DEVELOPING COOPERATION: DISCOVERING SUPPORTIVE LEGAL FRAMEWORKS AND POLICIES FOR WORKER OWNED COOPERATIVES

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Abstract

Worker cooperatives are an important economic development tool and way of conducting business that takes human well being into account, beyond mere profit. In the United States, however, there are relatively few worker cooperatives. Some authors have suggested that institutional factors, such as laws and financial practices, may not adequately suit worker cooperatives and hinder their growth. This paper attempts to discover and address these challenges through semi-structured interviews with members from nine worker cooperatives and respondents from seven support agencies across the United States. This paper also presents solutions to these problems, via success factors, discovered in interviews and through literature. Challenges and success factors are then codified in components of a state statute, legal policies, and legal actions. Three Nevada state legislators were then interviewed to discover which legal policies, actions, or components of a state statute were politically viable for the 2019 Nevada state legislature. Many challenges were discovered, including institutional challenges. All challenges had some way of being addressed. All three Nevada legislators thought a state statute could likely be passed in 2019, if no fiscal note was attached.

Dedication

To Las Vegas, where anything is possible; and to all who have ever lived there.

Especially:

Mom- thank you for pursuing your dreams of a better future, which allowed you to do impossible things.

Dad- thank you for being a role model. I have never met anyone who works harder or with as much integrity as you.

Grandma and Grandpa- thank you for showing me I was no different than anyone else.

Juan y Yolanda- gracias por cuidarme y enseñarme las angustias de los inmigrantes.

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Chapter 1. Why Worker Co-ops

David, 2016

The above picture is "Prophecy Rock," a Hopi petroglyph in Arizona believed to be a visual representation of future events to come. There are many interpretations of what this petroglyph tries to express, but there is some consensus about the general meaning. According to Native American elders, this petroglyph is a visual representation of two divergent life paths humans can take: the true path which signifies being one with our true human nature or the "zig zag path" filled with illusion leading to ultimate destruction (David, 2016). Other Native American tribes, and peoples from around the world, have similar prophecies and/or stories that forewarn the implications of conflicting human tendencies.

To me, it is unimportant if these narratives were trying to accurately describe the future or not. The dynamic inherent in these narratives is of upmost importance to me: living a "right way,"- true to human nature, or "wrong way,"- which is illusory. Many of

these prophecies, such as the "Prophecy Rock" of the Hopi, were written in a time when humans did not have the technological capabilities of destroying the earth. Despite this, these prophecies imply the fate of the earth is at stake. We are now in a time where human beings do have this capability.

I am not claiming to know of this "right way" to live. I do know the status quo of the West is unsustainable on many levels. Rates of depression are on the rise (Hari, 2018). Inequality is rampant (EPI, 2018; Raworth, 2017). Ninety-seven percent of scientists believe the fate of the planet is in jeopardy due to human-caused Earth changes (IPCC, 2014). These challenges are human made and, as hinted at in the prophecies of many of our ancestors, are not inherent to the human condition and can be changed.

I believe the root cause of our actions having led to these catastrophes lies in our thoughts, values, and belief systems. These thoughts can be summarized in lines of thinking such as "might is right", "survival of the fittest", and even the recent "trickle down economics" or the "greed is good" maxim. Such belief systems have been around since our ancestors were able to describe them in prophecies and stories. The most current iteration of such thoughts and values takes the form of the pursuit of money above all other things.

From a top-down, government policy perspective, this value takes the form of Neoliberal ideology. Neoliberalism is the "conversion of every human need or desire into a profitable enterprise" (Brown, 2015, pg. 28). Neoliberalism assumes that the free and unregulated market is the most efficient way of providing all goods and services. The danger in this ideology, however, is that it makes the economic the foundational value for all others. Values such as education, healthcare, the environment, and human rights all become subordinate to the all-important economy. Neoliberal ideology has permeated

governments across the world, our culture and society, and the minds and perceptions of individuals (Brown, 2015). In a neoliberal world, forests are worth less than a pile of timber. Pregnancy and childcare become an economic burden. Higher education becomes a profitable enterprise in which universities and businesses are encouraged to take advantage of intellectual and athletic pursuits of those who are often just starting out in life (Brown, 2015). Healthcare becomes a way for pharmaceutical companies to profit off the sick. In these examples, the environment, reproduction and childcare, athletic and intellectual pursuits, and healthcare are stripped of their intrinsic value and are given an economic value.

Neoliberal ideology gives lawmakers a moral justification for cutting regulations in favor of the free market. Regulations that once protected jobs from being outsourced oversees and protected the environment from degradation are justified in being abolished. Neoliberalism also allows politicians to advocate cutting down the size of the government and "social safety nets" in order to save people money on taxes (even if the only people saving money are the rich). Even the former president George W. Bush in 2007 admitted, "Money trumps peace sometimes. In other words, commercial interests are very powerful interests" (Secular Talk, 2014). In sum, neoliberalism acted out results in the deregulation and shrinking of the state which will only result in a "reduction of state welfare provisions and protections for the vulnerable, privatized and outsourced public goods… replacement of progressive with regressive tax and tariff schemes; the end of wealth distribution as an economic or social political policy" (Brown. 2015, pg. 28). Neoliberalism also gives justifications for war and violence.

Neoliberalism is rooted in classical liberalism, which emphasizes the idea of individualism. Individualism is still deeply rooted in classical liberalism's permutation, neoliberalism, in that neoliberalism still presumes that all human activities are motivated by either self-interest or the individual's avoidance of pain and the pursuit of pleasure (Brown, 2015). Economic success or failure is based on the individual's strengths and shortcomings. "In times of economic prosperity… individualism [is] a self- sufficient moral and political guide" (Bellah, 1996, pg. xv). In times of economic and "social adversity…it is up to individuals to look out for their own interests" (Bellah, 1996, pg. xv). Yet the effect individualism has had on society has been devastating for individual happiness and self-esteem, engagement in civic society, ability for people to form relationships (Bellah, 1996). Individualistic ideologies have made people trust each other less in the United States, making people more paranoid and fearful of each other (Bellah, 1996). Individualism is so closely tied with neoliberalism (as the former has provided the historical and theoretical foundation for the latter) that the minimization of one of these ideologies means the other will be minimized as well.

We need an economic theory that views economic development in a more holistic point of view. Such an economic theory would have a different set of assumptions from neoliberalism, which assumes that the "free"[1] and unregulated market is the most efficient way of providing and distributing goods and services (Raworth, 2014). It would also have a different set of values besides mere monetary growth (Raworth, 2014). Authors such as Kate Raworth (2014) have dubbed this type of economic theory as "planetary economics." This type of economic theory sets social and environmental limits for the economy to

[1] As economist Robert Reich has argued, there is no such thing as a free market because it will always be controlled: http://robertreich.org/post/61406074983

function within (Raworth, 2014). Instead of pursuing money for money's sake, planetary economics values human rights and the environment for their intrinsic values, and pursues money and economic growth to the extent it serves these values (Raworth, 2014).

The graph below depicts the problems with our current economic pursuits, and a way of looking at our economy that works with the planet and our human nature, the solution. The outer ring of the doughnut-shaped graph depicts planetary boundaries, and the inner ring depicts human boundaries.

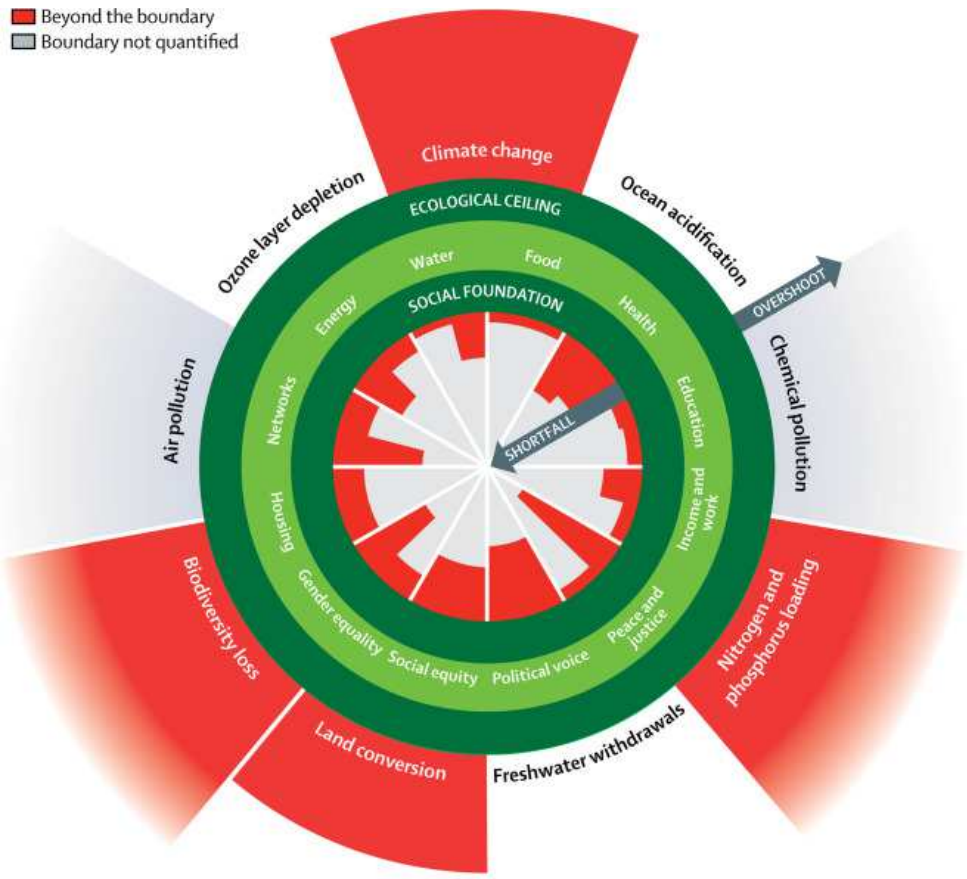

Figure 1. Planetary economic graph (Raworth, 2017)

As the graph shows, humans are overshooting our social and environmental limits on many accounts. Four of the planetary boundaries, including biodiversity loss and climate change, are currently overused by humans. Every social boundary, defined by this

graph, is currently not being met. Over-and under-shooting these boundaries presents major challenges, such as loss of coastal cities due to climate change, and political unrest due to inequality. The driving force behind these problems is economic pursuits driven by neoliberal ideologies.

