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## Owning Maine's Future: Fostering a Cooperative Economy in Maine

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# Owning Maine's Future:

## Fostering a Cooperative Economy in Maine

by Davis F. Taylor and Rob Brown

### Abstract

Maine's economy faces a host of well-known challenges: reliance on natural resource extraction or low-quality service jobs, geographic isolation, challenging climate, and out-migration, especially of young adults. Staying on this course is undesirable, but traditional economic development fixes have had limited success. The authors examine the possibilities of making cooperatively owned businesses a central feature of Maine's economy. They outline the characteristics, benefits, and challenges of cooperatives and identify six important sectors of the Maine economy in which cooperative ownership already plays an important role or could make more contributions to economic and community vitality. The authors describe several other regions, with a focus on Finland, with strong cooperative economies or businesses, and examine the socioeconomic benefits and institutional features that encourage the development of cooperatives. The article concludes with policy recommendations that could facilitate similar outcomes in Maine.

### INTRODUCTION

Consider an economy facing significant economic challenges. This economy, with an export-oriented history based largely on natural resource industries, faces increased global competition due to trade liberalization, along with declining long-term relative prices in its historical backbone industry, forest products. The economy is relatively small, geographically isolated, and faces challenging weather that inhibits the growing season, year-round tourism, and immigration. The population is small, relatively dispersed, and homogenous. In many respects, this economy is in deep trouble, even as a few southern and coastal population centers are faring relatively well.

The characteristics of this economy sound similar to those of contemporary Maine. The profile, however, is drawn from Finland circa the late 1980s and early 1990s. The collapse of the Soviet Union, Finland's largest trading partner, sent the Finnish economy into a tailspin. Finland was at a crossroads: its choices, to turn inward or increase its competitiveness and further open its economy to the benefits and costs of international trade.

Finland chose the latter, joining the European Union and becoming a bigger player in international trade in the high-tech and natural resource sectors. What is less known to the rest of the world is that Finland simultaneously saw the growth of thousands of new, domestically oriented, cooperatively owned businesses. The growth of Finland's cooperative economy helped carry the country through turbulent economic times because it emphasized employment, rootedness in community, and expanded market presence, and balanced the cutthroat competition and downward pressure on wages associated with international trade (Skurnik and Egerstrom 2007). Fostering this substantial cooperative economy meant that Finland would never be solely reliant on the vagaries of global trade; nor would Finns need to rely completely on government to protect them from the oscillations of the global economy.

Although Maine and Finland have much in common, they also have considerable differences. What is it about Finland that facilitates a strong cooperative economy, and what benefits does a cooperative economy provide? This article assesses the possibilities, benefits, and drawbacks of fostering a cooperative economy in Maine. By *cooperative economy*, we mean an economy in which cooperatives—businesses formed and owned by consumers or workers, or independent businesses that are locally rooted and controlled—play a significant economic and cultural role and set the standard for efficiency, good pay, upward mobility, equity in income and wealth, and long-term community resilience. We will start by envisioning a cooperative economy in Maine, then describe cooperatives and how they function, along with their benefits and drawbacks. We will then focus on the role that cooperatives can and do play

in key sectors of Maine's economy. We conclude with an examination of successful cooperative economies elsewhere and policy recommendations for fostering a cooperative economy in Maine.

### WHITHER THE MAINE ECONOMY?

As with Finland's economy in the late twentieth century, Maine's economy could follow a wide range of possible paths. For this analysis, we focus on three possibilities: (1) maintaining the status quo, (2) expanding application of traditional community and regional economic development measures, and (3) fostering a cooperative economy (Taylor et al. 2016).

#### *Business as Usual*

Looking ahead to 2030, a time when today's children will be making their own way in the world, it is possible that the economic and demographic trends of the past several decades continue. The most challenging factor in this scenario is Maine's aging population. With the oldest workforce in the nation, the impending wave of baby boomer retirements this country faces (dubbed the *silver tsunami*) has already crashed upon Maine's shores. Meanwhile, continued mechanization and offshoring of jobs carries on unabated, leading to fewer good-paying jobs in rural Maine. There are flickers of growth in tourism, health care, and some innovation-related industries such as biotech, but poor wages in some of these sectors and a lack of critical mass in others limit their impact. Too many young people leave the state, and not nearly enough younger professionals and entrepreneurs from other areas move here, even as Maine continues to be a desirable place for them to spend their vacations. Communities throughout rural Maine, caught in a spiral of diminishing jobs, population, tax revenue, and services, slip further into poverty and isolation. The divergent trajectories of the *two Maines* continue, with a few southern coastal counties prospering while most other counties are struggling economically and socially.

#### *Attracting and Fostering Economic Investment*

Another possible scenario for Maine leading up to 2030 is that the state tries traditional economic development fixes on a much bigger scale than it currently does, aiming to reverse the current trends. In this scenario, Maine invests massively in higher education, physical and broadband infrastructure, and tax breaks meant to

lure businesses. These strategies, however, are extremely expensive, their benefits flow disproportionately to the communities that were already doing relatively well, and the approach leaves Maine jobs and incomes in a tenuous position because the firms attracted to Maine can easily depart anytime thereafter.

