

Alternative Asset Building in African American Communities: Wealth Accumulation through Cooperative Ownership

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September 20, 2006

OUTLINE

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- Definitions & Distinctions: 3 kinds of wealth
- Coop Wealth We Can Measure:
 - Member Investment
 - Housing wealth
 - Land wealth
 - Credit Union Savings
- Conclusions

Introduction

- African Americans have a long but often hidden history of cooperative ownership.
- African Americans have used cooperatives to address market failures and racial economic discrimination.

Introduction cont'd

- Many Black-owned cooperatives were/are a great success, particularly as strategies to save costs, provide quality goods and services, increase income, combat racial discrimination, and increase Black economic stability and self-sufficiency; and sometimes save or create decent jobs in their communities.

Introduction cont'd

- Along with other benefits, we are beginning to measure asset accumulation and wealth creation through cooperative ownership.
- To understand how cooperative business ownership builds assets for African Americans, we need to first understand the relationship between cooperative ownership and wealth creation.

Introduction cont'd

- How do we prove that cooperatives create wealth and help their members accumulate wealth?
- What aspects of cooperative ownership (benefits, distributions, and mechanisms) contribute to members' accumulation of assets and thus wealth?
- Need to understand these mechanisms generally before focusing on Black comm.

Definitions

- Wealth
- Income versus wealth
- Cooperative corporate wealth versus individual wealth
- Community wealth

Wealth

- Wealth is a store of value,
- a portfolio of assets that have the potential to appreciate over time (provide a return on investment).
- Measured as net worth - all assets minus all liabilities.

Wealth versus Income

- Income generation is important but is not exactly wealth creation or accumulation
- Coop businesses can increase income and reduce costs.
- Put control of income into hands of worker- and producer-owners, and help income go farther with low cost, high quality products for consumer-owners.

Wealth versus Income (2)

- Enhanced income and benefits can contribute to wealth accumulation
 - Increase stability
 - Increase savings
 - Patient capital (can take advantage of investment opportunities)

Cooperative Corporate Wealth

- Cooperative corporate wealth (the joint wealth in an enterprise) versus individual wealth.
- Need a good definition of cooperative corporate wealth - wealth that is created through the joint efforts of the members and is retained by the cooperative entity or enterprise, and is owned and operated democratically.

Cooperative Wealth (2)

- Member accounts translate into individual wealth – equity share, patronage refund
- Net worth of the business – translates to individual shares and/or is the sum greater than the parts?
- Is the coop's corporate wealth a store of value with a potential greater than itself?

Cooperative Wealth (3)

- Accumulated benefit versus distributional benefit.
- Distributional benefit
 - per member share of the business's net worth
 - Prosper because the business prospers and the value of each member's account appreciates.
 - Coop provides opportunities for savings.

Cooperative Wealth (4)

- Accumulated benefits:
 - Collateral for other investments and/or store of finance capital
 - Business experience & skill development applies in other settings
 - Stable employment/income leads to discretionary income and capacity to follow opportunity
 - Retirement benefits
 - Associated economic activities – spillovers
 - Proximal capital

Cooperative Wealth (5)

- Challenges
 - No good definition
 - No good measure
 - Per member assets/equity/value versus total corporate assets/equity/value
 - Not for profit?
 - Limited compensation principle

Community Wealth

- How do communities benefit from cooperative corporate wealth?
- Does wealth “spillover” and enrich the community in some way?
- How do we identify and measure this wealth?
- Need expanded notion of wealth and proximal capital

Community Wealth (2)

- Quantitative community wealth
 - Business anchoring
 - Support for local small businesses
 - Increased business/commercial activity
 - Increased property values
 - Affordable housing
 - Multiplier effect

Community Wealth (3)

- Qualitative community wealth
 - Benefits of collective access to jointly owned accumulated assets
 - Benefits from association with a profitable business - locational
 - Increased access to and availability of goods and services

Community Wealth (5)

- Benefits from association with a profitable business – locational
 - Increased circulation of money
 - increased quality of life and well being
 - increased economic and civic participation
 - increased capabilities and skills
 - Expanded opportunity

Coop Wealth We Can Measure

- Member Investment
- Housing Wealth
- Land Wealth
- Credit Union Savings

Member Investment

- In some ways we know a lot about this
- Equity share
- Patronage refund
- Allocated and unallocated resources
- Revolving payment system
- Minimum vestige

Returns to Ownership

- U.S. coops and employee-owned businesses provide dividends and financial returns to members:
- U.S. Farmers Cooperatives
 - Total member equity at \$9.9 billion in 1998; member accounts worth \$1.3 billion.
- ESOP retirement savings are higher than non-employee-owned companies:

Returns to ESOP Ownership

- Massachusetts ESOP study
 - Per participant retirement savings of \$39,895
 - 12% of ESOPs have average participant accounts worth over \$100,000.
- Washington State ESOPS
 - Higher wages and significantly higher retirement wealth than similar non-ESOP firms
 - Average per employee account worth \$24,260 (1995) compared with \$12,735

African American Returns to Coop Ownership

- There is some data on the dividends paid to members from African American owned cooperatives.
- In 1871 The Chesapeake Marine Railway and Dry Dock Company paid members a stock dividend totaling \$14,000 (on 8,000 outstanding shares).