Neoliberalism, which was born from and breeds individualism and liberalism, has become a "common sense" and foundational theory (Brown, 2015). Like a fish swimming in water, it is often hard to see the illusion we are swimming in. This illusory path has been described by our forbearers. Increasingly, however, this illusion does a poor job of hiding itself and alerts some of us to take our heads out of the water and look at the bigger picture. I am not claiming to have seen the entirety of this picture, but I think a good place to start changing our thoughts is in the places we spend most of our time: work.

Worker cooperatives are the most viable avenue in leading us down a better path[2]. On the surface, they appear to be another business structure working within our current socio-economic system. Under the surface, however, worker cooperatives have different goals and values than traditional business structures. Worker co-ops are a more human way of business, in the sense that they allow people to work and support themselves, in cooperation with others. As a business structure, a worker owned co-op has inherent anti-inequality mechanisms which can stabilize our economy and political systems. Most importantly, however, it is an economic structure that is guided by values and principles other than the maximization of profits (Macpherson, 2012). This way of doing business allows people to realize their connections to the community, the natural world, and their fellow man (Zamagni, 2010).

[2] Many cooperative developers, such as Tim Huet, share this sentiment. View his manifesto: http://www.geo.coop/archives/huetman604.htm

Throughout my research, I was astounded by the goals and mission statements of the worker cooperatives I studied. Almost every worker cooperative I interviewed included in their definition of success something other than profit, such as job creation or community well-being. Many said the primary function of their business was a community, which was corroborated by other authors (Abrams, 2008). Doing business cooperatively can be a potential antidote to neoliberal policies and agendas, and the intellectual ideologies they promote.

Worker cooperatives are more relevant now more than ever. Apart from the fact that economic development needs to be rethought (and worker cooperatives run on different principles), 12 million Baby Boomer-owned businesses will either be sold or go out of business within the next two decades (CABB, 2018). These businesses can be sold to their employees, many of whom are millennials, who increasingly care more about social and environmental issues that worker cooperatives address through guiding values and principles (Deloitte, 2017).

It is my hope that enough businesses can become worker cooperatives within the next 20 years that changes in public consciousness can take place, thereby changing the way economic development is imagined. At that point in time, significant changes in the structure of the economy will hopefully take place. Until that point, however, alternative business structures, such as worker cooperatives, must work within the current socio-economic framework. This thesis attempts to discover the challenges and success factors for worker cooperative in the United States within the current legal and socio-economic systems.

Structure and Findings

The remainder of this chapter is dedicated to a brief literature review and methods section. The literature is reviewed throughout this paper, therefore the literature review of this chapter is brief. Chapter Two discusses benefits of worker cooperatives and the benefits of supportive legal frameworks and policies. Chapter Three discusses challenges for worker cooperatives. This chapter is broken up, so each challenge can be explained in detail. The following is a chart describing the challenges for worker cooperatives based on the findings of this research:

Table 1. Challenges for Worker-Owned Cooperatives.

Challenges for Work-Owned Cooperatives		
Worker Co-op Specific	Firm General	Legal
Inability to reflect future earnings in present costs	Lack of promotion among financial institutions	Labor Laws
"Horizon Problem"	Lack of understanding among financial institutions	Board of Directors
Structural barriers to financing growth	Lack of supporting professionals	Workers Privacy Laws
Challenges in democratic practices	Lack of general promotion and education	Security Laws
Challenges in managerial practices	Culture in U.S.	Are not worker co-operative specific

Chapter Four discusses challenges addressed and success factors for worker cooperatives based on interviews and the available literature. This chapter is also broken down into smaller sections, so each topic can be easily identified. An overview of topics addressed can be found in this chart:

Table 2. Challenges addressed and success factors.

Individual	Support Organization	Legal Policies and Actions
Using loss based compensation	Educate financers	Promotion
Selling Shares in a limited market	Promote the Structure	Tax incentivizes
Networking with other co-ops and organizations	Pool resources from smaller co-ops	Government programs and initiatives
Managerial and Democratic practices	Organize resources for shared use	Robust, Clear, and Supportive Laws

The fifth and final chapter discusses laws, statutes, and political actions states can adopt to support worker cooperatives. It includes political findings based on my interviews with three Nevada state legislators. A brief summary of my political findings can be found in the chart below. The top row indicates the supportiveness of legislators to worker cooperatives. The bottom row indicates how likely it is that a state statute and bill would pass the 2019 Nevada state legislature.

Table 3. Summary of political findings.

Legislator 1 Democrat	Legislator 2 Republican	Legislator 3 Democrat
Supportive	Supportive	Unclear
Likely to pass- no fiscal note	Likely to pass- no fiscal note	Likely to pass- no fiscal note

Literature Review

Depending on the source, there are anywhere from 223-297 worker cooperatives in the United States, whose products and services range from installing solar panels to selling pharmaceuticals to importing coffee and much more (UMW, 2009; USFWC, 2017). Yet gathering information about worker cooperatives, especially in the United States, is a major challenge in and of itself (Hoyt and Menzani, 2010). This makes it impossible to study historical trends in the U.S. as there is little comprehensive data from 1970-2009 (Hoyt and Menzani, 2010). According to a respondent, "there is no national census [or government mandated federal body] for worker cooperatives" and there is often no mechanism that easily identifies worker cooperatives, making them hard to identify and contact. Identifying worker cooperatives and establishing trends is further complicated by varying state statutes and various ways in which worker cooperatives structure themselves (Hoover, 2012). For example, only 44 percent of worker cooperatives identified in the U.S. were statutory worker cooperatives, meaning 56 percent were incorporated under other statutes (USFWC, 2013). "Lack of standardization" of worker cooperatives means they are often structured differently (Hoover, 2012, pg. 1). For example, a form of worker cooperatives called "collectives" often don't include membership equity, and many do not have typical boards of directors (Hoover, 2012; USFWC, 2013). One worker cooperative interviewed was a collective, and did not have a mechanism for membership equity such as a buy-in. Furthermore, many businesses, such as family businesses or partnerships, may function as a worker cooperative without identifying as such (Pitegoff, 2004). Because of these reasons, the US Federation of Worker Cooperatives (USFWC) estimates that the number

of worker cooperatives identified was undercounted in their survey by 10 to 40 percent (Hoover, 2012).

There are few worker co-ops in the United States despite their potential, especially in regard to increased profitability, productivity, and long-term longevity (Perotin, 2012). Even if we were to round 297 worker cooperatives up to 300 (297 is the number of worker cooperatives identified by the USFWC in 2015), and assume that this number undercounts the total amount of worker cooperatives in the U.S. by 40 percent, this would still leave the total amount at 500 or 0.001689 percent of U.S. businesses (SBA, 2017). Among all cooperative forms in the United States, it is estimated that worker cooperatives make up only 1 percent of total cooperatives in the U.S. (UMW, 2009). Other types of cooperatives, such as agricultural and consumer cooperatives, are much more prominent in the United States.

Despite worker cooperatives being at least as productive as conventional businesses, and superior in some regards, challenges have prevented them from propagating (Perotin, 2012; Tanner, 2007; Artz and Kim, 2011). These challenges are either specific to worker cooperatives, or are "general firm challenges [which] relate more to the firm's environment" (Tanner, 2007, pg. 27). For example, a problem specific to worker cooperatives would be teaching members how to act quickly in making important decisions for the cooperative. A general firm challenge, or challenge relating to the firm's environment, would be receiving institutional support such as familiarizing financial institutions with the worker cooperative structure. Both will be addressed in this thesis.

Research Question

What are the challenges and success factors for worker-owned cooperatives, and what are components of a state statute and policy that addresses each?

Methods

Apart from there being limited information about worker cooperatives in general, and especially in the United States, there is little information about how policy effects worker cooperatives (Hoyt and Menzani, 2012). Over the course of my research, I have found authors addressing policy in passing, but few papers have been dedicated to this subject. Logue (2006) discusses the political and legal environment in Emilia Romagna Italy. Restakis (2010) does the same, but in a historical context. Corcoran and Wilson (2010) discuss legal policies and actions in Spain, Italy, and France, but in the context of supportive environments in general. Adeler (2009) discusses supportive environments with a policy focus. Tanner (2013) makes policy recommendations for New York, using research from Quebec. Rowe et al (2017) has been one of the only papers I have found that specifically compares policies in other countries as a main focus. Throughout my research, I was unable to find any discussions of state statutes in the United States.

In the case where there were gaps in the available research, I used websites as guiding information. These websites proved especially helpful in searching for provisions within state statutes: co-oplaw.org; workercooplaw.org; http://ncba.coop/our-work/cooperative-statute.

My methodology comprised semi-structured interviews (SSIs), transcribing, and coding. Semi structured interviews (SSI) are a qualitative method of interviewing in which the interviewer has a set of canned questions and a general structure for the interview

(Doody and Noonan, 2013). The interviewer has the flexibility of changing the interview based on the direction of the conversation (Doody and Noonan, 2013). SSIs allow the conversation to have a more natural feel and allow the researcher to direct the conversation in a different direction if the interviewee says something more relevant or important (Doody and Noonan, 2013; Rabionet, 2009). On the other hand, SSIs are structured enough to allow the researcher to have a guiding structure. As Doody and Noonan (2013) discuss, SSIs provide enough structure to elicit relevant information responding to the research question, but at the same time, SSIs allow for new information to be discussed.