In rural communities, grassroots efforts by townspeople identify assets and small-scale economic opportunities, and communities are rightly proud of their occasional development successes. Limitations in infrastructure, education in entrepreneurship, and access to start-up capital, however, mean these bootstrap efforts are frequently too little, too late to meet the needs of most Mainers.

#### *Innovations in Ownership: A New Economic Dynamism*

Consider a third scenario for 2030 in which Maine is well on its way toward a more diversified and equitable economy, with more sustainable and growing businesses across many sectors and communities. The linchpins of this economy are cooperatively owned businesses: businesses owned by consumers, workers, or groups of producers and independent businesses. Traditional investor-owned firms and family businesses still outnumber cooperatively owned firms in 2030, but the cooperative firms build a foundation for widely shared prosperity in Maine.

The creation of consumer cooperatives provides needed services and jobs in small towns. The opportunity to be a worker-owner of a small business helps retain and attract more qualified, self-directed workers and turns jobs in one of the state's largest industries, tourism, into lucrative and satisfying career paths for many Mainers. Cooperatives formed by farmers, artisans, and other small-scale producers lower the cost of inputs and expand access to new markets. Independent businesses join together to share the expense of professional back-office operations or marketing and supply agreements. More young people, low-income people, women, Native Americans, and New Americans have the basic knowledge and access to resources and assistance to start new cooperatives or convert existing businesses into employee ownership.

These consumer-, worker-, and producer-owned businesses are deeply rooted in their communities and are better able to compete; they implement technological improvements in ways that balance employment and profitability. To be clear, a cooperative economy is a

high-value complement to, not a replacement of, other needed public investments such as expanding broadband, providing support to entrepreneurs, strategic research and development, and upgrading the skills and knowledge of Maine’s workforce. However, widespread adoption of an innovative ownership model allows more Mainers to participate in more businesses that generate more wealth and security and strengthens our communities and economy in sustainable, equitable, and locally controlled ways.

Is the third scenario possible? Based on previous research, experiences of other regions, and our own experiences in cooperative development, our answer is “Yes.” Although we clearly favor fostering a cooperative economy in Maine, this article is meant to be an overview, touching on many of the opportunities, challenges, and models that should be considered and researched further.

**COOPERATIVES: CHARACTERISTICS, BENEFITS, AND CHALLENGES**

Cooperatives businesses (co-ops) are owned and governed by their members, who form the cooperatives to meet their needs. Co-ops can form as new start-ups or as a conversion from a conventionally owned business and fall into a few general categories. Consumer cooperatives are owned by people purchasing the firms’ products or services. Worker cooperatives are fully owned by workers, whereas employee stock ownership plans (ESOPs) are businesses in which the employees are significant (generally nonvoting)

shareholders; worker cooperatives and ESOPs are a growing presence in many of Maine’s economic sectors, including retail, restaurants, construction and engineering, insurance, and manufacturing. Business cooperatives are formed by independent businesses to gain better access to the inputs they need to operate or to improve their ability to sell the products and services they create (this latter form are also called producer cooperatives). Multistakeholder cooperatives are owned by some combination of workers, consumers, and producers.

Most cooperatives formally operate under key principles that were first formulated in Rochdale, England, in the shadow of nineteenth century industrialization and later codified by the International Co-operative Alliance (<http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>):

1. Voluntary and open membership
2. Democratic member control (each member gets one vote in governance matters)
3. Member economic participation in the cooperative (people invest in the cooperative and profits are shared)
4. Autonomy and independence
5. Education, training, and information for members
6. Cooperation among cooperatives
7. Concern for community

EXAMPLES OF MAINE CO-OPS				
Consumer Cooperatives	Employee-owned Businesses—Worker Cooperatives	Employee-owned Businesses—Employee Stock Ownership Plans	Business Cooperatives	Multistakeholder Cooperatives
<ul style="list-style-type: none"> <li>• Eastern Maine Electric Co-op</li> <li>• Belfast Food Co-op</li> <li>• University Credit Union</li> <li>• Medomak Mobile Home Cooperative (housing)</li> </ul>	<ul style="list-style-type: none"> <li>• Island Employee Cooperative (groceries and retail)</li> <li>• Local Sprouts Cooperative (café and catering)</li> <li>• Insource Renewables (renewable energy equipment installers)</li> </ul>	<ul style="list-style-type: none"> <li>• Moody’s Co-Worker Owned (vehicle collision repair)</li> <li>• VIA Agency (advertising and marketing)</li> <li>• French &amp; Landry (construction)</li> </ul>	<ul style="list-style-type: none"> <li>• Ace Hardware</li> <li>• Associated Grocers of New England</li> <li>• Independent Retailers Shared Services Cooperative</li> <li>• Stonington Lobster Co-op</li> </ul>	<ul style="list-style-type: none"> <li>• Fedco Seeds</li> <li>• Maine Farm &amp; Sea Cooperative</li> </ul>

