

Local Policy Responses to Globalization: Place-Based Ownership Models of Economic Enterprise

David L. Imbroscio, Thad Williamson, and Gar Alperovitz

The destabilizing forces wrought by economic globalization increasingly buffet local communities throughout America. This article explores a local policy strategy for coping with the effects of these forces and restoring some degree of stability to local economies. This strategy entails the creation of place-based ownership models of economic enterprise. With ownership and control held in a more collective or community-oriented fashion, such enterprises tend to anchor or root investment more securely in communities, providing a counterforce to globalization. We present and critically assess six place-based ownership models while providing illustrative examples to demonstrate how each model can work in practice.

Even during the recent long-running economic expansion in the United States, a sober mood shrouded many American communities. Buffeted by the destabilizing forces wrought by economic globalization, localities struggled mightily to cope with the effects of these forces and restore some degree of stability to their economies. This quest for community economic stability—in which communities possess job opportunities and a general level of economic activity to provide a decent standard of living for their populations over a sustained period of time—preoccupied, and continues to preoccupy, the hearts and minds of local policymakers throughout the America.

Drawing on large national surveys of local economic development policies, Clarke and Gaile (1997) delineated and categorized the myriad policy strategies for community stabilization that localities are employing as a response to globalization (also see Clarke & Gaile, 1998). Communities are pursuing classic *locality* policies to lower production factor costs (land, labor, and capital) relative to other cities through, for example, tax incentives or other subsidies for businesses (also see Peterson, 1981). They also are pursuing *world-class community* policies, developing innovative production capacities to gain a niche in the global economy via, for example, public-private partnerships, encouragement of research

and development, and efforts to attract foreign investment (also see Kanter, 1995). And to a lesser extent, they are pursuing *entrepreneurial mercantile* policies and *human capital* policies. The former builds on local resources to encourage indigenous (often small) businesses to form and grow rapidly by, for instance, providing seed capital and technical marketing assistance to these businesses, which has the result of diversifying the local economic base (also see Imbroscio, 1997). The latter attempts to build the level of skills and work-related aptitudes held by the local workforce through, for example, job training and retraining efforts and basic school system reform (also see Stone, Henig, Jones and Pierannunzi, 2001).

This article explores another local policy strategy for enhancing community economic stability in the global economic era. This strategy seeks to facilitate the creation and expansion of economic enterprises owned in ways that potentially work to anchor or root business investment in place. The specific aspect of economic globalization to which economic enterprises respond is the associated heightened mobility of job-creating capital investment—arguably globalization’s most powerful threat to local economies. In these *place-based ownership models*, enterprises are owned and controlled in a more collective or community-oriented fashion, a point of contrast from more common structures in which ownership is either held by an individual or in the traditional corporate form. It is this attribute—that ownership is held by various collectivities and/or community-oriented institutions—that potentially gives such enterprises their rootedness in place (and, by extension, their potential to act as a buffer against the hyper capital mobility of economic globalization). Although those working to build these enterprises “on the ground” rarely think of them conceptually as systematic responses to globalization, their *effect* is to provide a potential countervailing force to it. Therefore, these efforts can be understood as local policy responses to global economic forces.

Although our focus here is on the local level, not unlike the strategies delineated by Clark and Gaile (1997) above, the effort to expand place-based ownership in local economies need not be exclusively local. Indeed, as we shall suggest below, the large-scale expansion of these nascent models would undoubtedly be facilitated greatly by providing communities with resources and expertise from national and state governments, as well as other supralocal entities. Nevertheless, local officials and policymakers already possess the capacity to pursue this strategy via, for example, the provision of tax benefits, of procurement preferences, and of direct financing (both debt and equity) to place-based enterprises. This effort might involve, at the most basic level, simply redirecting part of the considerable funding and energy now devoted to conventional economic development initiatives.

We present and critically assess six place-based ownership models below. Illustrative empirical examples serve to demonstrate how each model can work in practice. The aim of this article, like all policy studies, is ultimately practical: Although we conclude by pointing to the need for additional research, we wish to call to the attention of local policymakers and policy researchers struggling to

increase economic stability in the face of globalization a hitherto largely unknown and little-understood policy strategy. Indeed, although most of these place-based models have garnered only scant attention from scholars and the media, beneath the surface of American local economies they have been quietly developing for over 30 years. A fuller discussion of their attributes is now warranted, one that both understands these models in conceptual terms as means to stabilize local economies and assesses, in a preliminary way, their feasibility to accomplish this goal.

Six Models

Community-Owned Corporations

One form of alternative ownership strongly rooted in place is what might be called the community-owned corporation. Community-owned corporations are similar to traditional corporations save one crucial factor: *They are owned primarily by citizens living in or strongly connected to the local community.*

In recent years, there have been several examples of groups of community members joining together to buy a business providing an important community service (and hence contributing to the community's economic stability), especially in smaller towns experiencing economic decay. For example, after the last privately owned coffee shop in town closed, the citizens of Scranton, North Dakota, "formed Scranton Community Café, Inc., sold shares in the corporation, and raised \$90,000 by canvassing the surrounding school district for funds" (Perlman, 1997, p. 17). Numerous other community-owned cafés dot the Midwest; other communities have considered pursuing this approach to reopen bakeries and grocery stores. In fact, as Perlman reports, of late "the basic idea is beginning to sprout a whole new set of experimental ventures." The residents of Rushville, Illinois, saved a movie theater by creating a community corporation and selling stock at \$100 a share to more than 200 people, generating some \$53,000 for the project. In Bonaparte, Iowa, citizens saved a whole downtown shopping block by creating a community corporation, as "fifty townspeople came forward to invest the limit of \$2,000 each" (Perlman, 1997, p. 17). In another example, the people of the tiny village of Hebron, New Hampshire, formed a community corporation to save their local general store, "a sacrosanct symbol of small-town New England," when a group of residents (from 17 local families) purchased 23 shares at \$12,000 apiece, raising \$276,000 for the enterprise (Ferdinand, 1999).