The mode in which the interview is conducted can affect the results. Opdenakker (2006) summarizes four types of interviews: face to face, virtual messaging, phone, and email. Phone interviews are easier to schedule and allow for the interviewer and interviewee to be in separate locations (Opdenakker, 2006). Although some might argue that phone interviews are less informational than face to face interviews, because of the reduction of social cues one is able to gather, such as body language or eye contact, it can be difficult to schedule these interviews when an interviewee and interviewer live in separate locations (Doody and Noonan, 2013; Opdenakker, 2006).

Coding is a commonly used strategy for analyzing data. A code is a theme found throughout an interview that can be used to organize, classify, and subsequently analyze interview data (University of Washington, 2017). Identifying codes is up to the researcher when analyzing data. This brings the reliability of coding as a method into question, because it is reliant on the bias and organizational skills of the researcher (Campbell et al., 2013).

I started my research by reading how worker cooperatives could scale up in numbers through Hilary Abell's 2014 paper: *Worker Cooperatives: Pathways to Scale* (TDC, 2014). This paper led me to read about the networks of worker cooperatives in other countries, especially the history of cooperative movements in Italy and the Basque region of Spain. I was also heavily influenced by papers on institutional momentum theory by Wanjiru Njoya and others. Based on this research, chance happenings in everyday life, and my research questions, I identified three categories of people to interview: Worker cooperative members, those who work in worker cooperative support organizations, and state legislators.

Based on my research and basic understanding of state statutes from Massachusetts, California, Wisconsin, Texas, and Colorado, I identified cooperatives in these states. Additionally, there were worker cooperatives in Washington, Illinois, and New York that I found interesting and to whom I reached out. In total, I identified thirty worker cooperatives and reached out to them via email. I heard back from eleven worker cooperatives, and I interviewed nine worker cooperatives. To clarify, I interviewed ten members total, but two of these members were from the same cooperative and provided complementary information. These interviews were conducted over the phone and lasted between an hour to two hours. Worker members were from the following states: California, Wisconsin, Colorado, and Massachusetts.

There were less support organizations available to reach out to compared to worker cooperatives. I reached out to thirteen support organizations. Support organizations can be classified into technical support organizations and financial support organizations. I discovered there is a lot of overlap with some financial organizations providing technical

support (although I did not find the reverse). These support organizations ranged in scale: city-wide, regional, national, and one international. Of the thirteen support organizations contacted, I was able to interview staff at seven. The respondents from these organizations were located in California, Maine, Massachusetts, and New York.

In my home state of Nevada, I contacted five current or former state legislators. I was able to speak with four of these respondents for the purposes of this research. I interviewed three state legislators. Two of these state legislators were assemblymen, and one was a state senator. One assemblyman was a Democrat, and one was a Republican. The state senator was a Democrat. Interviews with state legislators were conducted in person. I took notes during these interviews.

I had permission to record the phone interviews, and I transcribed them after they were complete. Then I began the coding process using the phone transcriptions and the notes taken during the state legislator interviews. I coded phone interviews looking for challenges and success factors. I then coded the challenges and success factors into sub-codes. For success factors, I coded for managerial practices, financial strategies, business strategies, legal factors, education and culture, and structure. For challenges I coded for culture, micro and macro politics, education, legal challenges, business-related challenges, and financing. I coded legislator interviews looking for the feasibility or infeasibility of passing various types of legislation supporting worker cooperatives in Nevada.

Chapter 2. Worker Cooperatives: Structure and Benefits

Worker cooperatives are a type of cooperative business structure of which there are three main forms: producer, consumer, and worker. The International Cooperative Association (ICA) was formed in 1895 and has become the largest cooperative association in the world (ICA, 2015). The ICA unifies the cooperative movement in many ways, including defining what cooperatives are and what their guiding values should be. According to the ICA a cooperative is "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise" (ICA, 2015). The ICA further elaborates on principles that govern cooperatives: "voluntary and open membership, democratic member control, member economic participation, autonomy and independence, access to education, training, information, cooperation among cooperatives, and concern for community" (ICA, 2015).

Despite their relative obscurity in the United States, cooperative associations and businesses are responsible for a significant portion of the world's economic activity (Battilani and Schroter, 2012). Here are some facts: The largest global 300 cooperatives generated $1.6 trillion in revenues in 2011 (ICA, 2015). One billion people are members of some type of cooperative around the world. Less than a third that number, 328 million, own shares of conventional businesses (GBO, 2012). Cooperatives make up 20 percent of the economies of Switzerland and Sweden (Battilani and Schroter, 2012). In the United States, producer cooperatives in the form of agricultural cooperatives are a dominant force in their industry, with the largest 10 generating $104.23 billion in business volume in 2014 (USDA, 2014).

Cooperatives behave much differently from corporations in part because they are structured differently than traditional corporations (Nadeau, 2012; Lappe, 2011). Where corporations are governed by the concept of one-dollar one-vote, cooperatives are governed by one-member one-vote (Lappe, 2011). Where corporations aim to make as much money as possible for their shareholders, cooperatives aim to provide services to their members (Nadeau, 2012). The differences in governing principles and objectives between these business structures have major implications to various stakeholders, including employees, communities, society, and the environment (Nadeau, 2012). The implications of the one-member-one vote convention, and differences in governing principles and objectives, are very important and constitute the main reason why cooperatives are so unlike conventional business structures. To put it simply, a business that is governed by one vote per share (not one vote per person) allows any individual with the most shares (money) to control the business as they see fit. Also, businesses that only have one aim- to create as much money as possible for shareholders (who typically aren't workers in the business)- legally must do so often in spite of the community, environment, and employees (Nadeau, 2012; Hinkley, 2002).

"A cooperative is a business owned and controlled by the people who use or perform its services" (Nadeau and Thompson, 1997). Those who use or perform a cooperative's services care enough about profit to keep the cooperative functioning, but they are primarily concerned with the services offered. In a producer cooperative, the primary service rendered to members (who are producers) might be to market products en masse so that all producers can cheaply market products together (Nadeau, 2012). For a consumer cooperative, services rendered to members (who are consumers) would be to

benefit members who collectively purchase goods or services for consumption (Nadeau, 2012). In a worker cooperative, the primary service rendered to members (who are workers) is to provide jobs for members (Nadeau, 2012). Thus, in a worker cooperative, the owners, primary shareholders, employees, managers, and decision makers are the members of the cooperative. (As a side note, some cooperatives hire external managers that are not members. Some of the respondents I interviewed considered this practice a critical success factor. These managers must be hired by a majority, supermajority, or consensus by the members.)

A Typical Worker Cooperative

This fictional story will explain how a worker cooperative works:

Jane is a prospective employee of Ac Co-op, a worker cooperative accounting firm. Jane discovers that she is under a probationary period of nine months, called a *trial period*. During this time, she is assigned a member-mentor who teaches her what it means to be an owner. After Jane successfully completes her trial period, she is recommended to be an owner. The members of the cooperative then vote to hire her as a co-owner by majority decision. Once Jane becomes a co-owner member, she must pay a *buy-in fee,* so she can receive a class-A membership share. This share allows her to vote in key decisions, in electing a board of directors, and a portion of the profits or losses. Her share gives her all the benefits and risks of an owner of the business. The buy-in fee for her class-A share is $3,000. Jane decides to pay for this share through paycheck deductions.

Let's say Ac Co-op earns extra money amounting to $110,000 after all expenses have been paid, including investor dividends on non-voting shares for investors. $10,000 of this money was made through the labor of employees, not members. The $10,000 made

by employees is called profit, and will not be distributed to members, instead it will be retained by the cooperative. This $10,000 will also be taxed at the corporate rate of 40 percent. The remaining $100,000 will be distributed to members based on their *patronage*, or hours worked. Because Jane worked 1/10th of the hours, 1/10th of the *patronage earnings* or $10,000 will be distributed to her. This is Jane's *patronage dividend*. In accordance with IRS codes, 20 percent of Jane's $10,000 patronage dividend must be paid to her in cash. The rest of her dividend, $8,000, will be retained by the cooperative in Jane's *capital account*, until she requests it.

Ten years later, Jane decides to start her own worker cooperative restaurant, and retires from Ac Coop. Jane sells her $3,000 class-A share back to the co-op. (Alternatively, Jane could not sell her class-a share, in which case it would turn into a nonvoting class-B share). Over her ten years at Ac Coop, she has saved $80,000 in her capital account, and requests half that amount to be paid to her immediately. The remaining money in her capital account will be converted into preferred non-voting shares, which will receive dividends of 6 percent.

Although Jane's story is fictional, it is typical, apart from Jane wanting to start her own restaurant. This story also includes key concepts for worker cooperatives that will be useful in the coming sections. Trial periods, buy-ins, patronage earnings, patronage dividends (also called patronage distribution), and capital accounts are common tools used by worker cooperatives and look different depending on the cooperative. For example, trial periods can last anywhere from one day to many years (Artz and Kim, 2011). Buy-ins can range from $1 to hundreds of thousands of dollars (Artz and Kim, 2011; Restakis, 2010). Patronage dividends can be calculated based on hours worked, or percent of wages earned,

or through a combination of the two. Some worker co-ops choose to disperse all the patronage dividend as cash, or the bare minimum of 20 percent mandated by IRS codes. Capital accounts can vest or not, accrue dividends or not, or accrue interest or not. These things are determined by the cooperative depending on their unique financial, social, and cultural situation and goals (Artz and Kim, 2011). The principles of one member one vote, member control over decisions of the cooperative, and equal and fair share over the risks and rewards of the business cannot vary between worker cooperatives, however (Artz and Kim, 2011).