Many studies have examined the efficiency of cooperative firms, especially of worker-owned firms, and most evidence indicates that worker ownership does, in fact, increase productivity, profitability, and stability. The finding extends to ESOP companies, which although they do not give workers the same set of rights to direct the firm as in worker cooperatives, nevertheless greatly broaden profit sharing and create incentives for worker engagement in management, planning, and innovation. Interestingly, research shows that for ESOPs this improved performance is most pronounced in the firms that act most like cooperatives, that is, they have explicit structures that promote and facilitate broad-based participation in the governance and management of the firm (Logue and Yates 2006; Blasi et al. 2008; Kurtulus and Kruse 2017). Cooperatives help members avoid the monopoly power of a single seller (e.g., a food cooperative providing an alternative local shopping opportunity) and monopsony power of a single buyer (e.g., forest property owners buying a sawmill to avoid delays by an outside mill owner) (Hansmann 2000).

**Cooperatives have the potential to expand the benefits of firm creation and ownership to more people who would not think of themselves as entrepreneurs.**

Additionally, studies show that a good job is about more than pay; it involves social interaction, a sense of purpose, and autonomy (Schwartz 2015). Employee ownership allows workers to have a greater voice in shaping workplace policies, benefits, and culture.

Cooperatives have the potential to expand the benefits of firm creation and ownership to more people who would not think of themselves as entrepreneurs. Usually, entrepreneurship entails relatively large amounts of start-up capital, risk, and time, for which many Mainers have neither the appetite nor the wherewithal. Through the pooling of resources, however, cooperative entrepreneurship requires lower levels of up-front capital, risk, and time from its individual members.

Cooperatives often provide significant benefits to their local communities. Because cooperatives are owned by their members and designed to serve them, they are more likely to be locally oriented and have little motive to move in search of lower costs or stronger markets. Food cooperatives have a higher local economic multiplier, make more local purchases, create more jobs per dollar of revenue, create more full-time jobs relative to part-time jobs, and provide better benefits than do conventional grocery stores (ICA Group 2012).

The numerous potential economic and social benefits of cooperatives beg the question, Why are there not more of them in the United States? Cooperatives have several inherent economic disadvantages relative to conventional firms, four of which are most significant. First, the costs of directing a firm rise when ownership and stakeholders are more diverse, and a slower response time can allow business challenges to escalate into real threats. Second, formation of conventional firms usually takes the talent, hard work, and risk tolerance of a small number of individuals, and it is easier for those individuals to reap the (potentially large) rewards of their efforts. In cooperatives, however, the benefits are shared among the wider ownership, so there may be less incentive for firm formation (Hansmann 2000; Dow 2003). Third, access to capital can be difficult, particularly for cooperatives formed by people with limited means. Our experience is that most lenders are unfamiliar with the cooperative business model, and for a lender, unfamiliarity equals risk. Risk, real or perceived, leads lenders to overprice capital or to not lend at all. Additionally, individual entrepreneurs commonly provide personal guarantees and offer major assets such as a home for collateral, whereas these options are unlikely and often impossible for members of a cooperative.

The second and third challenges can be overcome when a conventional business is converted to cooperative ownership. In this case, start-up entrepreneurs can be fully rewarded for their efforts by the terms of the sale. Conversion also means a lender is being asked to finance the sale of a business with collateral, cash flow, and a record of accomplishments to employees who understand the business and its customers, which reduces the perception of risk. There are a growing number of successful conversions where innovative transaction designs, governance structures, and finance models offer examples for how this can be done efficiently. We address conversions more fully later in this article.

The greatest challenge, however, may be one of culture or mind-set. Neither entrepreneurship nor cooperation (in the sense of ownership) are widely taught, promoted, or understood in the United States. A successful and sustainable worker co-op, for example, requires a different mind-set toward livelihood. It is a model of business ownership that can be accessible to people with a wide variety of skills and capacities, but developing a sense of ownership over one's work and benefiting from that work through an ownership stake in the firm requires a shift in thinking, which takes time (Abrams 2008). However, evidence from other regions suggests that it is possible to overcome these obstacles with the right institutional and educational framework.

### HISTORICAL EXAMPLES OF BROAD-BASED OWNERSHIP IN THE UNITED STATES

**B**road-based ownership models have been a central element in the development of the United States. While the founders of our country took for granted the disenfranchisement and exploitation of enslaved Africans, they otherwise perceived widespread ownership of the means of production (land, at the time) as essential for promoting equality and prosperity and for creating a stable, well-functioning democracy. Legislation such as the Northwest Ordinance of 1787 and the Homestead Act of 1862 were critical institutional junctures in American history, moving the United States away from the grossly unequal patterns of land distribution that plague many other parts of the world.