The most celebrated example of a community corporation is Wisconsin's National Football League franchise, the Green Bay Packers. The Packers are owned by about 110,000 shareholders, more than half of whom live in the state (Shuman, 1999, p. 52; also see Shuman, 1998). Its corporate bylaws prevent any one individual from owning more than 20 shares, ensuring broadly based ownership. Also, it is almost impossible for the team to be sold and moved to another city because as a nonprofit corporation shareholders would receive no capital

gains upon resale, and the bylaws require that all proceeds from such a sale be donated to the local chapter of the American Legion “for the purposes of erecting a proper soldier’s memorial” (as quoted in Mahtesian, 1996, p. 44).

The professional sports world offers many other examples of community corporations. Two minor league baseball teams in upstate New York, the AAA Rochester Red Barons and the Syracuse SkyChiefs, are also owned by their fans (the Red Barons are owned by about 8,000 shareholders, with most owning less than five shares; about 4,000 shareholders own the SkyChiefs). Both teams, operated as for-profit community enterprises, sold stock to their respective communities back in the 1950s after their major league affiliates cut financial support. The Wisconsin Timber Rattlers, a single-A baseball team organized as a nonprofit corporation, has also raised capital by selling nontradable stock to local investors (Kraker, 2000, p. 14).

Nevertheless, despite the apparent attractiveness of this ownership model as a vehicle to stabilize local economies, it remains problematic. Many community-owned businesses are community-owned strictly by happenstance: nothing *technically* precludes noncommunity members from owning a controlling interest in them (for example, almost half of the stockholders of the celebrated Packers reside outside of the state of Wisconsin). Without additional guarantees written into corporate bylaws, such as in the Packers case, delocalization of ownership could weaken the community rootedness of these enterprises.

Recognizing this fact, Michael Shuman suggests strengthening the community-owned corporate model through the creation of “a new kind of business structure” in which “*only members of the local community would be allowed to own voting shares of stock*” (1999, p. 52; emphasis in original). Shuman proposes that

shareholders could exchange or sell stock freely, but voting shares could only be sold to other community members. Whenever such a shareholder decided to move out of the community, she would be obligated to sell off her shares to other community members or back to the company. (1999, pp. 52–53).

To expand the possibilities for generating capital investment while maintaining local control, he advocates that these businesses create different classes of shareholders, as conventional corporations often do. In Shuman’s model, two such classes would be created: those shareholders with voting rights, who must be community residents, and those holding nonvoting shares, who could live anywhere. As a precedent, Shuman cites Ben & Jerry’s ice cream company, which “restricted its first stock issue to residents of Vermont” (although, as he points out, “subsequent issues dropped this restriction and diluted local control” [1999, p. 52]). Shuman also notes that hundreds of community development credit unions place such residential restrictions on their member-owners. And residential restrictions on ownership appear to be legally permissible, as courts have only rarely found such restrictions unreasonable (Shuman, 1998, p. 102).

In sum, Shuman's proposal for structuring community corporations potentially could enhance the community stabilizing effects of this model. As Shuman (1998, p. 101) points out: "With all voting shareholders residing in the community, it's unlikely that the firm would move operations elsewhere (unless relocation were clearly in the interest of the community)."

Nonprofit Corporations

Traditional nonprofit corporations are a broader category of organizations that have the ability to stabilize jobs and economic activity in communities. Nonprofits, which account for over 6% of the American economy and over 7% of total employment, are often referred to as the "third sector" because they are the third major economic structure in the United States, after private firms and governmental entities (Shuman, 1998, p. 51; Gunn & Gunn, 1991, p. 82). About a third of nonprofits' economic impact can be attributed to charities, religious institutions, arts and civic groups, and foundations; health services, education, and research account for the remaining two thirds (Independent Sector, 2001a). Universities ("eds") and medical facilities ("meds")—most of which are nonprofits—are especially powerful job producers for America's large cities: In the 20 largest U.S. cities, 69 of the 200 largest private firms (35%) are eds and meds; whereas in 4 of these cities—Washington, Philadelphia, San Diego, and Baltimore—eds and meds account for more than 50% of all jobs generated (Harkavy & Zuckerman, 1999, p. 1).

Nonprofits tend to be fairly rooted geographically, enhancing community stability: Although some very large nonprofits are national in scope and not necessarily wedded to a particular community—the National Collegiate Athletic Association, for instance, moved its headquarters from Kansas to Indianapolis—the overwhelming majority of organizations enjoying formal nonprofit status are local in orientation, explicitly created to meet local needs and inextricable from their local context. Insofar as these organizations become a larger part of local economies, the overall number of community-rooted, stable jobs is likely to expand.

Moreover, a newly emerging and exciting trend—the proliferation of nonprofit owned and operated business endeavors—is moving this sector even further in this direction. In order to be recognized by the Internal Revenue Service as a nonprofit, organizations must issue a mission statement that explains what they aim to accomplish. Mission statements may be broad enough to allow nonprofits to partake in for-profit activity so long as such monies are allocated primarily toward attaining a set social objective. In this context, many nonprofits historically have generated revenues through sale of publications, user fees, and the like. However, in the past 20 years there has been dramatic growth in more aggressive entrepreneurial activity. As the Surdna Foundation's Ed Skloot (1989, p. 2) explains, this activity was a response by nonprofits to "a changing environment

characterized by tighter budgets, diminishing governmental funds, increased competition for donated dollars, a more receptive national attitude toward enterprise, and the gradual acceptance by some nonprofits that commerce and charity can safely co-exist.”