Benefits of Worker Cooperatives:

Policy makers are like farmers. A farmer can shape a farm and make it grow however he chooses. If a farmer wants a bigger farm, he plants more seeds. If he wants to grow more tobacco instead of beans, he can simply stop watering the bean plants, rip them out, and plant tobacco. Policy makers shape the society in which we live in much the same way. Through policies and laws, policy makers can expand or shrink our economy, influence the creation or destruction of jobs, create or kill off social programs, influence whether future policy makers will be less or more influenced by large donations, influence what types of things are taught in schools, and influence which types of businesses are created, among many other things.

For example, the idea that employees should have the option of owning the company they work for has been around for a long time. This idea was popular and considered the next logical step for capitalism by many (Rosen et al., 2005). Conservative railroad tycoons, extremely liberal politicians such as Huey Long, and many others in between, considered worker ownership beneficial and in some cases necessary (Rosen et

al., 2005). Numerous companies from the 1890s to the 1920s allowed their employees to buy shares of company stock at a discount, which was intended to give employees a path to ownership in the company they worked for and helped the company to succeed (Rosen et al., 2005). Universities and researchers started researching the viability of worker ownership, and experimenting with how it functioned (Rosen et al., 2005). The initial experiment in employee stock programs failed due to the Great Depression, employees selling their stock because of a lack of understanding of what stock meant, problems inherent in the discounted stock system, and because of companies buying back their stock (Rosen et al., 2005). The idea fell back into obscurity until the 1970's and 80's when Congress passed multiple pieces of legislation that gave companies significant and heavy tax credits for selling their stock to employees through employee stock ownership plans (ESOP) (Rosen et al., 2005). ESOP companies, as they are now known, went from being virtually non-existent to comprising 10 percent of the U.S. workforce (Nadeau 2012; Rosen et al., 2005). Legislation passed in the 1970's and '80s worked like the sowing of seeds. In the subsequent years, ESOPs have grown and propagated across the country.

There are consequences to what types of crops farmers plant. For example, if farmers only plant one crop, let's say tobacco, the tobacco plant will extract all the nutrients it needs to grow until the soil becomes depleted. If farmers want to keep growing tobacco, they will either have to rotate crops, or inoculate the soil artificially with fertilizer. Like farmers only planting and tending to one type of crop, policy makers in many states have neglected the worker-owned cooperative business structure. Thirteen states have no legal framework at all for worker-owned cooperative businesses (Nadeau, 2012). In states that do have worker owned cooperatives, they have been given little government assistance or

support (Nadeau, 2012). Policy and government support for worker cooperatives can take the form of many other things besides simply throwing money at an issue or giving money to business entities in the form of bailouts. It can take the form of education, removing or refining financial regulations so that banks and credit unions can loan to worker cooperatives, and making the worker cooperative model available through forms on state websites as is done with corporations and limited liability companies (LLC's). The most useful thing the law can do, however, is to legally define terms specific to worker cooperatives so the law doesn't become a barrier to worker cooperatives. For example, legally defining what constitutes a member vs employee has legal ramifications that could protect worker cooperatives from unnecessary and expensive legal proceedings (Helfman, 1992).

While the current legal environment does little to support worker cooperatives, it does support many other types of business structures such as LLCs, sole proprietorships, partnerships, and corporations. The aforementioned forms of business are heavily supported by government agencies, our educational systems, and the law. Worker cooperatives are not supported nearly to this degree (Cornwell et al., 2014; Hill, 2000). For example, besides the handful of institutions offering one, maybe two, classes about the cooperative business structure, there is only a certificate program at the University of Massachusetts that offers any degree about cooperatives in the United States. Another university in Manitoba, Canada offers a certificate program about employee ownership, but not necessarily about worker cooperatives (Blasi et al., 2013). In the whole of North America, there is only one full degree dedicated to teaching about cooperatives, located in Canada (Cornwell et al., 2014). Cooperatives are largely rendered invisible in most

universities in the U.S. and Canada, as they rarely appear in university textbooks despite being dominant in some industries such as in agriculture (Hill, 2000; Cornwell et al., 2013). Government agencies such as small business extension agencies have helped thousands of underprivileged people set up businesses, but most of these extensions don't mention worker cooperatives, and their staff are not are trained to know how to set them up (Logue and Yates, 2001).

There are consequences to setting up a legal and institutional environment that supports LLCs and corporations more than cooperatives, especially when the maximization of profit is written into law, and when employees have little to no say over their working conditions (Hinkley, 2002; Lindenfeld, 2003). Traditional business structures, such as corporations and most LLCs, "are alienating in that they deprive most ordinary employees of control over their own work as well as the fruits of their labor" (Lindenfeld, 2003). Conventional business structures are not controlled by workers, but by a few managers and CEOs who must legally make as much money for their stockholders as possible (Hinkley, 2002). Managers and boards of directors who do not maximize returns to shareholders can be fired and even sued by the shareholders. In order to legally consider multiple bottom lines, corporations can elect to become a B-corporation, in which they can take "multiple bottom lines" into account besides maximizing returns for shareholders, but in most cases, the root of the problem still exists: lack of meaningful capital ownership by workers, which leads to inequality and a lack of control (Blasi et al., 2013).

A definition of meaningful capital ownership would be enough capital ownership to reduce inequality, and enough to have a say in governance decisions. According to the General Social Survey, a survey of 1,500 adult employees which is conducted in a way to

be statistically representative of employees in the U.S., 47 percent of workers have some form of capital stake (Blasi et al., 2013). This stake could come in the form of profit sharing, ownership shares, and stock options. Data shows that the current degree of worker share ownership is not significant enough to reduce inequality (Blasi et al., 2013). In most cases, even among most ESOP companies, there is no mechanism for most share holders to have a voice in governance (Blasi et al., 2013; Logue and Yates 2001; Rosen et al., 2005). Profit sharing does not give one the right to vote in company decisions, and shares of stock only give a stakeholder meaningful voice if they hold a significant portion of the stocks.

Inequality is on the rise globally and in the United States. From 2002 to 2012, economic productivity grew by 30 percent while wages for the bottom 70 percent declined (TUC, 2012). The movement of money from the labor of the many to the pockets of the few is solidified in most business structures. Businesses allocate money in the way they are structured (Bagchi, 2007). Allocation of resources in society is determined by the dominant business structures in that society (Bagchi, 2007). Since the dominant business structures in the United States allocate money upward toward top management and owners, allocation of resources in the U.S. society is also funneled upward (Bagchi, 2007). As of 2015, the average CEO in the United States made 204 times the amount in salary as the average worker (Chamberlain, 2015). This salary does not include bonuses and stock holdings CEOs may be given. From 1983 to 2010 the top 5 percent of wealth holders captured 74.2 percent of wealth growth in the United states, while the bottom 60 percent's wealth declined (EPI, 2018).

Stagnant and declining wages despite increased productivity and economic growth indicate a lack of control for workers. If workers had more control, they would have the power to increase compensations and protect their jobs from downsizing and outsourcing. Collective bargaining once gave workers an avenue to increase their pay, but since the 1980's, collective bargaining power has declined significantly in the United States (Reich, 2015). Political initiatives, outsourcing, and corporate hostile takeovers were primary reasons why unions declined (Reich, 2015; Nace, 2003). Union membership decreased from 20.1 percent of the workforce in 1983 to 10.7 percent in 2017 (BLS, 2017).

There is a political dimension to inequality as well. One of the hopes and principles of the founders of the United States was that there would not be the concentration of money into the hands of the few, according to historian Gordon S. Wood "it was common knowledge among the founding fathers that a republic could not remain republican if a tiny minority controlled most of the wealth" (Blasi et al., 2013, pg. 8). Many of the founding fathers were at least sympathetic to broad-based property ownership, including Washington, Jefferson, Hamilton, Franklin, Adams, and Madison, because a significant part of the revolution was in response to the inequality produced by royal policies (Blasi et al., 2013). Broad-based capital ownership was primarily about land distribution in those days because that was the primary way people made money, and corporations were still so heavily regulated that they were few and far between (Blasi et al., 2013). It can be argued that the new "land ownership" is ownership of capital property since its ownership brings with it wealth and power over company decisions (Blasi et al., 2013). Also, those who control capital property can benefit from the labor of others and exert control over them, much as land owners could in the days of the revolution (Blasi et al., 2013).

Greater wealth gives people the power to have greater control over laws and regulations, which in turn gives them more wealth. This is what is meant by the political dimension to inequality. The main mechanism through which the wealthy accumulate their wealth is through capital property (Mayer, 2016; Picketty, 2014). In 2008, the top 400 taxpayers declared that 60 percent of their income was from capital gains (and capital gains does not include income from dividends, which means that the total income from capital ownership in this report might be much higher than 60 percent) (Mayer, 2016). Capital gains, in this manner, thus becomes a mechanism for rich families to gain political capital to use for the further accumulation of more capital (Mayer, 2016).

For example, the Devos and Koch families spent millions of dollars funding legal proceedings in the early 2000s that would repeal many of the restrictions of the Tillman Act of 1907 (Mayer, 2016). The Tillman Act put restrictions on the ability of corporations to influence elections through the use of large donations (Mayer, 2016). The initiative to repeal the restrictions of the Tillman Act was successful and was written into law through the decision of *Citizens United vs. FEC*. Benefiting from this decision, the Devoses, Kochs, and other wealthy elite spent millions of dollars in campaign contributions through 501c(4) and 501c(3) nonprofit organizations to help elect candidates in the 2010 elections; their contributions were tax deductible (Mayer, 2016). One of the first things the newly elected candidates did after their election in 2010 was negotiate with the president, on behalf of their donors, to cut taxes on capital gains from 20 percent to 15 percent (Mayer, 2016). The money used to bring about the *Citizens United* decision, had a literal return on investment.

