonprofit social service organization in New York City.⁷ Today, CHCA is a licensed, paraprofessional home

health care company employing about 750 home care aides in the south Bronx. It is part of a network of enterprises with an integrated strategy to influence labor and health care policy in a national arena and to shape markets in selected metropolitan areas.⁸ Founded in 1985, CHCA is structured as a worker cooperative corporation, owned and controlled by its predominantly female workforce, most of whom are African-American or Latina. The model expressly links the quality of health care services with the quality of paraprofessional home care work—where a stable workforce strengthens the enterprise in the health care market and better jobs are created in a growing low-wage labor market.

CHCA has intentionally focused upon a particular labor market that employs many low-wage women, with the concrete objective of reshaping that regional market and upgrading the status of the home care workforce. In order to influence the quality of entry-level jobs accessible to inner-city women, the company has intervened as an employer inside the home care industry, competing on the basis of quality and helping to raise employment standards beyond a single enterprise. Characterizing itself as a "yardstick corporation" against which other companies can measure their practices, CHCA provides better pay and benefits than most of its competitors and has achieved a rate of employee turnover that is roughly half the 40% industry average. The company has nurtured a worker-centered corporate culture, instead of viewing workers as fungible employees, and thus has equated better working conditions with an improved bottom line. Over time, CHCA has given rise to a network of worker-centered health care companies and a nonprofit affiliate that links these enterprises for mutual support, finance, management consulting, workforce training and organizational learning.⁹

The sectoral, labor-based strategy pursued by CHCA differs, not just from microenterprise, but from other conventional approaches to community economic development as well. Much of the economic activity of community development corporations has concentrated on creating affordable housing, with substantial subsidized financing available. Community efforts to create employment for the urban poor have tended toward neighborhood-based resource delivery strategies—channeling finance and other resources into a narrowly defined geographic area and among a variety of industries and small businesses. In contrast, CHCA's approach identifies the problem of urban joblessness not simply as a lack of resources, but as the absence of marketplace

⁴ See <www.accionusa.org>.

⁵ Rashmi Dyal Chand, *Lawyerling the Microcredit Industry: An Essay on Theory and Practice*, in this volume.

⁶ Anne Inerra, Maureen Conway and John Rodat, Aspen Institute, *The Cooperative Home Care Associates: A Case Study of a Sectoral Employment Development Approach*, 29–30 (2002) available at <www.paraprofessional.org>.

⁷ For more detail about the history of Cooperative Home Care Associates and its affiliated organizations, see Peter Pitegoff, *Shaping Regional Economies to*

Sustain Quality Work, in *HARD LABOR: WOMEN AND WORK IN THE POST-WELFARE ERA*, ch.5 (Joel Handler & Lucie White eds., 1999).

⁸ See STEVEN L. DAWSON, *START-UPS AND REPLICATION, JOBS AND ECONOMIC DEVELOPMENT: STRATEGIES AND PRACTICES*, ch.7 (Robert Giloth ed., 1998).

⁹ Steven Dawson and Rick Surpin, Aspen Institute, *Direct Care Health Workers: The Unnecessary Crisis in Long-term Care* 30 (2002) available at <www.paraprofessional.org>.

relationships as well. Thus, with sophisticated business planning, it has penetrated deeply within a single industry, selected in terms of a regionally defined labor market rather than a narrow geographic neighborhood.

And a Grander Scale Yet: The Mondragon Cooperacion Cooperativa

Cooperative Home Care Associates and its affiliates have taken community economic development out of the shallows of a small-business, neighborhood focus, and into deeper waters of regional health-care markets and policy. The Mondragon Corporacion Cooperativa in the Basque region of Spain, an enterprise that helped to inform and inspire the CHCA start-up years ago, offers a hint of community economic development on a still grander scale. In a global context and in dramatic contrast to microenterprise, the Mondragon experience represents a sophisticated institutional form that connects Basque workers with the global market and supports them in entrepreneurship. Its values of economic democracy are reflected both in the workplace and in the broader community culture. Although unique in its origin and context, and driven in part by Basque nationalism,¹⁰ Mondragon stands out as the most successful coordinated complex of worker cooperative enterprises in the world, with demonstrated capacity for economic growth and long-term survival.¹¹

The town of Mondragon, about thirty miles southeast of Bilbao, is nestled in the mountains of northern Spain. Despite its relative inaccessibility before road improvements in the 1980s, Mondragon had a long industrial tradition, including operation of a large foundry and metal-working company in the early 1900s.¹² The 1941 arrival of Don Jose Maria Arizmendiarieta, a Basque Catholic priest, marks an early punctuation point in the history of the Mondragon cooperative complex. With a social vision stressing the dignity of work and the need for collective solidarity, his pastoral work involved community organizing and the creation in 1943 of an independent school to teach industrial skills to local teenagers. The school expanded over the next decade to include technical and post-secondary education, and it provided Don Jose

¹⁰ The Basque region of northern Spain and southern France has rich history and complex social culture. For an historical analysis of the relationship of Basque culture to its economic development, see generally Mikel Gomez Uranga, Center for Basque Studies, *Basque Economy from Industrialization to Globalization* (2003); MARK HOLMSTROM, *SPAIN'S NEW SOCIAL ECONOMY* (1993). Cf. MARK KURLANSKY, *THE BASQUE HISTORY OF THE WORLD* (2001).

