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What are GOLD Businesses?

And how can they work for urban economic development?

A white paper from the Cooperative Development Institute, www.cdi.coop

What do cities need? People who care about them. Preferably, people with a little money to invest.

The big mistake that many cities and states have made, and keep making, is trying to attract people who *don't* care, but have a *lot* of money to invest. What usually happens is that before too long, they take their money somewhere else that is more attractive. Or—possibly worse—make demands that are detrimental to the city, in return for staying.

What a city needs is *sticky capital*. A willingness to invest in the city, to seek a decent return in the city, to feed those returns back into more investment. There are different ways of trying to obtain sticky capital, each with its advantages and disadvantages. Legislating barriers to capital leaving may be quick, but ultimately has the opposite effect, as people scramble to get their money out any which way and make sure not to put any in.

Encouraging local entrepreneurship makes more sense, but has a number of weak points:

- Most new small businesses fail.
- If they succeed, there is no guarantee that the owners will stay in town.
- Even if they stay in town, there is no guarantee that owners will reinvest in more local business.
- Even if they stay and they invest, the owners may become powerfully self-interested rather than interested in the broader prosperity of the city and its residents.

The most effective means to address all these points is to look not simply at *local ownership*, but at *group-owned, local, democratic* (GOLD) businesses—that is, cooperatives.

Cooperatives are businesses owned and controlled by their members, who are the ones who benefit from the business's operation. By definition, they are far less likely to create problems for the community in which they're located—the company's owners are community residents. By the same token, cooperatives have less reason to relocate.

There remain several points that need strengthening for co-ops, though: initial business success, reinvestment, and democratic capacity.

Since democratic participation is not taught in our schools nor practiced much in our society, most people need continuous training in how to understand the decisions over which they have a say, how to present and resolve conflicting interests, and how to overcome historical

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difficulties and cultural differences. A strong program of co-op development would include a strong training program.

Many cooperatives do not bother to look beyond the functioning of their own business. A city that helps its co-ops develop should demand in return a commitment to invest surpluses in new co-op development. This is a key feature of strong co-op systems in other countries, and has been incorporated into the celebrated Evergreen Cooperative project in Cleveland, OH (see Media Coverage of Evergreen Initiative: <http://www.oeockent.org/cooperative-development/media-coverage-of-evergreen-initiative/>).

But what is the best way to invest in new co-ops, on the part of a city or of existing co-ops? How to address that problem of new businesses failing so frequently? There are two key insights here: the first is the “IS” part of Jane Jacob’s famous LOIS¹—locally-owned *import substitution*—that is, creating jobs through purchasing from local businesses rather than non-local businesses. The second insight is to build on existing businesses. A business that is up and running has myriad resources to offer beyond its balance sheet: experience, expertise, reputation, used equipment, unused space, friendly demand, friendly supply, community connections, and much more.

The Evergreen Cooperative project taps both insights. It uses the massive purchasing power of large, existing “anchor institutions” in Cleveland—hospitals, universities, the municipal government—to shift demand from non-locally owned vendors and suppliers to GOLD businesses. These new start-up co-ops benefit from the friendly demand of the anchor institutions, and supply them with not only a way to sustainably lift people from poverty in the surrounding neighborhoods, but cut their own environmental impact footprint as well.

The Cooperative Development Institute has developed a taxonomy of ways that existing businesses can help seed new businesses, part of its “Co-ops Seeding Co-ops” initiative. These include looking up and down the supply chain, spinning off business functions, replication, new markets for existing products, new products from existing technology, and opportunities for conversion.

In summary, a sustainable, resilient plan for economic development in urban areas that benefits local residents would include support for group-owned, local, democratic (GOLD) businesses, with these added features to improve chances of success and long-term impact:

- The GOLD businesses would provide an alternative to imports (non-locally owned vendors)
- They'd build on the strength of major purchasers, such as large anchor institutions
- The businesses would strongly promote owners' capacity for democratic participation, with help from the city and other supporters
- The city investment would require that benefiting GOLD businesses reinvest in new GOLD business development, and
- The focus of new business development would be to build on the strengths of existing businesses, through various means (supply chain, spin-offs, conversions, etc.)

¹ The answer to neo-liberals’ TINA: “There Is No Alternative.”