The benefits of ownership were not limited to land and agriculture: Benjamin Franklin created some of the first cooperatives including the nation's first book library, fire protection services, and a mutual insurance company (Curl 2012). One of Maine's earliest major industries, the cod fishery, often used arrangements whereby fishing seamen received a share of the profits from the catch rather than a wage and sometimes even owned a share of the fishing vessel. This arrangement was deemed so advantageous that sharemen vessels benefited from legal and financial incentives provided by the US government (Blasi, Freeman, and Kruse 2013).

The greatest period of cooperative innovation and growth in the United States was in response to the Great Depression, a pattern consistent with that of cooperative development in Finland. Large swaths of rural America gained access to electricity for the first time through

rural electric cooperatives. These electric cooperatives still service three-quarters of the US landmass and 13 percent of the population (<https://www.electric.coop/electric-cooperative-fact-sheet/>) including most of Downeast Maine. Cooperative ownership also had a substantial impact on food security during this period, as large-scale regional cooperatives in farming, food production, distribution, and retail grocery stores sustained many communities with consumer, producer, and worker ownership.

ESOPs emerged in the United States in the 1970s. In 1984, legislation championed by President Ronald Reagan and Democratic Speaker of the House Tip O'Neill became law and provided substantial tax and regulatory benefits for ESOPs and worker co-ops. In the years following passage, there was a notable rise in the number of conversions, and today the United States has over 7,000 employee-owned firms with about 13.5 million employee-owners and \$1.1 trillion in assets. In 2013, the most recent year for which figures are available, employee-owned firms generated \$92 billion dollars in profits for their owners (NCEO 2016).

**The greatest period of cooperative innovation and growth in the United States was in response to the Great Depression....**

### THE PRESENT AND POTENTIAL ROLE OF COOPERATIVES IN MAINE

**T**oday, cooperatives play an important part in key corners of Maine's economy. We highlight six economic dimensions in which cooperatives already exist and in which they could play a strong role in the future: growing Maine's food economy, creating affordable housing, preserving legacy businesses, assisting transitions in Maine's forest products industry, transforming Maine's tourism industry, and promoting craft manufacturing.

#### *Growing Maine's Food Economy*

While Maine farming is enjoying a renaissance and the number of young farmers is growing, many farm and food businesses find obtaining financial sustainability

challenging. Producer, worker, marketing, and other types of cooperatives can allow Maine food producers to maintain their individuality and small scale while facilitating cost efficiencies that can lead to more farms and farmers, more sustainable profits, greater access to healthy food for middle- and low-income consumers, and a more resilient food system. Dairy cooperatives have long been central to that industry, giving a consistent advantage to their members in a volatile and challenging market. Members of the 21 lobster co-ops along Maine's coast are estimated to pull in more than a quarter of the state's overall catch, and these co-ops have played a significant role in building that iconic Maine industry.<sup>1</sup> Cooperatives have also long played a role in providing processing and distribution infrastructure for food producers. Additionally, worker-owned farms, such as New Roots Farm in Lewiston formed by Somali immigrants, can help new farmers start their operations and own their land by pooling capital and expertise.

Due to the age of Maine farmers, approximately 400,000 acres of farmland will soon change hands, and many farmers over the age of 65 do not have identified successors.<sup>2</sup> Similarly, many of our rural grocery store owners are also near retirement age. Converting farms, grocery stores, and other elements of our food supply chain to worker-, consumer-, or producer-owned businesses would help preserve much-needed employment and access to food.

### *Creating Affordable Housing*

Many Maine communities face significant challenges maintaining and creating adequate affordable housing; cooperative ownership can help communities make progress on this front. In Lewiston, for example, Raise-Op Housing Cooperative has purchased several apartment buildings in the downtown, and residents share ownership, gain access to affordable housing, renovate deteriorating buildings, and develop connections among themselves and with the broader community. Raise-Op members range from low- to middle-income families and include veterans, immigrants, small-business owners, single parents, and senior citizens.

Another model for affordable homeownership is the growing number of resident-owned communities (ROCs), in which residents of manufactured-home parks form cooperatives and purchase the parks from investor-owners. Often when investors or developers buy these parks, lot rents increase substantially, or residents are forced to move so that buyers can redevelop the

properties. In the United States, there are 201 ROCs in 14 states, with a total of 12,515 homes. In Maine, 368 homes in eight manufactured housing communities have been preserved by residents forming ROCs. Maine has more than 500 manufactured housing parks, which are home to more than 10,000 Mainers; they are the largest source of unsubsidized affordable housing in Maine. We could do much more to advance this model.<sup>3</sup>

### *Preserving Legacy Businesses*

Nationally, the largest single source of avoidable job loss is from business closings due to owner retirement, a trend that will likely accelerate as the annual retirement rate likely doubles over the next 20 years. Our research (using the Small Business Administration, US Census, and similar data sources) indicates that Maine has roughly 32,000 small businesses with employees, which employ over half of our workforce. Seventy-five percent to eighty percent of the owners of these small businesses will want to retire in the near future, but only 20 percent of them have a concrete succession plan. Furthermore, although some family businesses will successfully transition to younger family members, only about 30 percent succeed in the second generation (Hilburt-Davis and Green 2009). Maine's perpetually anemic economy cannot handle the rapid loss of jobs and economic activity that could come from thousands of businesses closing and liquidating over the next decade.