From the standpoint of nonprofits, the motivation for generating a stable revenue stream is obvious: organizational stability and less dependence on outside funding sources (many of which, such as foundations or governments, may have priorities or expectations in tension with the nonprofit’s core work). From the standpoint of community stability, what is interesting is the notion of taking profits earned through business activity and recycling the money into programs and initiatives that directly benefit local community members—while also offering a source of employment to local residents. As nonprofit enterprise expert Bill Shore (1999, p. 127) notes in his book *The Cathedral Within*, successful examples of enterprises have “proved that nonprofits can do more than just redistribute wealth, which they are typically good at. They can also create wealth, though it is a different kind of wealth—community wealth—that is used to directly benefit the community.”

Perhaps the most celebrated example of nonprofit enterprise activity is Pioneer Human Services (PHS) in Seattle, Washington. Founded in 1962, PHS assists addicts, homeless people, parolees, and others on society’s margins to attain economic and social betterment by providing housing, job training, and rehabilitation services. Today the organization, a \$55 million operation, serves more than 6,000 clients per year and employs about 1,000 people in its programs. Its revenues are generated primarily through the sales of its services and products (Independent Sector, 2001b).

PHS operates a total of eight enterprises. The largest and most interesting as a precedent for nonprofit entrepreneurial activity is Pioneer Industries, a precision light-metal fabricator. This enterprise is Boeing’s sole supplier of sheet-metal liners for the cargo bays of its aircraft, and it also has contracts with more than 30 other manufacturers in the telecommunication, medical, and power management industries. Of Pioneer Industries’ 300 employees, 25% are experienced workers hired from the surrounding community; the other 75% are inexperienced local workers recruited from PHS housing and work release programs. The latter category includes mostly convicts, parolees, and others who, because they lack training or have large gaps in their employment history, would have difficulty finding employment. Other PHS businesses include the 150-seat Mezza Cafe and its satellite, the Pronto Deli; the Food Buying Service, a wholesale food distribution enterprise that distributes over 7 million pounds of food to nonprofit organizations in 20 states; the 132-bed St. Regis Hotel, which serves both Seattle tourists looking for a bargain and recovering substance abusers; a full-service mail production house, Greater Seattle Printing & Mailing, serving area businesses; and a real estate enterprise administering a wide range of property and asset man-

agement services for its over 750,000 square feet of commercial and residential properties (Shore, 1999, p. 131; Independent Sector, 2001b; Rusch, 2002).

Other notable precedents include the Greystone Foundation in Yonkers, New York, which is dedicated to transforming and uplifting the inner city community of southwest Yonkers. It operates the Greystone Bakery as a for-profit subsidiary. The bakery, a \$3.5 million per year food production business providing permanent employment for 55 people (most of whom were formerly considered unskilled or unemployable), markets all-natural gourmet tarts and cakes to top Manhattan restaurants and stores, and is the sole supplier of the chocolate fudge brownies used in Ben & Jerry's frozen yogurt and ice cream (Greystone Bakery, 2001). Another example is Minnesota Diversified Industries, Inc., (MDI), which is dedicated to providing jobs for persons with disabilities. It operates in four Minnesota cities (Hibbing, Grand Rapids, Minneapolis, and Saint Paul) and employs over 650 people while collecting annual revenues totaling more than \$65 million. These revenues, most of which are generated through its manufacturing and distribution-and-fulfillment services contracts with clients such as 3M and the U.S. Postal Service, allow MDI to be 99% self-sustaining (Community Wealth Ventures, 2001).

As in the case of community-owned corporate model, the nonprofit enterprise model—although possessing attractive features as a vehicle to stabilize local economies—has problematic features as well. In particular, such enterprises need to balance carefully their objectives and goals, taking care not to let the profit motive override their social missions. Nonprofits going into business also need to ensure that their organizations possess sufficient business experience and training, especially in areas such as management and marketing. Other difficulties confronting nonprofit enterprises are political in nature, as their increasing significance and maturity has begun to arouse criticism and resistance from traditional for-profit competitors. Along these lines, interest groups representing for-profits have raised numerous objections to their tax-exempt status, claiming these tax exemptions give nonprofit businesses an unfair advantage.

Municipal Enterprise

Perhaps the most direct way for local governments to contribute to community economic stability is to go into business for themselves. Locally scaled public ownership anchors specific economic endeavors and the jobs they generate in specific places. The possibility of profitable and efficient municipally owned enterprise is rarely discussed in mainstream development literature. Despite this inattention from academics and journalists, locally scaled public enterprise is surprisingly robust in 21st-century America.

Local public enterprise has a long and noteworthy history in the United States. Governments have traditionally owned and operated utility enterprises in

areas such as electricity, water, sewer, and solid waste collection, as well as nonutility enterprises, such as airports and seaports, civic centers, public parking facilities, recreational facilities, public transportation systems, hospitals, and emergency services (Stumm, 1996). Such traditional forms of public ownership play an important role in stabilizing the economies of communities, in generating securely rooted jobs, and especially, in providing local governments with a substantial source of revenues. In fact, local government in the United States garners almost *half* its self-generated revenue from government-owned enterprises and user fees (the other half coming primarily from property and sales taxes) (Stumm, 1997). In an era in which taxation is fiercely resisted for ideological reasons and the fear that tax increases will cause capital to flee, profit-making public enterprise can potentially be an important means to supplement the cost of basic public services.

Recent research suggests that municipal enterprise can be expanded beyond this traditional set of businesses to other sectors of the economy. Traditional forms of public enterprise tend to have a “public goods” character, providing necessary services that the private sector has often failed to provide. In contrast, nontraditional forms of public enterprise involve public entities competing in areas of the economy in which private provision historically has dominated. Although these nontraditional forms have yet to achieve the scale of traditional public enterprises, there are many interesting examples of nontraditional public enterprise upon which local governments can build. Already, local governments have owned and operated businesses engaged in sectors such as real estate, professional sports, retailing and retail merchandising, training and consulting, fertilizer and soil enhancer production, venture capital provision, methane recovery/energy production, equity investment in commercial development, bottling tap water for sale, and auto-towing (Imbroscio, 1997; Bowman, 1987; Lemov, 1994; Silverstein, 1996; Morris & Kraker, 1998; Osborne & Gaebler, 1992). Like more established traditional forms of public enterprise, these nontraditional forms are mostly non-ideological in nature, as such enterprises are commonly associated with the politically centrist notions of “reinventing government” or “public entrepreneurialism” (Osborne & Gaebler, 1992; Silverstein, 1996).