AA Returns cont'd

- In the 1920s, the Cooperative Society of Bluefield Colored Institute paid dividends of 10 percent on purchases made.
- In 1935 Consumers' Cooperative Trading Company began to pay dividends of 2 percent on shares of stock owned (in 1936 it was considered the largest grocery business operated by African American in the U.S. and had total sales of \$160,000).

Returns to Ownership in Non-White, Low-Income Coops

- Cooperative Home Care Associates in NYC (1987- present) pays annual dividends sometimes 25% of initial equity investment; leads the industry in above average wages, benefits, career ladder, leadership training, and advocacy.
- Childspace in Phili.(1990s-) pays above average wages, benefits, career ladder, training, advocacy, and IDA accounts.

Non-White, Low-Income Returns cont'd

- California Mutual Benefit Service Sector Coops (1990s) provide higher wages for unskilled, non-English speaking immigrants; and profit sharing and dividends.

Housing Wealth

- Presumed equity advantage to home ownership through a cooperative.
- AFL-CIO Housing Investment Trust
 - Leveraged investment creates equity
 - Housing equity increases over time
 - Tax benefits to homeownership contribute to wealth creation
 - Homeowners have higher net worth than renters

Land Wealth

- Cooperative agricultural production and marketing also help individuals maintain land ownership and make a living from farming.
- Cooperatively owned processing plants help farmers to earn more money from their produce, retain earnings, and invest in more equipment, supplies, and land.

Land Wealth cont'd- FSC

- Many of the members of the Federation of Southern Cooperatives/Land Assistance Fund (Federation/LAF) are producer-owned agricultural cooperatives and marketing boards.
- Over 35 years, \$75 million in sales through cooperative marketing; an average of \$2.5 million per year in sales for the past two decades.

Land Wealth FSC cont'd

- Land retention is a major objective.
- \$87.5 million worth of land saved and retained (175,000 acres at an average of \$500 per acre) through efforts of the FSC/LAF the past 35 years.
- \$26 million worth of affordable housing units constructed and rehabilitated; including four multi-family rental projects with 126 units.

Land Independence FSC

- Black-owned cooperatives have facilitated land ownership for their members and their communities in the face of land restrictions, evictions, and housing discrimination.
- In the south (1950s-60s), for example, share croppers were evicted from their farms because they registered to vote or participated in civil rights activities.

Land Independence FSC cont'd

- Freedom Quilting Bee (1960s-90s), a founding member of the FSC/LAF, is a sewing cooperative (AL) started by sharecropping women to sell their quilts for extra money.
- FQB bought 23 acres of land to help evicted share croppers own their own land; built a sewing plant on part of it, and provided other services to the community.

Credit Union Savings

- Credit Unions provide access to affordable financial services and loans, and opportunities for savings and investment.
- Credit Union assets, dividends, shares per member, and loans can be analyzed to measure wealth accumulation through interest bearing accounts and investment opportunity, even when levels are modest.

Credit Union Savings cont'd

- Good data is available, although we don't know how the savings or loans are actually used.
- Households using both a bank and a credit union have greater wealth than households using only a bank or a credit union. Wealthier households tend to use more than one financial institution. (Those who use banks primarily, however, have greater wealth than those using credit unions predominantly.)

Credit Union Savings cont'd

- Credit Union National Association (CUNA, USA) data shows the dividend paid to members averaged \$125 from 1996-2000 with a high of almost \$200 in 1997.
- Community Development Credit Unions average dividends fluctuated between \$60 and a high of \$90 in 2000.

Credit Union Savings cont'd

- FSC/LAF Community Development Credit Unions:
 - Assets have been growing, increased to approx \$3,780/member in 2005
 - Loans are growing, total value of loans in 2005 was \$205 million.
 - Don't have dividend figures but shares per member increased to \$3,132 in 2005 (up from \$2,000).

Credit Union Savings cont'd

- While dividends and savings in absolute numbers are not large in these credit union examples, the purpose is to show that at least modest savings can be enabled in low income households; and that credit unions are growing, so the potential for increasing savings and investment, and providing financial services to low income communities is growing.

Conclusions

- African American cooperatives throughout history have provided assets, savings opportunities, and other mechanisms for economic independence for their members – though modest.
- African American cooperatives provide a variety of benefits to their members, and many spill over into their communities.

Conclusions cont'd

- There has not been enough attention to this kind of asset building.
- We also do not have enough information or data to understand these mechanisms.
- For example we don't know enough about how coop members use their dividends, or leverage their equity from and investment in the cooperative, or even if they try to leverage it.

Conclusions cont'd Data Issues

- Issue of collecting and accessing data:
 - finding where data exists and how useful it is
 - figuring out ways to create data through surveys and interviews
 - access to coop accounts and files
 - changing the way official and government sources collect data.

Conclusions Data Issues cont'd

- Issue of data analysis
 - To reflect the appropriate definition of wealth
 - To figure out all the dimensions that the data provide insight into
 - To make choices about how to calculate individual wealth separately from group wealth
 - To use qualitative as well as quantitative indicators, and the advantages and disadvantages of each.

Research Needs

- An appropriate definition of wealth; what is cooperative corporate wealth versus individual wealth; distinctions and clarifications between concepts to better understand what we are investigating.
- Mechanisms and tools for collecting relevant data and measuring wealth, both individual and collective, must be created and refined.

Research Needs cont'd

- Understanding the barriers to wealth creation and accumulation through cooperative ownership (within and without)
- Exploring what economic structures lend themselves to individual and community wealth creation, asset building, and retention of assets.