Conversion to employee ownership could be a silver bullet for addressing this silver tsunami—a chance to permanently bend the arc of opportunity in this state toward a sustainable, broadly shared prosperity. For business owners, selling to employees can yield a better sale price and reduce their tax liability from the sale and preserve their legacy. Employees then have the opportunity to become cooperative entrepreneurs and build wealth through ownership. Additionally, the jobs, profits, and ownership stay locally rooted, which benefits the community. Compared to similar conventionally owned firms, employee-owned businesses are more productive and profitable, create more jobs, and are less likely to lay off workers in an economic downturn (Kurtulus and Kruse 2017).

### *Assisting Transitions in Maine's Forest Products Industry*

Conversion to employee or producer ownership could hold great promise for easing some of the transitions currently taking place in Maine's wood products

industries. Paper mill closures threaten both the jobs that result from the mill operation and those of the wood suppliers as they lose places to sell their wood. Looking at the role played by forestry-related cooperatives in Scandinavia, along with case studies of such cooperatives in Quebec, suggests that co-ops can also ease transitions in Maine's wood products industries. For example, Boisaco, Inc., is a multistakeholder industrial cooperative owned by hundreds of millworkers, loggers, residents and small-business owners in a small town in northern Quebec. The cooperative formed in 1984 to take over a sawmill after the facility's third bankruptcy in 10 years. Desjardins Credit Union provided initial financing backed by the provincial government. Since then, the cooperative has invested heavily in its growth, diversified its product lines, and now employs over 600 people. More than 30 percent of its millworkers have served on the firm's board of directors (Bau 2012). While Boisaco does not directly involve wood suppliers, regional landowners who sell to the mill do benefit from it. Certainly, mill ownership by Maine landowners, workers, and communities merits investigation as a means of preserving market access and jobs.

### *Transforming Maine's Tourism Industry*

A cooperative economy could also transform Maine's tourism industry. The tourism industry is not often viewed as a path to steady, high-paying jobs and economic prosperity. We think this can and should change. While retail merchants, design-and-build firms, high-end chefs, and creative consultants do very well in businesses that serve tourists or seasonal residents, this prosperity can be greatly broadened through worker ownership. Fast-food servers, gardeners, and housekeepers can have a greater stake and play a more rewarding role in the tourism industry. This proposition is independent of the kinds of tourism in which Maine engages, but would have a profound impact on the benefits the state receives from the industry. Not only would worker-owners see better wages and career growth, they would also gain a greater sense of pride in themselves and their work, have a greater sense of investment in the local community, and be more likely to become long-term residents.

### *Promoting Craft Manufacturing*

Cooperatives are particularly well suited to promoting and strengthening craft manufacturing in Maine. While traditional large-scale manufacturing

continues to decline in Maine, and other states have a lead in high-tech manufacturing that will be challenging for Maine to overcome (Moretti 2012), we see a strong future for smaller-scale manufacturing of unique products that are marketable based on Maine's reputation for quality. It is an economic strategy focused on developing brands, rather than producing commodities. Just as smart retailers don't compete directly with big-box stores, craft manufacturing does not compete on the basis of cheap labor and lots of machinery; it relies on highly skilled workers producing a small quantity of unique products that cannot effectively be made in (or marketed from) places like China. Microbrewing is an example of such craft manufacturing for which Maine is known nationally: Maine is one of the top five states in microbreweries per capita and production (<https://www.brewersassociation.org/statistics/by-state/>).

For inspiration on how to preserve and promote our heritage industries and craft manufacturers, Maine could look to the Carolina Textile District (CTD) in rural North Carolina, which, like Maine, has seen a devastating loss of textile, furniture, and other manufacturing jobs in recent decades. The CTD is a nascent cooperative network of small- to medium-sized textile manufacturers created by Opportunity Threads (a worker-owned contract cut-and-sew facility), Burke Development, Inc. (the economic development entity for Burke County), and the Manufacturing Solutions Center (a research and development organization). While North Carolina's textile industry as a whole has struggled, a recent survey showed that 90 percent of CTD partners have added employees, 87 percent have increased investment in the business, and average sales growth has been about 15 percent (Chester 2015). Additionally, the CTD is helping more of these manufacturers convert to worker cooperatives as their owners plan for retirement.