One industry with an abundance of local public enterprise activity of late that spans the traditional-nontraditional divide is telecommunications. Municipal governments—most often the municipal electric utilities—are increasingly seeing the internet, cable television, fiber-optic networks, telephone service, and other telecommunications provision as a way to survive in a deregulated electricity market. Nashville Electric Service, for one, is currently seeking to use its existing infrastructure to provide telecommunications services, according to Matthew Cordaro, president and chief executive officer of the city’s 300,000-customer municipal utility. The utility has allowed access providers to attach fiber-optic cables to its electrical distributing poles, garnering a percentage of the profits of the enterprise (Hazan, 1999). A smaller-scale example is the North Attleboro

(Mass.) Electric Department (11,000 customers), which has invested \$2 million in a fiber-optic network to establish basic telecom and Internet service (Booth & Beck, 1999). *Public Power Weekly* reports that since the mid-1990s, of 32 Iowa cities in which referenda were held, only two community-owned utilities were denied voter approval to operate a telecommunications company offering cable and Internet services. Over a third of the time, voters approved establishing these systems by majorities of 90% or greater (*Public Power Weekly*, 1998, p. 4).

By 2000 nearly 100 other local governments around the nation had either already constructed or at least begun a feasibility study to build their own publicly-owned telecommunications network (or a public/private joint venture.) These cities include Tacoma, Washington; Gainesville, Florida; Rockville, Maryland; Lincoln, Nebraska; Austin, Texas; San Diego, Anaheim, Palo Alto, and Milpitas, California; Abingdon, Virginia; Marietta, Georgia; Frankfort, Kentucky; Braintree, Massachusetts; Chattanooga, Tennessee; and over 40 rural communities in the state of Iowa alone (Feeder, 1997; Van Wart, Rahn and Sanders, 2000; Youtie, 2000; Clarke & Gaile, 1997). A study conducted in the late 1990s found that of the 270 municipal utilities and rural electric cooperatives surveyed, 24% “planned to compete in the telecommunications industry in the next 5 years” (Youtie, 2000, p. 146).

In another example, local governments across the country have launched commercially oriented, public enterprise endeavors to generate additional funds to support their programs and services. These initiatives range from government agencies selling their services or expertise (to other jurisdictions or businesses) to local governments owning and operating their own retail shops.

One popular municipal commercial venture is the city-owned retail store—as can now be found in places such as Long Beach, Los Angeles, San Diego, Chicago, and Phoenix. These municipal stores sell city-related souvenirs as well as old, unneeded government property. The stores have generated additional revenues and employment opportunities while boosting community pride and preserving historically significant items (i.e., old city signs, equipment, etc.). Some municipal departments and agencies also have begun to sell their services and/or expertise to other municipalities, businesses, and other organizations. Recognizing that it processed divorce cases for less than one-third of the rate of other municipalities, Cameron County, Pennsylvania, began to market its services to other jurisdictions in 1982. Similarly, Los Angeles County markets legal research training to universities and law firms; its Human Relations Department markets ethnic diversity training to corporations and schools; and its Agricultural Commission/Weights & Measures Department markets laboratory services to universities, other public agencies, and private firms (Lemov, 1994; Silverstein, 1996).

Local governments not only are selling their expert services but they have begun to market the products they develop as well. For instance, in Los Angeles County, the District Attorney’s Office sells crime prevention tapes and court record data to private companies, and the Public Social Services Department sells

food stamp control software it developed to other localities. Likewise, the Data Resource Center (DRC) of Portland, Oregon's regional government, Metro, developed a desktop version of its Geographic Information Systems (GIS) data and began marketing the product to the public in 1997. In fiscal year 1997–98, Metro's sales of the software generated \$302,000 for the Data Resource Center, offsetting 20% of the DRC's operating costs (Silverstein, 1996, p. 47; Portland Metro, 2001).

Another area ripe for the further development of public enterprise is professional sports. Over the past decade, support for transferring team ownership to the localities they represent has grown, as dozens of wealthy owners of major league teams used the threat of relocation to exhort huge public subsidies to build lavish new stadiums or remodel existing ones. Other owners, unable to convince their host cities to build them new stadiums or unable to resist the extravagant subsidies offered by competing cities, made good on the threat and relocated their teams (Morris & Kraker, 1998). Against this backdrop, local public ownership looks increasingly attractive. In many cases, buying a local team would not be outrageously expensive—at least not compared to subsidies now given for stadiums, which often amount to three times the market value of the franchise itself. Mahtesian (1996, p. 45) reports that given the high cost of subsidizing teams and their stadiums, it is “absurd [for cities] not to at least explore the economics of buying a franchise. If private owners are going to be that expensive, maybe they are a luxury that a smart community can afford to dispense with.”

Precedents for publicly owned sports teams abound. “The truth,” notes Mahtesian (1996, p. 42), “is that public ownership of sports teams is not only conceivable—it is actually being done in quite a few communities around the country.” Communities that own (or have owned) minor league baseball teams include Indianapolis, Indiana; Rochester, New York; Franklin County (Columbus), Ohio; Lucas County (Toledo), Ohio; Harrisburg, Pennsylvania; Lackawanna County (Scranton), Pennsylvania; and Visalia, California (Imbroscio, 1997). Yet current private owners of sports teams are the biggest impediment to moving public ownership up to the major leagues. The National Football League bars public ownership (as well as the future creation of a Packers-style community-owned corporation) by requiring that a single individual own at least 51% of each franchise. Major league baseball has no formal policy against public ownership, but its team owners have consistently blocked it on a case-by-case basis. For instance, former Padres owner Joan Kroc was prohibited from giving her team to the city of San Diego, and the city of Montreal was prohibited from taking an equity stake in the Expos in return for its investment in the franchise (Zimbalist, 1992, p. 140).