According to Blasi, Freeman, and Kruse (2013), it is important to implement policies that promote broad based capital ownership on the basis that this type of capital

ownership reduces inequality and regains balances of democratic power in the United States. It also gives people a means to practice democratic principles on a daily basis at work. The two primary business structures that imbed capital ownership within its structure are ESOP companies and worker owned cooperatives. While ESOP companies and worker cooperatives are similar in that they are both employee owned, there are important differences between the two. Differences between these two structures are explained throughout this paper, but the most important distinction between the two arises from the amount of ownership and control each structure may allow. Worker cooperatives are 100 percent owned and controlled by worker members (although they can and usually do have employees), and ESOP companies can be owned by a percentage of workers ranging from 20 to 100 percent (NCEO, 2017). Thus, in ESOP companies, employees are in charge of 20 to 100 percent of votes governing company decisions. Worker cooperative members are always in complete control of their business.

Examples from Italy, Spain, and Argentina

Italy

Through laws, policies, and public support, legislators from other countries have nurtured cooperatives in different ways than in the United States. In these places, we can see the consequences of planting the seeds of cooperative businesses. The best example of government support for cooperatives is in Italy, where the cooperative structure is solidified and recognized in the country's constitution. Article 45 of the Italian Constitution (1947) states: "The Republic recognizes the social function of cooperation characterized by mutual aid and not private profit. The law promotes and favors the growth of these structures using the most appropriate means and guarantees that their character and purpose

will be inspected accordingly" (Logue, 2006). A variety of laws give cooperatives significant advantages, including tax advantages, the ability to form associations amongst themselves for mutual aid and political representation, and mechanisms that insure the availability of capital for them (Logue, 2006; Corcoran and Wilson, 2010; Restakis, 2010).

One such law, the Basevi law, mandates that if cooperatives want to enjoy a 40 percent tax benefit, they must allocate 30 percent of annual net profit into an indivisible reserve (Logue, 2006, Restakis, 2010). This reserve cannot be distributed to members individually or paid to investors through dividends (CWCF, 2015). It also cannot be distributed to members when the cooperative is sold; instead it must either be donated to a co-op development fund or given to a cooperative organization (Corcoran and Wilson, 2010). It can be used as an emergency fund, improve financial statements and ratios, be used in research and development, and provide long term capital (Corcoran and Wilson, 2010; Logue, 2006; Restakis, 2010). This indivisible reserve is a success factor for many cooperatives, and has shown its benefits in areas where it is mandated into law, including Italy, Spain, and France (CWPC, 2015; Corcoran and Wilson, 2010). This law, among others, has helped insure the survival and propagation of worker cooperatives in Italy.

The law, culture, and important role cooperatives played in Italian history has greatly contributed to their success, particularly in the Emilia Romagna region. Forty percent of Emilia Romagna's GDP is generated by cooperatives, including worker coops (Restakis, 2010). Ten percent of the labor force of the region is employed by cooperatives, and half the population is a member of some kind of cooperative (Logue, 2006). "Most privatized social services are provided by employee co-ops", through social cooperatives[3]

[3] Social cooperatives are a kind of worker cooperative which are formally supported by multiple stakeholders (Restakis 2010).

which are considered by many in the region to combine the efficiency of the private market with the low costs of government services (Logue, 2006, pg. 1; Restakis, 2010). Some of Italy's largest businesses reside in Emilia Romagna, many of which are worker cooperatives, including five of the nine largest worker cooperatives in the world (Logue, 2006, Co-operative news, 2014).

Emilia Romagna is one of the wealthiest and most successful regions in Italy, in many metrics. Despite accounting for only seven percent of the total Italian population, Emilia Romagna accounts for "nine percent of the Italian GDP, twelve percent of Italy's exports, and thirty percent of Italy's patents" (Logue, 2006, pg. 2). Unemployment in the region was three percent before the economic crisis of 2008, which was exceptional (Logue, 2006; EU Commission, 2018). Although unemployment grew to eight percent in 2015, it was still 4.8 percent lower than the Italian national average (EU Commission, 2018). According to Flavio Delbono, economist and former vice president of Emilia Romagna, "the massive presence of cooperative firms is a stabilizing factor in the regional economy" (Logue, 2006). It is important to note that Emilia Romagna was able to achieve this level of economic success since the 1950s, when it was one of the poorest regions in all of Europe due to the devastation of World War Two and fascist suppression of cooperatives by Mussolini (Logue, 2006).

Evidence suggests that the high concentration of worker cooperatives is a major contributing factor to Emilia Romagna's low inequality index score and quality of life (Logue, 2006). In fact, Emilia Romagna's inequality index is twice as good as the average for the European Union (Logue, 2006). Research from other places, including the United States, shows that worker-owned cooperatives reduce inequality (Majee and Hoyt, 2011;

Logue, 2006; Cocoran and Wilson, 2010; Restakis, 2010; Nadeau, 2012). Low inequality metrics also correspond with metrics of higher quality of life and higher social capital, a metric according to which Emilia Romagna repeatedly scores among the highest in the world (Logue, 2006). According to Robert Putnam, metrics of social capital and social cohesion (social capital is the measure of the degree to which there are networks of people that know each other and do things for and with each other) are extremely high in Emilia Romagna (Putnam, 2000). Social capital has been associated with things like increases in trust within the community, communities' resiliency in response to natural disasters, decreases in crime rates, and higher rates of happiness (Hari, 2018; Putnam, 2000; Restakis, 2010).

Spain

The Mondragon Cooperative Corporation was born out of post-civil war Spain in the 1950s (Restakis, 2010). The war had devastated the city of Mondragon in the Basque country. Like Emilia Romagna, the Basque region of Spain was particularly persecuted by Franco. Mondragon was a small, poor town with extremely high unemployment when the Mondragon Cooperative Corporation (MCC) was founded (Whyte and Whyte, 1988). The founders of MCC, a Catholic priest and some of his students, viewed their cooperative experiment as more than just a business. It was also an economic development initiative intended to support the Basque community (Whyte and Whyte, 1988). Mondragon has largely been self-regulating and took cooperative principles seriously when creating bylaws and planning how the cooperative would be structured and run (Gibson-Graham, 2006). Founding members of MCC took these values seriously and added other values that guided them in business decisions, including:

- Sovereignty over labor: labor is understood as, "the main factor in the transformation of nature, society and human beings, thus there should be a strong emphasis on job creation"
- Instrumental and subordinate nature of capital: "Capital is in the service of people and labor rather than profit and accordingly is managed in participatory manner with standards for transparency and information sharing" (Cornwell et al., 2013, pg. 168).
- Payment solidarity: Payment of individuals should not come at the expense of others in the cooperative or the cooperative itself.
- Social transformation: that worker coops should be dedicated to "growing ever more cooperative to provide more jobs through the reinvestment of surplus; support for community development, to which ten percent of net surplus is devoted; providing a social security system for all members; and economic and social cooperation with other institutions" (Cornwell et al., 2013, pg. 168)
- Universality: helping the co-op movement through promotion, growing and teaching other coops, etc.

(These principles, and the idea to include their definitions, were originally found in Building Cooperative Power by Cornwell, Johnson, and Trott, but were taken from Mondragon's website.)

Despite there being little history of worker cooperatives in the region (although other cooperatives were prominent before the civil war), and despite there being no legal structure for worker cooperatives, the Mondragon Cooperative Corporation has become an important player in the economic atmosphere of Northern Spain (Whyte and Whyte, 1988).

As of 2016 it employs around 31,442 workers in the Basque region alone. Two hundred and sixty-eight companies (102 are cooperatives) employ 73,000 workers (Mondragon, 2018). Over time, the Spanish government has recognized cooperatives as an important economic development tool, and taxes their profits at 10 percent compared to 28 percent for other corporations (Corcoran and Wilson, 2010).

Concern for the community and the wellbeing of its worker members have been strong guiding values of the cooperative. For example, to prevent members from getting too wealthy and becoming a new ruling class that could come into conflict with the rest of Basque society, members used the community as the standard to set wages within Mondragon (Gibson-Graham, 2006). For most jobs in Mondragon, wages are competitive and pay more than industry averages, but aren't extravagantly higher than average (Corcoran and Wilson, 2010). Managers and CEO's, however, are paid less than industry averages, which causes the cooperative to hire within and hire new graduates from universities (Corcoran and Wilson, 2010). Managers and CEO's are paid less because of Mondragon's commitment to pay solidarity. No one is paid more than 8 times the lowest paid worker (Tremlett, 2013).

When the Spanish government ruled that worker members of the cooperative didn't qualify for Social Security or medical insurance on the grounds that members were considered to be self-employed, Mondragon pooled resources to create its own insurance cooperative and used its own credit union to help workers save money through profit distributions into individual capital accounts (Graham -Gibson, 2006; Corcoran and Wilson, 2010). Capital accounts proved to be mutually beneficial to the cooperative and its

members, as they provided a way for members to save money in an account that accrues interest, and gave the cooperative more liquid capital (Corcoran and Wilson, 2010).

In the event of economic difficulties, the cooperative has gone to great lengths to save jobs (Corcoran and Wilson, 2010). During such events, La Caja Laboral, Mondragon's central credit union, assesses the economic crises, retrains and redeploys members from failing cooperatives, gives loans to suffering cooperatives, lowers wages within the cooperative to save jobs, or simply pays laid-off members 80 percent of their wages until better economic times creates an opening in another cooperative (Corcoran and Wilson, 2010). For example, when unemployment rates were 25 percent in Spain during the 1980s, Mondragon used the aforementioned measures to save member jobs (Corcoran and Wilson, 2010). During the financial crisis that started in 2008, Mondragon was able to avoid laying off a single member (Guadiana, 2016).