### GLOBALIZATION INSURANCE: FINLAND'S LEAP OF CAUTION<sup>3</sup>

A useful step between noting the characteristics and potential of cooperatives, on the one hand, and suggesting policy recommendations to foster cooperatives in Maine, on the other, is to examine successful cooperative economies elsewhere in the world. Finland offers highly relevant lessons for Maine, given our economic, social, and geographic similarities. However, Finland, unlike Maine, ranks near the top of every index

of social and economic health as one of the world's most equitable, educated, and prosperous economies. Their economy has found a balance between lucrative, highly competitive, and at times unstable export-oriented manufacturing and services and the need to create local resilient communities. While the Finnish government plays a significant role in buffering its citizens against the risks of global competition, it is no accident that Finland also has the world's highest per capita concentration of cooperatives. Over 17 percent of Finns are employed by cooperatives, and 84 percent of Finns are a member of at least one cooperative. In Finland as of 2014, over 5,000 cooperatives created employment for more than 90,000 workers and generated annual revenues of \$40.9 billion. In addition, cooperatives constitute the majority of many industries. For example, Valio, a consortium of dairy cooperatives, includes 85 percent of dairy farmers in the country. Another example of the scale and impact of cooperatives in Finland is the S Group, a network of 28 consumer cooperatives that together make up the largest cooperative in Finland. With their 270,000 members, they control a 44 percent market share in daily goods through ownership of hotels, restaurants, gas stations, and banks.

## Finland also has the world's highest per capita concentration of cooperatives.

Apart from some economic and geographic similarities with Maine, what is most important about the Finnish cooperative economy is its tremendous recent growth. Industrialization came late to Finland compared to the rest of Europe, so cooperatives did too. But otherwise the Finnish cooperative sector was fairly similar in size to those in other Scandinavian countries (where co-ops play a bigger role than in the United States) until the 1990s, and worker-owned cooperatives were virtually unknown until that time (Kalmi 2013). In the 1990s, the cooperative economy in Finland grew rapidly: from 1987 to 2006, 2,921 new cooperatives were established, including 696 worker, service, and expert cooperatives, 312 marketing cooperatives, and 152 publishing and media co-ops. As of 2013, 150 to 200 cooperatives are being formed in Finland each year, this in a country

with a population of roughly 5.5 million people (less than the population of Massachusetts).

Finland had long-standing public policies supporting the development of cooperatives, and key business, political, and intellectual figures throughout the twentieth century popularized the cooperative model, but remarkably, public policy was not the primary driver of the development of cooperatives in Finland (Kalmi 2013). The development of co-ops in Finland contrasts with their development in other regions in Europe with strong cooperative economies. For example, Emilia Romagna (ER), a region in northern Italy, was historically mostly poor and agricultural and was utterly devastated in the aftermath of WWII. Yet today, the region has over 8,000 cooperatives and boasts the largest concentration of employee-owned businesses in the world, which generate about 13 percent of the region's GDP. The region also has one of the top ten most prosperous, entrepreneurial, and equitable regional economies in all of Europe: with only 7 percent of Italy's population, ER generates 9 percent of the country's GDP, 12 percent of its exports, and a startling 30 percent of its patents. Furthermore, the household wealth of ER is 30 percent higher than the Italian average. While ER has strong cooperative trade associations and cooperative finance and education institutions, there was a greater emphasis on policy and legislative programs, including official acknowledgment in the Italian constitution, favorable tax status and incentives, and restrictions on distributions and reinvestment requirements that foster long-term cooperative growth (Restakis 2010; Hoover and Abell 2016).

What, then, led to the noteworthy flourishing of cooperatives in Finland since the 1990s? We identify two critical elements. First, the cooperative sector in Finland had an effective, long-standing trade association of cooperatives that made cooperative development, education, finance, and promotion its mission. The Confederation of Finnish Cooperatives, founded in 1899 and better known as the Pellervo Society, has played an active, highly visible role representing its member cooperatives in economic and financial policy debates, creating education programs in cooperative development and management, and capitalizing cooperative banks and other financial institutions. (Not surprisingly, such supportive associations are associated with business cluster formation; the Maine Organic Farmers and Gardeners Association [MOFGA] and its fostering

of Maine's local produce business cluster is a noteworthy example in Maine [Taylor and Miller 2010].)

Second, the explosion of Finnish cooperatives in the 1990s was largely due to economic necessity. Finland started eliminating high protective tariffs in the 1980s, which fostered economic growth, but also left the country more exposed to international economic fluctuations. The fall of the Soviet Union and a recession in Finland's Western European trading partners plunged Finland into the worst economic crisis in its history (Hjerpe 2008). This was Finland's Great Depression, with unemployment surpassing 20 percent and an economic fallout dwarfing that of the 1930s. Finns responded to the crisis with a wave of cooperative formation.

Some question whether the social and economic success of the Nordic countries is exportable (Midttun and Witoszek 2011). Some people argue that the achievements of Nordic countries come with large social safety nets, high taxes, and relatively high levels of economic coordination between labor, firms, and the government and that these features are associated with cultural factors such as a high degree of cultural homogeneity and an innate tendency toward social cohesion. "It might work in Finland, but it could never work in Maine. We're just too different." While there is little doubt that cultural attitudes play a significant part in the success of the Finnish cooperative economy, their role is also easy to overstate. First, the caricature is superficial. A deeper understanding of the country shows that Finns are an entrepreneurial people who see cooperation as a viable means to pursue common economic objectives (Skurnik and Egerstrom 2007). Entrepreneurship education is part of the national core curriculum for all public schools. Second, Finland may now appear to be socially tranquil and cohesive, but such was not always the case; the country endured a brutal civil war in 1918 that was fought along class lines, and severe class divisions existed well into the 1950s (Solsten and Meditz 1988).