Other questions concerning the local public enterprise ownership model relate to the concept of efficiency. If the model degenerates into what has been aptly labeled “lemon socialism”—in which the public owns and operates a host of grossly inefficient and unprofitable enterprises—the impact on local economic performance and long-term community stability would be deleterious rather than

salutary. However, the experience with lemon socialism stems largely from the use of the public enterprise model on the centralized rather than localized level, as various programs of “nationalization” (especially in Western Europe) have been deemed failures (Nove, 1983; Lindblom, 1977; Carnoy & Shearer, 1980). Initial research suggests reasons to be more sanguine about *local* public enterprise (see Imbroscio, 1995; also see Lynd, 1987). In their call to “reinvent government,” Osborne and Gaebler (1992, p. 216) confront this issue by asking: “Where is it written that government should handle only lemons, while business gets all the profit centers?” And this appears to be advice local governments are heeding: These governments, as pointed out above, are increasingly moving into nontraditional areas of public enterprise involving business activities also profitably pursued by the private sector.

Broader questions of efficiency concern the place-based ownership models considered more generally. Because each model is an effort to stabilize the economies of local communities via the anchoring or rooting of investment in place, such models can inhibit the dynamism of marketplace by obstructing the flow of productive resources (especially capital) into more efficient uses. Nevertheless, it needs to be understood that although economic *dynamism* clearly yields efficiency gains, such gains also result from the economic *stability* of communities. For example, the instability generated by community disinvestment and capital mobility results in the inefficient “throwing away” of established physical infrastructure and the depletion of social capital, among other significant economic costs (Imbroscio, in press). Hence, once it is understood that both market dynamism and community stability produce efficiencies for society, the trade-off between them is less than clear and involves an appeal to other normative values beyond simply efficiency itself.

Consumer Cooperatives

Another model of alternative place-based ownership of enterprise is the consumer cooperative. Consumer co-ops, found mainly in housing, health care, the retail grocery industry, and rural electricity distribution, are self-help economic structures that provide quality goods and services to their members at a reasonable cost. They also are rooted strongly in local communities. As Christopher Gunn and Hazel Dayton Gunn (1991, p. 101) point out: “Consumer coops serve those who can get to the store, live in the housing, or visit the clinic. . . . The income they generate, members they serve, and accumulation they create . . . tend to be geographically defined.” Although co-ops have operated in the United States since the 19th century, in the 1960s and 1970s the emergent counterculture’s quest for developing alternative forms of business organization spawned a modern resurgence of consumer cooperatives.

Most consumer co-ops follow the Rochdale Principles. These principles were developed in mid-19th-century Rochdale, England, in response to the unreason-

able prices charged by local merchants, when 28 tradespeople in the town pooled their resources to establish a store they owned and operated as a group. The Rochdale Principles specify operational guidelines, such as open and voluntary membership (usually for a nominal fee), the return of surpluses (profits) to co-op members (based on member usage of the co-op), and democratic control (based on one member, one vote) (Hammond, 1987, p. 98). The latter is particularly significant: Each co-op member is entitled to only a *single* vote in the affairs of the business. This contrasts with investor-owned enterprise, which distributes votes to shareholders in proportion to the amount of equity each holds in the company—a system that translates financial power into decision-making clout. Co-op members typically elect representatives to serve on the co-op's governing body—the board of directors—and participate in co-op-wide referenda or other democratic decision-making activities. Such democratic control, although an end in itself, is especially of interest to us because it enhances community economic stability. Given that most members have strong ties to the local community in which the co-op operates, democratically determined investment decisions tend to funnel job-creating economic resources back into local economies.

The consumer cooperative form of business organization plays a strong role in the utility sector of the U.S. economy. According to the National Rural Electric Co-operative Association (NRECA), 865 electricity distribution co-ops serve 35 million people—12% of the country's population—in 46 states. Electric co-ops own about 45% of the electricity distribution lines spanning three-fourths of the landmass of the United States. In addition to the distribution co-ops, there are 60 generation and transmission (G&T) co-ops owned by member distribution systems. NRECA emphasizes that electricity co-ops operate at cost to provide the least expensive electricity to their customer-owners and return any surplus above expenses and reserves to the membership proportional to their individual use (National Rural Electric Co-operative Association, 2001).

Within the traditional, nonregulated area of the American economy, consumer cooperatives exist in significant numbers in the retail grocer industry. A 2000 survey of retail food cooperatives published in the industry journal *Co-operative Grocer* estimated the number of U.S. food co-ops at 300, with total sales estimated at \$700 million in 2000 (Swanson, Nolan, & Gutknecht, 2001; Bohmann, 1999). One successful retail grocery cooperative is the Park Slope Food Co-op in Brooklyn, New York. Although the co-op generates traditional jobs—Park Slope employs 26 paid staff who generally function as managers in the co-op—it primarily relies on the labor of its members (an alternative form of employment in which compensation comes in the form of membership privileges). The cooperative's nearly 6,000 members, mostly drawn from the neighborhood, perform 80% of the co-op's work. Each member is required to work a 2³/₄-hour shift once every 4 weeks. In return for this unpaid service, members are able to purchase high-quality organic and conventional produce and other groceries for 10–25% below market prices. (A comparison in Park Slope's newspaper, the

Linewaiter's Gazette, showed that in about seven out of eight cases, prices were more expensive at the local Pathmark national grocery chain store than at the cooperative).