Mondragon has come under some scrutiny in recent years. The argument has been made that Mondragon hasn't cooperated with non-Mondragon cooperatives (Corcoran and Wilson, 2010). The perceived lack of cooperation could be due to its history of having to survive on its own with little outside support or it could be due to resources being spread thin because of the 268 corporations and cooperatives that it owns worldwide. Mondragon has gone out of its way to promote the cooperative model, even in other countries such as the United States (Guadiana, 2016). Mondragon partnered with the US Steelworkers union on an initiative to spread the cooperative model through union cooperatives (Guadiana, 2016).

Another criticism of Mondragon, which also applies to many of the large worker cooperatives in Italy, is its ownership of non-cooperative corporations, largely in other

countries (Corcoran and Wilson, 2010; Restakis, 2010; Gibson-Graham, 2006). Italian law recently permitted cooperatives the ability to own corporate stock and corporations, and it is a concern that cooperatives could use conventional corporate structure in a way that compromises cooperative principles (Restakis, 2010). Mondragon also owns corporations, especially in other countries such as Southeast Asia and Morocco (Corcoran and Wilson, 2010). Mondragon cites the need to be competitive in the global market, and lack of laws enabling cooperative development in countries in which it does business (Gibson-Graham, 2006).

Benefits of Worker Cooperatives

We have just explored some areas of the world in which the government and regulations have come to support worker cooperatives. In Italy, support comes through the government because of the historical benefits to communities, the economy, and individuals. In Spain, the government has come to support cooperatives over time for much the same reasons as in Italy. The Mondragon Corporation has largely been self-regulating, whereas in Italy the government has played a large role in regulations.

In the next section, I will explore the benefits of worker cooperatives to the economy, firm, and individual. It is hard to separate the benefits to each because there is likely a spillover effect from each. For example, a worker cooperative that saves jobs in a recession will be beneficial to the economy as it reduces unemployment, the individual as it has saved someone's job, and likely the firm in the long run as it was able to retain an already trained and experienced employee. Additionally, evidence suggests that the economic environment in which one lives has health implications (Young, 2018; Marmot, 2015). In a study conducted comparing counties across the United States, individuals in

wealthier counties were 64 percent less likely to die of mental health or substance-abuse-related diseases (Young, 2018). Also, poor counties were 26 percent less likely to have healthy food options and 24 percent less likely to have opportunities for exercise (Young, 2018). There are many more connections between the individual, firm, and economic spheres, and there are probably many other benefits from having cooperatives than those subsequently mentioned. This is a brief outline of what the evidence says about worker cooperatives so far. These outlined benefits will be analyzed in the context of Nevada and interviews with politicians in Chapter 5.

Economic Benefits

This section will primarily discuss economic benefits to communities and regions worker cooperatives occupy. There is limited evidence on the effects of worker cooperatives in countries as a whole, besides general data and trends of firm creation, firm extinction, and employment in certain countries. Information on worker cooperatives in general is limited, especially in the United States, according to literature and interviews with cooperative support organizations (Hoyt and Menzani, 2010). The evidence we do have supports the idea that worker cooperatives save jobs during economic crises, are less prone to market booms and busts, pay workers more on average, and may have an economic multiplier effect (Birchall and Ketilson, 2009; Perotin, 2012). Evidence that employee owned firms survive longer is most robust (Schwartz, 2012).

Cooperatives, including worker cooperatives, have historically been a type of self-help, economic development strategy throughout the world and have the potential to lift communities out of poverty as opposed to single individuals (Battilani and Schroter, 2012; Majee and Hoyt 2009). Whether it be post-civil war Spain, post-WWII Italy, or modern

day Argentina, worker cooperatives have allowed people to come together to improve their communities, create their own jobs, and increase their standard of living. Even in the United States, during the Great Depression, worker cooperatives were a means of economic revitalization (Curl, 2009). Worker cooperatives are still used as a means of economic development. Cities such as Austin, Texas, New York City, and Cleveland are just a few cities in the United States that have implemented worker cooperative initiatives to reduce inequality, create wealth, and create jobs in inner cities (Morningside Research, 2016). As unemployment rises, people can come together to create their own employment opportunities through the cooperative structure (Artz and Kim, 2011; Smith and Rothbaum, 2013). For example, for every 1 percent increase in unemployment in France, cooperative firm formation increased 10 percent (Perotin, 2012). Economic wellbeing, in the sense of reducing unemployment, is aided by the creation of worker cooperatives.

In the United States, worker cooperatives have been used at least since the 1980s, to convert businesses to save jobs (Pitegoff, 1985). During factory shutdowns of the 1980's, it was the hope of many that workers would band together to buy the factories they worked for in an effort to prevent their jobs from moving overseas. In fact, Massachusetts passed the nation's first worker cooperative statute, in part, to promote business conversions for this reason (Ellerman and Pitegoff, 1983). Saving and creating jobs is an important mission of many worker cooperatives and it is common for worker co-ops to include, "jobs for future generations" as part of their mission statement (Artz and Kim, 2011). In the United States today, there are 70 million retiring Baby Boomers nearing retirement who collectively own 12 million private businesses with $10 trillion in assets (CABB, 2018). Considering that most business sales are not successful, and that most

retiring Baby Boomers don't have a successor to hand the business off to, there is a potential for mass unemployment as baby boomers retire (Project Equity, 2018). Worker cooperatives can thus be utilized as a means to prevent mass layoffs over the next few decades through the sale of businesses to employees; called a business conversion (Project Equity, 2018).

Worker cooperatives aren't solely motivated by profit, as they are business entities that are also meant to provide services to members, and in the case of worker cooperatives this means jobs. The consequences of having to fulfil obligations to worker members, instead of outside investors, is that cooperatives are willing to sacrifice short term profits to meet their primary obligation of continued service to members: worker cooperatives going through periods of economic recession are most concerned with saving jobs (Smith and Rothbaum, 2013). During the financial crisis that started in 2008, worker cooperatives prevented layoffs at significantly higher rates than average (ILO, 2014). Instead of laying people off, cooperative members are more likely to lower wages and cut back hours (Perotin, 2012). Evidence from Spain, Italy, and Uruguay shows that worker cooperatives are more flexible with wages and benefits during economic downturns so that jobs can be saved (Smith and Rothbaum, 2013). A conventional firm's first reaction when dealing with market "demand shocks" and "wage changes" is to cut employment (Perotin, 2012, pg 213). Cooperatives, on the other hand, are more likely to cut employment as a last resort, and when they do, they, "adjust employment less and more slowly" (Perotin 2012, pg 213). Worker cooperatives will cut back on wages, benefits, and hours in order to save jobs, and are more likely to increase wages and benefits in good economic times to achieve some

equilibrium (Perotin, 2012). During economic hardship, worker cooperatives are less likely to contribute to rising unemployment.

Recessionary periods aren't the only times worker cooperatives are economically beneficial. Because worker cooperatives are primarily concerned with providing high quality jobs to members, as opposed to purely profit in conventional firms, they are more likely to provide better pay more willingly during better economic times (Artz and Kim, 2011; Perotin, 2012). In general, worker cooperatives will hire workers at the same rates as they increase pay (Perotin, 2012). Conventional firms in general will do the opposite; they are more likely to decrease employment (i.e. fire people) in response to market pay increases (Perotin, 2012). Research from ESOP companies also supports the idea that employee-owned companies pay more than non-employee owned firms (Artz and Kim, 2011). Most worker cooperative members interviewed for this paper reported either higher pay for their position than could be found in other businesses in their community, or greater benefits. Some respondents did report lower pay for managerial workers and sales representatives, however. Lower pay for managerial workers has also been reported in many other worker cooperatives, such as Mondragon (Corcoran and Wilson, 2010).

Worker cooperatives have benefits to their communities besides providing secure jobs at higher pay. One of the main advantages for communities in the worker cooperative model is that outside investors cannot control the firm (Kreis, 2012). This means that control, the distribution of profits, and the wealth created within the community is much more likely to stay within the community (Kreis, 2012). For example, a conventionally structured business in Reno, Nevada can be owned and controlled by a majority shareholder in Omaha, Nebraska. Most of the profits created from the labor in Reno would

be sent to Omaha, also the investor in Omaha would have the authority to control business decisions of a business in another community. Keeping money within a community has economic multiplier effects through money kept in and circulated within the community (Abrams, 2008). Although there is not a robust body of research on worker cooperative money multiplier effects in the community, it has been mentioned by a few authors (Logue and Yates, 2001; Abrams, 2008; Majee and Hoyte, 2011; Kreis, 2012). One study in Austin, Texas does confirm the enhanced money multiplier effect for worker cooperatives. It found that worker cooperatives in Austin had an economic multiplier of 1.85 meaning that for every dollar generated by a worker cooperative, $1.85 was generated in the community (Cooperation Texas, 2015). According to this study, worker cooperatives had a greater economic multiplier than other cooperative forms, including credit unions, consumer cooperatives, housing cooperatives and producer cooperatives (Cooperation Texas, 2015).

Benefits to the Individual

A major theme from my interviews with worker cooperative members was the love they felt for their jobs. Eight of nine worker cooperative members felt they loved working for a worker co-op, and most felt they had become a better person as a result of working at a cooperative (the one respondent that didn't outright say he loved it was in the process of disbanding the co-op, but did say it made him a better person). In the words of one respondent, "[Asking about why I like worker owned cooperatives] is like asking why I love my wife and kids… I'm incredibly passionate about being [in] a democratic business. I love being able to look to my left and to my right and seeing that everyone else is just as passionate about running this company as I am". In the words of another respondent, "It

was years before it felt like I was going to work". According to interviewees, the most frequently cited reasons for loving the cooperative model besides more pay and benefits were: being able to work democratically (6 respondents), being able to grow as individuals (5 respondents), shared effort in the business (4 respondents), and feeling more personally responsible (2 respondents). These sentiments were also found in much of the literature, interviews, books, and videos on employee-owned businesses (Cornwell et al., 2013; Abrams, 2008; Berner et al., 2014).