The key elements of Finland's strong cooperative economy were (and are) a supportive trade association (Pellervo), which created fertile ground for a modest cooperative economy, and an economic crisis in the 1990s that demonstrated the advantages that cooperatives provide in tumultuous economic times. Additionally, it is important to recognize that the cooperative economy in Finland grew as a private-sector response to economic crisis; the Finns may have a significant social safety net,

but they also know how to pull themselves up by their economic bootstraps.

It is clear from our study of various cooperative economies that there is no single policy or cultural characteristic that is critical to fostering a cooperative economy, but successful cooperative economies have several core commonalities:

- Supportive public policy strategies including regulatory, tax, financing, and technical assistance
- Knowledgeable and diverse financial institutions
- Strong trade associations engaged in education, promotion, advocacy, technical assistance, and market research and development
- Widespread education programs in cooperative business development and management

...cooperative economies were created to address particularly challenging economic situations.

One critical element, however, is universal among regions that have developed strong cooperative economies: economic crisis. The examples we reference were all responses to economic crisis. Many other examples point to the same conclusion—cooperative economies were created to address particularly challenging economic situations. In fact, research in Finland shows that cooperative growth was greatest in regions that had the highest unemployment and the weakest economies (Kalmi 2013). Regardless of the differences between Maine and these other regions, this insight has tremendous value when considering what is possible here, since many Maine communities are experiencing severe, ongoing economic distress.

#### BUILDING A COOPERATIVE ECOSYSTEM IN MAINE

We refer to the combination of the core elements that foster a cooperative economy as a *cooperative ecosystem*. In regions and sectors where cooperative ecosystems have developed, there have been impressive

results: stronger economies and communities, higher wages, more innovation and entrepreneurship, and lower levels of inequality. And the more developed and widespread the ecosystem, the more impressive the results.

Economic development specialists have come to realize that patterns of economic development (cooperative or otherwise), along with the particular constraints that face a region and the institutional changes necessary to address the constraints, differ from place to place (Hausmann, Rodrik, and Velasco 2008). Finland, Emilia Romagna, and other successful cooperative economies demonstrate that, despite their unique histories, they are created by intentional support. So, to foster the growth of a successful cooperative economy, Maine must create an ecosystem with the right mix of policy, education, and promotional measures that meet its economic, cultural, and institutional situation. What follows is an agenda that draws on the best examples from elsewhere, tailored for Maine.

#### *Developing Cooperative and Employee-owned Businesses*

First, state government and the philanthropic sector should prioritize the development of cooperative and employee-owned businesses. For example, state government spends hundreds of millions of dollars per year (both directly and through the tax code) supporting economic development, and agencies and publicly funded business-development programs have strategic plans that guide their work. Many of these programs target an array of specific sectors, regions, populations, and business types. We believe the development of cooperative and employee-owned businesses should be a public policy priority, too. Most philanthropy is dedicated to strengthening our families and communities and promoting an equitable, prosperous economy; helping people build successful cooperative enterprises would meet those philanthropic goals. Maine philanthropy could focus on education and outreach, technical assistance for rural, low-income, and immigrant communities, and policy research and development.

#### *Incentives for Conversion to Cooperative or Employee Ownership*

Second, Maine should create incentives for the conversion of business assets to cooperative or employee ownership and reduce the cost of financing the sale. In 2017, the Maine Legislature is considering LD 1338, which would make the sale of any business, farm,

manufactured home park, or rental property exempt from income taxation if sold to a cooperative or employee-owned enterprise (including ESOPs). LD 1338 would also make interest income earned from financing these transactions tax exempt for sellers and Maine-based lenders. At the federal level, there is strong momentum behind legislation to expand tax incentives passed in 1984 for conversion to employee ownership and to reinstitute the interest-income exemption for financing conversions. It has a long and bipartisan list of sponsors—nearly 100 in the House (60 Republicans and 40 Democrats) and 34 in the Senate (17 Republicans, 15 Democrats, 2 Independents)—including Senators Susan Collins and Angus King. Other states are ahead of the curve, however. Eight states provide tax incentives for the sale of manufactured home parks to resident-owned cooperatives. Iowa and Missouri have both implemented a tax exemption of 50 percent on the sale of a business to employees, and New Jersey is considering bipartisan legislation to eliminate the capital gains tax on employee-ownership conversions.