Moreover, not all successful modern, nonutility co-ops are small-scale. Consider Recreational Equipment, Inc. (REI). REI, an outdoor equipment retailer and producer, employs over 6,000 people and had revenues of nearly \$740 million in 2001. It is owned by its 1.8 million members, who each receive annual refunds on their yearly purchases (Recreational Equipment Inc., 2001).

One of the most formidable barriers confronting the proliferation and growth of coops is access to capital, as traditional financial institutions are often unwilling to lend to an unusual structure of enterprise. Despite this and other difficulties, consumer co-ops hold some promise for contributing to community stability given their potential ability to generate stable, well-rooted employment opportunities for local residents and surpluses for the broader community. This is especially the case if the model is spread to other goods and services demanded by local communities beyond the grocery area—where, despite successes such as Park Slope, co-ops have struggled as investor-owned grocery chains have lured customers away as “natural” and organic foods have gone mainstream.

Employee Ownership

Employee ownership of firms is the most-discussed and best-developed modification to traditional corporate ownership structures in the United States. Analysts usually see worker-owned firms as a means to bring democracy to the workplace or enhance employees' incomes (Dahl, 1985), but these firms also potentially can contribute a great deal to economic stability of communities.

Employee ownership in America falls into two broad categories: cooperatives and employee stock ownership. Worker cooperatives are firms privately held by worker owners. Each worker is entitled to an equal share of the firm's profits. Management decisions (including both day-to-day governance and long-term strategy) are either made directly by the workers or by managers hired by and directly accountable to the cooperative members. Over the past few decades, the most noteworthy example of this institutional form in the United States has been the plywood cooperatives of the Pacific Northwest, which enjoyed particular success for several decades before experiencing a steep decline—along with other non-co-op plywood firms—as market forces shifted. (One plywood co-op that has survived is the Hoquiam Plywood Co-op in Hoquiam, Washington, with 97 worker owners). Today, there are no more than 200 wholly owned worker cooperatives in the United States (Grassroots Economic Organizing editors, 2000). Although worker cooperatives provide a more egalitarian distribution of wages and resources within firms and increase the tangible power workers have over their work lives, what is most significant for our discussion is the one very obvious benefit from the standpoint of community economic stability: Most are by their

very nature rooted in a particular geographic locality and extremely unlikely to move to a different location.

Employee stock ownership is a far more common vehicle for worker ownership. The best-developed form of employee ownership is the employee stock ownership plan (ESOP). ESOP companies are corporations in which bundles of stock are held by employees through a trust mechanism. Although ESOP firms can be either privately held or publicly traded, 90% of ESOP shares are in privately held firms (National Center for Employee Ownership [NCEO], 2001). Employee stock ownership is very widespread in America. Millions of American workers now participate in some form of stock ownership plan. The National Center for Employee Ownership (NCEO) has estimated that total worker holdings came to 8.3% of all U.S. corporate stock by the late 1990s, for a total of \$800 billion. As of 2000, NCEO estimates that at least \$400 billion in company stock is owned by the 8.5 million participants in some 11,500 ESOPs in the U.S. (NCEO, 2001).

In connection with community economic stability, supporters of ESOPs have often stressed the potential of worker buyouts as an alternative to plant shutdowns. Worker-owners, it has been demonstrated, are often able to operate successfully plants that are inherently viable but that corporate leaders choose to shut down because they do not make a large enough profit or because they wish to relocate production in order to obtain cheaper labor (or regulatory) costs.

One example is Weirton Steel, which at one time was the largest employee-owned company in the country. When National Steel announced in 1982 that it might be closing its Weirton plant, shockwaves were sent throughout the West Virginia community. The plant was the state's largest private employer and the lifeblood of the town that had grown around it. Tragedy was averted, however, when National Steel agreed to turn the plant over to the employees and management, saving the plant's 8,000 jobs. Overwhelming support from local community institutions and the support of local officials was crucial in putting the buyout together.

Weirton is no fairytale, however. Management retained effective control over workplace decisions even after the ESOP was founded; of late the company has been struggling to survive, and workers' holdings of the firm's stock has been diluted (Varano, 1999). The plant incurred a great weight of the debt through the investment of over \$1 billion in modernization efforts. This modernization dramatically increased efficiency, but it also reduced the number of full-time employees required for plant operation (to around 4,000) (Matthews, 1999). Another significant new threat has come from the recent surge of cheap imported steel into the American market from countries struggling with the current global economic crisis. In response Weirton has filed several "anti-dumping" cases against the offending countries. In the meantime, the plant has had to reduce its workforce, laying off about one-quarter of its workforce for several months, and the company ran an operating loss in 2000 (Matthews, 1999; Weirton Steel Corporation, 2001). Not surprisingly, employee ownership cannot protect a company from the effects

of trade related pressures. Nevertheless, nearly 2 decades after the initial threat of closure, the steel plant at Weirton is still open. People are still working—and there is still a possibility that the workforce might again be expanded if conditions in the international market improve.

Dramatic buyouts such as at Weirton are more the exception than the rule among ESOP companies, however. It is estimated that no more than 1–2% of existing ESOPs have been established through a worker buyout of an existing plant about to be shutdown (à la Weirton Steel). Moreover, many of these worker buyout ESOP firms have struggled, because they often need time to “catch up” to make up for years of disinvestment in facilities and other disadvantages inherited from the corporate owners. On the other hand, it also should be noted that the large portion of ESOPs—nearly half—that are established when retiring owners turn the business over to their employees achieve the same substantive goal as worker buyouts of plants threatened by shutdown: ensuring that local enterprises stay local. ESOPs also can be used to fend off unwanted takeovers or to prevent mergers, again with a job-stabilizing effect. Studies also indicate that ESOP firms are less likely than comparable conventional firms to declare bankruptcy.

It should be acknowledged that employee stock ownership (and even majority stock ownership of a company) does not necessarily imply control over management decisions—or commitment to a particular locality (large chain franchises operating in dozens or hundreds of locations can be organized as ESOPs, for instance). And moreover, in most ESOP firms, management retains traditional prerogatives regarding strategic planning and day-to-day decisions.