¹¹ WILLIAM FOOTE WHYTE AND KATHLEEN KING WHYTE, *MAKING MONDRAGON: THE GROWTH AND DYNAMICS OF THE WORKER COOPERATIVE COMPLEX 3* (1988).

¹² *Id.* at 25.

Maria with a base for guiding democratic economic development until his death in 1976. Even today, the MCC Annual Report describes Don Jose Maria as the "inspiration and driving force behind the Mondragon cooperative experience."¹³

Arising from a single firm producing gas stoves in 1956, the Mondragon group expanded in the subsequent three decades into dozens of worker cooperative manufacturing firms, including Spain's largest producer of refrigerators and leading tool-and-die makers. Associated with these industrial cooperatives were a variety of other cooperatively structured enterprises—farms, schools, housing, retail stores, a technical university and the community's own social security system.¹⁴ By the 1980s, close to 20,000 worker-members were employed in the cooperatives. Notably, the group relied upon its own central bank, the Caja Laboral, which institutionalized the entrepreneurial function by providing research, business planning, financing and management support to the industrial cooperatives. The Caja itself was governed democratically by a combination of its own workforce and representatives of the client cooperatives. The bank's governance structure remains essentially the same today.

Over the course of the late 1980s and early 1990s, in response to market pressures, the Mondragon group established the Mondragon Corporacion Cooperativa (MCC) as a more centralized structure to facilitate further growth and greater international reach. Today, the MCC coordinates its far-flung operations throughout the world, with over 60,000 employees and with sales reaching over nine billion euros in 2002.¹⁵ Its Financial Group includes banking, social welfare, insurance and leasing businesses. Its Industrial Group consists of seven divisions—automotive, electronic components, construction, industrial equipment, household appliances, engineering and machine tools. Its Distribution Group centralizes its retail, agricultural and food activities, including the largest supermarket chain in Spain. Research and education are centered in several specialized technology centers and training institutes, and in the evolving University of Mondragon.

In all, over 150 cooperative enterprises, subsidiaries and affiliated organizations are joined together under the umbrella of the MCC. Governance is concentrated in the MCC Cooperative Congress, a body of 650 members representing the constituent enterprises. A seventeen-

¹³ Mondragon Corporacion Cooperativa, *2002 Annual Report*, inside cover.

¹⁴ HENK THOMAS AND CHRIS LOGAN, *MONDRAGON: AN ECONOMIC ANALYSIS 34* (1982).

¹⁵ *Annual Report, supra* n. 13, at 7. Although the relative value of euros and dollars varies from time to time, nine billion euros in late 2003 was equivalent to almost 11.5 billion American dollars.

member Standing Committee, elected by MCC's component groups and divisions, serves essentially as the board of directors.¹⁶

Despite this centralized governance oversight, member cooperatives are legally autonomous and, essentially, independent in their operations. The MCC super-structure is designed to provide member companies with key business services and technical assistance. Rather than executive control from on high, the companies' relationship with senior management emphasizes ongoing communications, persuasion and negotiation. Fred Freundlich, a professor at the University of Mondragon and an organizational design consultant to the Mondragon companies, describes the management structure of the MCC as an "inverted conglomerate," or a traditional conglomerate turned on its head.¹⁷

MCC's stated mission combines "... the basic objectives of a business organisation competing in international markets, with the use of democratic methods in its business organization, job creation, the human and professional promotion of its workers and a commitment to the development of its social environment."¹⁸ This is no easy feat, as the MCC's multinational corporate growth and entry into global competition places stress on its cooperative values. In recent years, the challenge of maintaining its commitment to democratic enterprise has become an issue of much attention and internal debate.¹⁹

While the core enterprises in northern Spain remain cooperatively structured, the MCC has acquired a number of other firms and entered joint ventures in other nations without implementing worker ownership or democratic governance. In the domestic cooperatives, the number of non-owner and temporary workers has increased in recent years, justified on the basis of organizational flexibility. This undermines the long-standing notion of permanent membership and equitable wages and benefits. Moreover, MCC decided explicitly in the early 1990s to link the salaries of top MCC managers to the global market for senior executives, with the symbolic and practical consequence of widening income disparities among members.