#### *Needed Information and Technical Assistance*

Third, Maine should ensure people can get the information and technical assistance they need to develop a new cooperative enterprise or pursue a successful conversion. To support employee ownership, the state should fund an Employee Ownership Center through a grant to a nonprofit business-development group with relevant expertise. Recently introduced federal legislation, dubbed the WORK Act, provides funding to states to establish and expand these centers. A center could offer direct business services and coordinate a clearinghouse of providers with expertise in conversion, organize educational forums, and create peer-to-peer networks of existing employee-owned firms willing to mentor those considering or executing this option. In the United States, seven state Employee Ownership Centers exist today. The oldest among them is in Ohio, where the centers have assisted in the conversion of more than 100 firms with roughly 15,000 employees at a tiny fraction of the cost of traditional public-sector jobs programs. Many of these firms have been small manufacturers, making their preservation all the more consequential for local communities.

Providing more information to residents of manufactured housing parks and rental properties when a property is for sale could have a major impact on expanding affordable housing. Currently, Maine has a

weak resident-notification law when a park is offered for sale, and there is no notification requirement for the sale of rental property. By contrast, New Hampshire's strong notification law has played a major role in roughly 30 percent of that state's parks being purchased by residents over the past 30 years.

A complementary strategy would be to develop a small matching grant program to defray some of the initial costs for the feasibility studies, valuations, and legal, accounting, and development assistance necessary for a business to determine if conversion is the right option. This initial exploratory phase is key to unlocking the potential for widespread adoption of the model. Again, other states are way ahead of us. Iowa has created a fund to pay up to \$25,000 of the cost of feasibility studies for workers and business owners considering conversion. Ohio has a similar program funded with federal workforce development money. Massachusetts had a modest grant program providing a 1:1 match up to \$5,000; funding for the grant was eliminated in the 2009 budget crisis, but in 2017 legislators are considering restoring the funding.

#### *Maine-based Banks*

Fourth, Maine should invest a portion of our state's deposits in Maine-based banks that have a commitment to lending to cooperative and employee-owned businesses. Maine's treasurer has wide latitude in directing the state's deposits to financial institutions that do the most good for Maine's economy. For example, while rarely (if ever) done, Maine law already directs the treasurer to deposit up to \$4 million in local banks for low-interest lending to agricultural enterprises and \$4 million for certain small-business lending. This provision of current law could be tailored to apply to loans for agricultural enterprises and small businesses organized as cooperatives and employee-owned businesses. The treasurers of both Indiana and Ohio purchase special certificates of deposit in financial institutions to provide capital for low-interest loans for employee-ownership conversions.

#### *Entrepreneurship Education*

Fifth, we cannot emphasize enough the need to improve entrepreneurship education, training, and mentoring opportunities. If we want more young people to make their lives in Maine, then we need to better equip them with the knowledge and skills needed

to be successful here. Every high school student should have opportunities to gain real-world experience through apprenticeships and internships, gain academic, technical, and soft skills in more innovative and personalized ways, and access a seamless pathway from high school to postsecondary education and training to employment.

#### *Cooperative Business Association*

Sixth, while a cooperative ecosystem rests on some foundation of public policy, cooperative enterprises themselves have a critical role to play. Building a cooperative business association (CBA) that facilitates peer-to-peer technical assistance, mentoring, and networking, and advocates for wider understanding and support of the cooperative economy would greatly strengthen a cooperative ecosystem. A CBA could also facilitate partnerships between cooperatives and high school, college, and adult education programs, teaching the basics of cooperative business education integrated with existing curriculum and paired with actual work experience.

## CONCLUSION

To be clear, building a cooperative economy is not about the government picking winners and losers. It is not a big government program meant to fix people's problems, nor is it a *laissez faire* grab bag of ineffectual policy nudges. Building a cooperative economy means creating a comprehensive, coordinated ecosystem of public and private institutions, policies, educational opportunities, incentives, and finance, which will help people to help themselves.

Without question, cooperative and employee ownership delivers material benefits to, and improves the economic health of, workers, families, and communities. However, cooperatives provide much greater benefits: cooperative ownership provides hope and a sense of control over one's future, which many Mainers currently lack in their economic lives. Cooperatives promote self-reliance, entrepreneurship, and resilient, interdependent communities, and they do so through locally rooted, private-sector enterprises. Hope, control over one's future, influence in one's community, self-reliance, and community interdependence are in fairly short supply these days. Building a cooperative economy by fostering a cooperative ecosystem is something we can do about it. 🐟

## ENDNOTES

- 1 Percentage catch based on author calculations using data from Maine Department of Marine Resources.
- 2 <https://www.maineFarmlandtrust.org/farmland-access-new>
- 3 National data on ROCs comes from ROC-USA (see <http://www.myrocusa.org/news/229475/10000th-home-made-secure-and-affordable-through-resident-ownership-movement.htm>). Maine data on ROCs were compiled by the authors based on technical assistance provided by the Cooperative Development Institute. Maine data on mobile home parks was compiled by the authors based on Maine state licensing records.
- 4 This case study, including cited data, is drawn from Pellervo (2014), except where noted.

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