Even so, the ESOP structure can sharply increase the capacity of employees to have a voice in major company decisions in a way that advances our primary goal—community economic stability. Under ESOP law, employees to whom shares have been allocated have the right to vote on major issues affecting the company’s future; unallocated shares may be voted by a company-appointed trustee or by the workers themselves, depending on arrangements at a particular firm. Majority-owned ESOPs in which stock has been allocated thus give workers the power to veto proposed relocations or sale of the business, even when there is little employee participation in other areas of the business (Logue, 1998). Indeed, even firms in which the ESOP controls only a minority of the voting stock may be unlikely to move in situations in which local management holds a significant percentage of stock and has little interest in seeing a plant relocation; and many ESOPs that are now minority worker-owned are structured such that they will eventually become majority worker-owned firms.

To be sure, there is always a risk that majority worker-owned ESOPs will choose to sell out in an attempt to make their workers instant tycoons, or more likely, to sell their ownership stake to a new investor in exchange for the promise of new investment in the local plant (and on occasion, guaranteed wage increases and a right of first refusal to buy back the plant should it ever be put up for sale or abandoned). Even in these cases, the ESOP structure has helped preserve jobs

by keeping the plant afloat until a new private investor is found. ESOP ownership of a plant need not be permanent in order for the structure to make a tangible contribution to community stability.

Community Development Corporations

Community development corporations (CDCs) are nonprofit organizations dedicated to bringing about the community economic stabilization of a clearly defined geographic area—often an urban neighborhood scarred by decades of disinvestment and concentrated poverty or an isolated and underdeveloped rural area. Governed by boards of directors composed primarily of local residents and other citizens with a strong stake in the community, most CDCs engage in some form of economic development and job generation within their service areas.

CDCs were originally conceived as institutions that could catalyze and direct local economic development while at the same time offering more control and power to residents over the development process. Rather than allowing outside firms to extract labor and resources from urban neighborhoods while leaving little in return, CDC development activity would be owned and controlled by local residents. Robert Kennedy, who played a lead role in establishing the first CDC in Bedford Stuyvesant in 1967, believed that CDCs could be powerful weapons in the fight to overcome inner-city poverty by combining “the best of community action with the best of the private enterprise system” (quoted in Rusk, 1999, p. 25). Even after CDCs dropped from the political front burner with Kennedy’s death and Richard Nixon’s election in 1968, CDCs quietly continued to grow throughout the 1970s, 1980s, and 1990s. According to the most recent survey by the National Congress for Community Economic Development (NCCED), the CDC trade association, at least 3,600 CDCs now operate in the United States. With this expanded capacity has come an expansion in their tangible achievements, particularly in housing development: It is estimated that through 1998, CDCs produced well over half a million units of affordable housing. CDCs have, however, done significant work beyond the housing realm, developing over 71 million square feet of commercial/industrial space and loaning some \$200 million for business development. All told, according to the NCCED, CDCs have (as of 1998) created roughly 247,000 full-time jobs (National Congress for Community Economic Development, 1999).

Nevertheless, despite these tangible successes, the high ambitions of the founders of the CDC movement have never been realized. Conventional wisdom about the history of CDCs holds that although these organizations have performed the quasi-public function of affordable housing provision reasonably well, CDCs have by and large not been a particularly effective vehicle for revitalizing economies of poor communities (see Lemann, 1994; Stoecker, 1997; Rusk, 1999; Shipp, 1996).

Our analysis in this article is especially interested in assessing CDCs as a model of alternative, place-rooted enterprise ownership. Yet such activities have not been emphasized by most CDCs. In fact, in both the practitioner and academic communities opinion has been divided on the question of whether CDCs should get involved in ownership on a substantial scale. Many CDC leaders and scholars point to the lack of capital and an inability to take risks as major obstacles to CDCs getting involved in ownership; others point to the administrative costs involved in ownership and prefer to use CDC funds to leverage creation by private businesses. On the other hand, a closer look at the accumulated record of accomplishment suggests this conclusion should not be overstated or taken as the last word on CDCs. Whereas numerous CDCs have experienced failure with ownership initiatives, many CDCs have successfully used ownership initiatives to generate revenue and place-based jobs that benefit local residents.

Examples abound. The original flagship CDC, Bedford Stuyvesant Restoration Corporation (BSRC) in Brooklyn, New York, owns two-thirds of the Restoration Supermarket Corporation, which provides 126 part-time and 46 full-time jobs, and earns profits of roughly \$300,000–400,000 a year. Revenues at the RSC's Pathmark grocery store in Brooklyn exceeded \$28 million in 2000 (Bedford Stuyvesant Restoration Corporation, 2001). BSRC also operates a 200-seat theater and a revolving loan fund for local start-up businesses. The New Community Corporation (NCC) in Newark is the largest employer of local residents in the city—60% of NCC's 1,750 workers live in Newark. In addition to a variety of job training services and a two-thirds stake in a Pathmark supermarket and shopping center, the CDC also operates a restaurant, a nursing home, a newspaper, a credit union, eight day-care centers, and a medical day-care center for seniors. NCC owns each of the stores in its shopping centers, including several franchises of national chains. Total real estate holdings of NCC have an estimated value of \$500 million, and NCC generates some \$200 million in economic activity each year (New Community Corporation, 1999). The East Los Angeles Community Union (TELACU) has assets of over \$300 million, and revenues of \$100 million annually. It provides financial services; makes loans to low-income residents; and operates two development companies, a real estate company, a construction management company, a telecommunications company, a roofing supply provider, and a restaurant, as well as an array of social services. The fourth-largest Latino business in California, it employs 700–1000 people annually (The East Los Angeles Community Union, 1999).