Michael Marmot, professor of Epidemiology and Public Health at the University College London, states that three variables will likely determine if someone will hate their job or not (Hari, 2018). 1) The degree to which one feels controlled. 2) Whether one feels their job is or that they are meaningless. 3) Whether there is an imbalance between efforts and rewards which makes the employee believe they will be treated no differently whether they work hard or not (Hari, 2018, pg. 207). These criteria are largely determined by the status of the job one occupies at work (Hari, 2018). If someone has a low status in a hierarchy at work, they are more likely to feel controlled by upper management and have less freedom to express themselves, they are more likely to feel like they are dispensable and that they can be easily replaced, and they are more likely to feel unnoticed regardless of much or how little they work (Hari, 2018). According to Marmot, the degree to which someone is satisfied with their job has implications on mental health and cardiovascular disease (Hari, 2018).

Marmot's criteria for a healthy job is met well by cooperatives, primarily because of their democratic nature and shared ownership (Hari, 2018). Because there is little or no hierarchy in important decisions, and because members legally have a voice in decision

making, feelings of being controlled should diminish. One respondent said her favorite part of working in a cooperative was her, "voice in decision making… it's very empowering". Not all aspects of worker cooperatives are democratic, however. In most of the cooperatives I interviewed, day to day operations were governed by a manager, and this manager was usually elected by the members they managed. In fact, having a management system was cited as a success factor by multiple respondents. Nonetheless, worker cooperatives are mostly democratic structures. All important decisions must be voted upon by the members, and management is elected by members. Structural hierarchy in worker cooperatives is thus largely diminished.

Other authors have written about the benefits of employee ownership, and support findings that employee ownership is associated with job satisfaction (Artz and Kim, 2011, Logue and Yates 2001). Specifically, employee job satisfaction goes up with ownership stakes in the company as well as increased decision-making power (Kruse and Blasi, 1995; Kruse and Blasi, 1997; Artz and Kim, 2011). These two factors are independent of one another, but can have synergistic effects (Rosen et al., 2005). It appears job satisfaction increases proportionally to the amount of each factor, i.e. the more ownership one has, the more satisfied with their job they are, and the same with decision making power (Rosen et al., 2005). "Increased job training, freedom from supervision, and job security" may all be mechanisms for the increased job satisfaction related to ownership and decision making (Artz and Kim, 2011; Kruse et al., 2010). Job satisfaction effects of employee ownership are also related to lower turnover, which is related to increased economic performance (Buchko, 1992). In the words of one respondent, "I think it's just a lot harder to leave a worker cooperative".

Benefits to the Firm

Worker cooperatives that utilize the benefits of their structure the most will not only create benefits for their local economies, communities, and employees, but also for their balance sheets. As one respondent said, "we converted our business [to a worker cooperative] because we saw it as a competitive advantage". According to studies across time, methodologies, and countries, "worker cooperatives are never found to be less productive than conventional firms and may even by more productive" (Perotin, 2012). A 2013 study of 67 worker cooperatives in the United States found higher profit margins, on average, than conventional firms in their industry (DAWI, 2013). While the average profit margin for U.S. private businesses in 2013 was 5.9 percent, the average for worker coops was 6.4 percent (DAWI, 2013).

The employee ownership component of the worker cooperative model is one of the driving forces for increased productivity in the firm. Studies conducted in France, Italy, and the United Kingdom show that increased profit sharing was associated with higher productivity levels (Perotin, 2012). In the same studies, larger ownership stakes were associated with higher productivity levels in France and Italy, but higher productivity levels were only associated with higher productivity when owners had governance authority in the U.K. (Perotin, 2012). Increased governance was also associated with increased productivity levels in these cooperatives (Perotin, 2012). A study of plywood worker cooperatives in the 1990s concluded they were 6 to15 percent more productive than non-worker co-op plywood companies (Schwartz, 2012; Craig and Pancavel, 1992). Studies of ESOP companies confirm increases in firm productivity when employee stock ownership plans are implemented (Logue and Yates, 2001; Rosen et al., 2005). According to 30

empirical studies, productivity increased by 4 to 5 percent after an ESOP plan was implemented, and increased productivity was sustained (Rosen et al., 2005).

Worker cooperatives use social connections between members, other cooperatives, and their communities to give them more competitive advantages. A respondent talking about how social connections in his cooperative helped create better products had this to say: "Some people argue that human beings are successful because we can talk to each other. We talk, we make plans, we build spaceships that go to the moon… In a cooperative, it forces you to do that as well, talk, meet, share goals and ideas". From a cooperative to community perspective, employees of worker cooperatives are more likely to engage with the community and form community connections than employees of other business structures (Majee & Hoyt, 2011). This increased engagement with the community helps translate into increased social capital for the cooperative (Majee & Hoyt, 2011). Increased social capital and connections between businesses and the community may translate into increased sales, as members of cooperatives who are internally motivated by their financial interest in the company have incentives to promote the cooperative in the community (Majee & Hoyt, 2011; Freeman, 2007).

Community Benefits

Interview respondents cited many potential benefits worker cooperatives could give communities, especially if a critical mass is achieved. These benefits include, increased democratic decision-making abilities, the ability to cooperate with and understand others, and a happier and healthier population. These benefits are speculative at the moment, but one study conducted in Italy did confirm some of these speculations (Erdal, 2012). Surveying towns where 26 percent, 13 percent, and 0 percent of the population was

employed by worker cooperatives, the study found that towns that employed people via worker cooperatives were indeed happier and healthier (Erdal, 2012). Every metric tested by this study:-crime, education, health, social environment, and social participation- was better for towns with worker cooperatives, with the exceptions of perceived importance of education and post-school training (Erdal, 2012).

This study was conducted in the Emilia Romagna area of Italy, which has the largest concentration of worker cooperatives in the world, and one of the highest metrics of social capital (Putnam, 2000; Corcoran and Wilson, 2010). Most worker-owned cooperatives of the region are small enterprises, and there is a high amount of cooperation between cooperatives (Corcoran and Wilson, 2010). Cooperation between cooperatives allows smaller cooperatives to work together to compete internationally (Restakis, 2010). Besides giving them a competitive advantage, cooperation also increases community ties, which increases social capital. Cooperation between cooperatives was a central theme among respondents interviewed for this paper. Every single cooperative member I interviewed either got help from another cooperative, helps other cooperatives, or contributes to the cooperative movement in some way. Even the most isolated worker co-op interviewed cooperated with a local consumer cooperative.

Cooperation between cooperatives is one of the cooperative principles which increases social capital. Another principle, concern for community, is something that all but one member respondent cited as including in their personal or cooperative mission statement. One worker co-op respondent educated the public about pharmaceuticals, another donated money and resources to improving conditions for prison inmates, another donated time and resources to build community gardens, another includes in their bylaws

that a third of profits from the sale of the cooperative would be donated to the community. It is unclear if cooperatives are concerned for their community because of cooperative principles, or if concern for community is in the nature of the people who start cooperatives. Research from places like Italy, with high concentrations of cooperatives, suggests these areas produce conditions were people are more likely to volunteer for nonprofits in their community (Corcoran and Wilson, 2010). Again, the question arises, do cooperatives change the members who then volunteer, or are members more likely to volunteer to begin with?

Importance of Legal Policies

Considering the benefits of worker cooperatives to individuals and communities, and in regards to economic development and preventing unemployment, it is in the best interest of the state to support worker cooperatives, or at the least to not hinder them. Support for worker cooperatives can take the form of state statutes that give legal protection for worker cooperatives, or state policy, that helps the financial and educational environment for worker cooperatives.

There is conflicting evidence about how much a state statute would help propagate worker co-ops. Literature suggests that a lack of state statutes and legal policies are a problem, but respondents had conflicting views (Artz and Kim, 2011; Helfman, 1992; Nadeau 2012; Blasi et al., 2013). Three respondents, all of whom are not cooperative members, suggested that state statutes would not necessarily lead to the creation or failure of cooperatives because, even in states with no cooperative statute, they could always form under LLC statutes. LLCs also enjoy many of the same tax benefits as worker cooperatives and can elect to receive significant tax benefits with the IRS subchapter T status. As of

2013, 44 percent of worker cooperatives documented in the United States were worker cooperatives by statute, 26 percent were LLCs, 14 percent were C or S corporations, and 16 percent were incorporated under other statutes like nonprofits (US Federation of Worker Cooperatives 2013). Indeed, about half of the respondents interviewed work for worker cooperatives by legal statute (5 out of 9). Most of the worker cooperative members interviewed did think an updated state statute for worker cooperatives would be beneficial, including some not filed as a worker cooperative.

The most commonly cited problem regarding state statutes and worker cooperatives was the lack of clear definitions regarding labor law. Five worker member respondents said labor laws caused challenges for them. Most of the labor law challenges that worker cooperatives face at the state level also apply at the federal level (Helfman, 1992). The root problem behind labor law issues for worker cooperatives is the lack of a definition regarding worker members (Helfman, 1992). This problem manifests itself in overtime laws, workers compensation laws, unemployment tax laws, and worker privacy laws being applied to them inappropriately (Helfman, 1992). A state statute with clear definitions could solve this problem at the state level and could be implemented in states across the U.S. via the Unified Law Commission (ULC). Statutes and definitions of this kind, especially if they are uniform in other states, could be useful in helping to persuade federal lawyers in creating similar legislation.