Centralization of strategic policymaking arguably has compromised meaningful member participation. Historically fundamental values such as the dignity of workers are expressed increasingly as a means to market

¹⁶ Fred Freundlich, Mondragon University, *The Mondragon Cooperatives: Diagrams and Notes on the Structure of an Individual Cooperative and of the Mondragon Cooperative Corporation* (2003).

¹⁷ *Id.*

¹⁸ *Annual Report*, *supra* n. 13.

¹⁹ SEE GEORGE CHENEY, VALUES AT WORK: EMPLOYEE PARTICIPATION MEETS MARKET PRESSURE AT MONDRAGON 11 (1999). The Mondragon complex faced a similarly fundamental challenge to its cooperative values and structure in the 1970s, when worker dissatisfaction led to a strike and subsequent effort to grapple with the relationship of the enterprise network with unions and political parties. WHYTE AND WHYTE, *supra* n. 11, at 91-102.

success, rather than as ends in themselves.²⁰ Nonetheless, MCC continues to strive for a balance between its democratic social goals and its survival in a competitive domestic and global market. Despite recent expansion, MCC maintains a firm commitment to its cooperative core, sustains a dialogue about extending democratic values to affiliated enterprises, and continues to be a major influence within and reflection of its Basque community. As MCC thrives in a complex global economy and matures as an enterprise, it suggests both the potential and the challenges of democratic economic development on a wider stage.

A Note of Caution

The Mondragon saga expands the frame of reference for community development, taking the notion way beyond microenterprise and a local focus. Notably, today's multinational complex began six decades ago in a crucible of community organizing, job training and small business entrepreneurship. Still unclear is how well it can sustain its social goals and democratic values at home and extend them to its increasingly far-flung venues. Although impressive in many ways, Mondragon highlights the tension between participating in the marketplace and maintaining the full range of community development objectives.

This tension exists in public policy as well. The relentless drive toward market-based approaches in anti-poverty policy arguably displaces needed programs of government support for distressed communities. For example, the low-income housing tax credit,²¹ while successfully spawning a specialized industry of housing development and finance, is now the largest single federal expenditure in support of subsidized housing, while the demand for affordable housing still outpaces supply.²²

Promotion of market solutions in public policy has arguably diverted attention from primary policy goals and given rise to dissonance in administration.²³ The earned income tax credit (EITC) program, for instance, is among the most successful federal policies in effect today to

²⁰ CHENEY, *supra* n. 19, at 134-37.

²¹ 26 U.S.C.S. § 42 (1986).

²² Joint Center for Housing Studies of Harvard University, *The State of the Nation's Housing: 2004* 28 (2004).

²³ An extreme example of market perversion of policy arose outside the CED arena, when the Defense Advanced Research Project Agency (DARPA) proposed its Futures Markets Applied to Prediction, or "FutureMAP," program. FutureMAP was a plan to create a futures market whereby investors would bet small amounts of money that a particular terrorist attack or assassination would happen. The plan was abandoned in the face of public outrage and Congressional objections. See Steven Pearlstein, *Misplacing Trust in the Markets*, Washington Post, E-1 July 30, 2003. Paul Courson and Steve Tumham, *Amid furor, Pentagon kills terrorism futures market*, CNN.com, July 30, 2003.

address the problem of poverty, with a wide spectrum of political support. It rewards work by providing a tax refund to the working poor—those taxpayers who have earned income, usually from wages, but insufficient income to escape poverty. The EITC has become one of the largest income transfer programs to low-income taxpayers. Yet, according to a *Tax Notes* report, the Internal Revenue Service is not well suited to operate such a social program. “The IRS compliance staff despises having to administer the earned income tax credit.... [They] do not have the temperament for and are not well trained in dealing with EIC-related issues. Social worker skills rather than accounting skills are most useful in determining and documenting eligibility.”²⁴

Decent policies such as the earned income tax credit and the low-income housing credit have been extremely successful by their own terms. Particularly with targeted government support, market participation clearly presents strategic opportunities for poverty alleviation and community development. But I conclude this essay on a cautionary note. At the policy level, market solutions should not displace more direct government support for the poor nor shift undue risk onto those who can least afford the burden. Government aside, community development must involve more than just doing business for the sake of market participation. Social entrepreneurship at its best is driven by goals of broad-based benefit and accountability—tapping market resources to build local capacity and power for change.

²⁴ George Guttman, *IRS to Strengthen EIC Compliance Efforts*, 98 TAX NOTES 1058 (Feb. 17, 2003).