These examples are merely illustrative; they, along with scores of other successes, demonstrate the existence of at least some potential that the CDC institutional form—for all its limitations and constraints—can play a role in stabilizing a community's economy via community ownership. Perhaps most remarkable is that this sample of CDCs successfully involved in economic development and community ownership are predominately located in some of our nation's poorest communities.

Achieving Scale

None of the models for place-based ownership presented here are without problems and limitations, as our discussion makes clear. Nor can any one singularly be the means to provide a community with increased economic stability in the face of economic globalization. Nevertheless, our discussion does suggest that taken together, this policy strategy seems to hold some promise for helping to meet the relentless challenge of fostering economic stability in our local communities.

A crucial remaining question is whether the nascent efforts to create and expand the place-based ownership models described above can be brought “up to scale”—that is, whether enough resources can be employed on their behalf to impact the dynamics of local economies significantly. As pointed out at the outset of this article, targeting the resources and other tools available to supralocal governments and institutions to support these localist efforts undoubtedly would facilitate meeting the challenge of scale. And in fact, a plethora of precedents and policy proposals designed to accomplish this aim already exist. Although limited space inhibits a full-blown discussion of these precedents and proposals, an illustrative and suggestive sample is presented below, focusing on federal-level policy initiatives.

During the New Deal, the Wagner-Lewis Relief Act targeted federal assistance to worker cooperatives, funneling millions of dollars, collectively, to some 250 enterprises (Jones & Schneider, 1984). A modern federal legislative initiative modeled on this precedent could do the same, facilitating the spread of this ownership form, as could an expansion of the resources of the existing federal co-op bank. Similarly, the federal Small Business Administration (SBA) could target special assistance programs to small consumer cooperatives, community-owned corporations, and nonprofits with business operations. More also could be done on the federal level to support municipal enterprise. For example, in the important arena of professional sports, expanding local public ownership (or community ownership à la the Green Packers) to the major leagues could be aided substantially by legislation preventing league discrimination against these models. Along these lines, Earl Blumenauer, a member of the U.S. House of Representatives from Oregon, introduced legislation (the Give Fans a Chance Act of 1997) that “would override all league rules against public ownership” by taking away something Congress now grants leagues—their sports broadcast antitrust exemption—if a league blocked the purchase of a team by a community (Morris & Kraker, 1998, p. 42).

In addition, a variety of policy proposals to expand and support employee ownership have been forwarded of late (see, e.g., Gates, 1998; Logue, 1998). The most ambitious initiative is the dramatic proposal put forth by Republican Congressman Dana Rorhabacher of California—a proposal that makes a concerted federal effort to increase the percentage of corporate stock held by ESOPs to 30% by the year 2010. More impressive even than that bold figure is Rorhabacher’s

proposal to legally define a new form of corporation as “Employee Owned and Controlled Corporations” (which he calls ESOP-plus-plus), which would require that over 50% of all stock be held by employees, that 90% of regular employees be enrolled in the plan, and that all employees would vote their stock on a one person, one vote basis. To accomplish this goal, Rorhabacher’s proposed legislation, known as “The Employee Ownership Act of 1999,” would confer an unprecedented array of tax incentives on ESOP-plus-plus firms (“Will America” 1999).

Federal policy also could do more to support CDCs, as these institutions historically have received a share of their funding from the federal government, especially through Community Development Block Grants (CDBGs). (Over three-quarters of operative CDCs receive CDBG funds [Vidal, 1992]). Between 1980 and 2000, however, the value of total federal assistance for community development—including principally federal CDBGs—declined in real terms by nearly 50% (Budget of the United States Government, 2002). Restoring it to 1980-levels would augment the resources of CDCs and, in turn, reduce their financial dependence on foundations and private actors (such as banks and corporations). Such financial autonomy and additional funding potentially would allow CDCs to undertake more ambitious, comprehensive development agendas with a renewed emphasis on ownership initiatives that root economic enterprise and generate local jobs.

However, local policymakers and activists working to enhance the economic stability of their communities in this global economic era by facilitating the development and growth of place-based ownership models need not passively wait for new support to flow downward. There already exist several avenues by which they can mobilize local resources in service of these initiatives. Intelligently redirecting the considerable resources already devoted to conventional economic development policies can go a long way toward expanding the extant scope and impact of place-based ownership in local economies. All of the models discussed above could be supported by the array of local policies now targeted on businesses with traditional, less place-rooted ownership structures (such as tax benefits, land donations, infrastructure improvements, below market loans and loan guarantees marketing and procurement assistance, and direct debt and equity financing efforts).

Additional research and practice is needed to gauge the long term potential of these community-stabilizing strategies. Our analysis helps show why communities should seriously explore this option, especially in light of other research strongly suggesting the limited results of conventional local economic development efforts to stabilize local economies (see, e.g., Levine, 2000, 1988; Squires, 1989; Barnekov & Rich, 1989; Krumholz, 1991; Riposa & Andranovich, 1988; Elkin, 1987; Imbroscio, 1997).

David L. Imbroscio is an associate professor of political science at the University of Louisville. He is the author of *Reconstructing City Politics*. His previous work has appeared in *Polity*, *Policy Studies Journal*, *Journal of Urban Affairs*,

Review of Policy Research, *Urban Affairs Review*, and the *Good Society*. He serves on the editorial board of the *Journal of Urban Affairs*.

Thad Williamson is the author of *What Comes Next? Proposals for a Different Society*. He has written for numerous magazines and journals, including the *Nation* and *Tikkun*, and is a member of the editorial board of *Dollars and Sense: The Magazine of Economic Justice*. Previously a research associate at the National Center for Economic and Security Alternatives, he is now a doctoral student in political science at Harvard University.

Gar Alperovitz is the president of the National Center for Economic Security Alternatives in Washington, DC, and the Lionel Bauman Professor of Political Economy at the University of Maryland. He is the author of *Atomic Diplomacy*, *Rebuilding America* (with Jeff Faux), and *The Decision to Use the Atomic Bomb*.

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