Many environmental challenges worker cooperatives face, such as invisibility of their structure to entrepreneurs, or lack of familiarity of the structure with financiers, could be addressed through appropriate state policies (Cornwell et al., 2013; Blasi et al., 2013). For example, states such as Ohio, Oregon, New York, Michigan, Massachusetts, and

Washington have or have previously had an office dedicated to promoting employee ownership (Logue and Yates, 2001). The unfamiliarity of financial institutions with worker coops (the Small Business Administration for instance) could be addressed with a state policy that shared information with lending institutions showing them how to lend to worker cooperatives would be useful. One respondent's organization, in the New England area, has done this for the city of Boston and other lenders.

Success factors, like challenges, can also be addressed though legal policy. For example, in many places where worker cooperatives are most successful, like Italy, France, and Spain, indivisible reserves are required by law (CWPC, 2015). Legally requiring an indivisible reserve would enshrine a practice that has been identified in the success of worker cooperatives and may allow the state to maximize the benefits worker cooperatives can give to the community since indivisible reserves would give cooperatives more capital in the event of financial difficulties- saving jobs.

There are at least 11 reasons why a worker cooperative state statute and policies are important:

1- It provides legitimacy and promotes the worker cooperative structure (Ellerman and Pitegoff, 1983). Having the worker cooperative statute easily visible on state websites and forms would help legitimize the worker cooperative structure for financial officers, lawyers, and entrepreneurs (Helfman, 1992). A statute that could be easily researched would take a lot of guesswork out of the equation for many people as well. So that, in the words of one respondent, "people wouldn't have to continually reinvent the wheel" every time they wished to form a worker cooperative.

2- Statutes can be set up in a way that allows worker cooperatives to easily apply for subchapter-T tax status. A state statute that conformed with subchapter T would provide guidance to worker cooperatives looking to seek the subchapter T designation.

3- Once a statute is created, the state can add onto it and attach more things to it in the future, such as tax advantages, or exemptions from securities laws for community investors-which has been done in California (CLI, 2016).

4- A statute can define terms such as worker owner vs employee, that would give cooperatives protections from the law (Helfman, 1992).

5- A state statute could become unified among states via the Unified Law Commission. These unified statutes could address many of the technical legal difficulties for worker coops, especially in creating definitions for labor laws.

6- State statutes can define what the purpose of worker cooperatives are, that they provide services to members as well as profits. This would protect boards of directors in allowing them to take multiple bottom lines into account when making decisions.

7- A state statute could introduce co-op specific language into state legal terminology (Ellerman and Pitegoff, 1983). Terms such as "capital accounts" were introduced by Chapter 157A in Massachusetts (Ellerman and Pitegoff, 1983).

8- Policies can enshrine best practices, such as the indivisible reserve, into law.

9- A state statute can help prevent people from abusing the worker cooperative model, and preserve cooperative values structurally (Helfman, 1992).

10- Policies can address some of the institutional and environmental challenges worker cooperatives face. For example, the state could inform financial institutions on how to lend to worker cooperatives.

11- Progressive state policies and statutes sends messages to other states and the federal government. For example, the worker cooperative statute that was passed in Massachusetts was adopted by other states, such as Connecticut, New York, Vermont, Maine, Oregon, and Washington (Cornwell et al., 2013).

Chapter 3. Challenges for Worker Cooperatives

This section will address the challenges for worker cooperatives according to 16 respondents working in worker cooperatives or working to support them. Challenges for worker cooperatives, and employee-owned companies in general, have been written about by numerous authors since at least the late 1800s. For example, Karl Marx wrote about the ability of cooperatives to function in a capitalist system. Various authors have talked about short-term, long-term, theoretical, cultural, political, economic challenges to the firm, for the community, for society, and a copious number of other things. Addressing each and every challenge for worker co-ops is beyond the scope of this chapter. The challenges addressed in this chapter will mostly be guided by challenges brought up through my interviews. These challenges are divided into themes: financial challenges, conversion challenges, challenges in promotion and education, cultural challenges in the U.S., challenges related to democracy, and legal challenges. Themes are divided further into sub-themes with the intention of explaining various types of challenges for worker co-ops within the socio-economic and legal environment in the United States.

A respondent in New England said this about worker cooperatives: "there are a lot of challenges with worker co-ops, but the challenges are not inherent in the model". Evidence suggests that worker cooperatives are better forms of business than conventional forms in many regards, but there are still inherent challenges in the worker cooperative model (Perotin, 2012). These challenges are related to democratic governance, the cooperative principles, issues with incentives that arise from shared ownership, and financing challenges (Battilani and Schroter, 2012). Paradoxically, shared governance, the

adherence to cooperative principles, and shared ownership may be a source of both advantages and difficulties.

Challenges for worker cooperatives can be classified into two categories: challenges specific to worker cooperatives, and general firm challenges which are related to the business environment of worker co-ops (Tanner, 2013). There are two ways worker cooperative start: as a startup or as a business conversion where a non-cooperative business is converted to a worker cooperative either through a donation or (much more commonly) a sale from the owners to the workers. Also, there are two ways worker cooperatives fail: through effective bankruptcy or transformation into a non-democratic business (called demutualization) (Kramper, 2012). What is often called *demutualization* occurs when a worker cooperative either transforms into a conventional business or sells itself to a conventional business and is acquired by that business. Both types of challenges, start-up strategies, and failure classifications will be addressed below.

Every respondent in this study brought up challenges that are not worker-cooperative specific. "Most of the things we need", one worker owner said, "are things that would help all small businesses, like universal healthcare". Respondents also noted a lot of challenges that are specific to their industry. A respondent at a worker co-op in healthcare, for example, said that pharmacy monopolies and constant regulatory revisions were a problem. Challenges such as these are not included below. Rather, I will be focusing on the challenges that are more specific to the worker-cooperative business structure.

Some support organizations expressed frustrations with the way in which their local municipalities were going about trying to start more worker cooperatives. These respondents were located in New York City, and reported that the city could be doing a

much better job supporting worker cooperatives if it focused on supporting existing coops instead of trying to continually start new ones. Such challenges for support organizations are also not included below.

Financial Challenges

The most commonly cited challenges in terms of frequency and magnitude are finance-related. Six of the nine worker cooperative respondent members cited financing as being the first or second most important problem, and five of the seven cooperative support agencies said it was "the first and foremost challenge" for startups. A 2016 survey of worker cooperatives in Austin, Texas, found that increased financing was the most commonly needed service both currently and during the startup periods for worker cooperatives (Morningstar Research, 2016). There are non-inherent structural challenges for worker cooperatives regarding lack of promotion among financial institutions, but there are also inherent problems in the worker cooperative model using modern finance and accounting principles (Leung, 2016). Financing challenges aren't restricted to the United States; of the largest global 300 co-ops, only five are in the industrial sector, either in Italy or Spain, and they are either in construction or manufacturing (Zamagni, 2010). The main reason we don't see more cooperatives in the industrial sector is because the industrial sector is so capital-intensive (Zamagni, 2010).

Present Value Problem

The first financial challenge for worker cooperatives lies in the fact that, unlike conventional businesses, worker cooperatives do not take profits to be earned in the future into account in the present (Leung, 2016). This is a major challenge for startup cooperatives because this guarantees a loss on startup investments for founding members (Leung, 2016).

For example, if four founding members come together to start a worker cooperative with $25,000 each, each member's capital account will reflect their investment. Startups usually do not turn a profit in their initial years, so the cooperative doesn't distribute profits during these years (Leung, 2016). The most the founding members can expect to receive on a return on their investment, regardless of the performance of the cooperative is, $25,000. If a founding member leaves the cooperative, their $25,000 will be given back to them[4] regardless of whether the cooperative will be profitable in the future or not. Even if the member stays and the cooperative is profitable, they can still only expect to receive a zero percent return on their initial investment[5] because profit distributions are allocated based on labor, in accordance with cooperative principles[6] (GEO, 2016). In conventional businesses, this is not a challenge because future profits are reflected in the stock prices or reflected in the sale price of the business (GEO ,2016). For example, Tesla has famously never turned a profit; however, because it is expected to turn a profit in the future, share prices continue to rise, which makes investors money (GEO, 2016). Even in a sole proprietorship, the owner can make a profit on their business, even if it hasn't turned a profit, upon the sale of the business (GEO, 2016). Again, this is not normally possible in a

[4] Assuming the cooperative still has it.
[5] Actually, it will be a negative return on investment if one considers inflation and interest rates, but some capital accounts accrue interest depending on the worker cooperative's bylaws.
[6] In accordance with cooperative principles, but not necessarily the law. The law in many states does not prohibit the reflection of future earnings in the present value of stock. Massachusetts state statutes, which was adopted by a few other states, allows the cooperative to reflect future earnings in the present price of stock: "Among these rights are the right to control the corporation by voting, to elect the board of directors, and to receive value from the corporation (first, in the form of dividends while the stock is held and second in the form of capital gains. when the stock is sold at a higher price). The total value accruing to the shareholders can be analyzed as the sum of (1) the present value of the present and future economic net income plus (2) the net book value or net worth (assets minus liabilities) of the corporate assets." (Ellerman and Pitegoff, 1983 p. 458)

worker cooperative because future earning are not reflected in the price of stocks or other investments, in accordance with cooperative principles.

Horizon Problem

The inability for members to claim rights on future profits becomes a challenge when the cooperative wants to grow and add members, especially when adding new members means profits will be divided by more people. Other authors have dubbed this, "the horizon problem"; still the root of the problem is the same as problems for startups described in the above paragraph (Perotin, 2012). When a conventional business expands operations, it is assumed that profits will increase in the future. Because profits are distributed to members in the present, co-op members are not likely to benefit from expanding the cooperative unless expansion increases profits significantly (Cornwell et al., 2014).

Unless the cooperative has a large pool of money, like the indivisible reserves in many northern Italian cooperatives, members will have to finance growth through taking on debt, asking members to contribute, or issuing equity shares. In the case of taking on debt, interest payments will bring down profit distributions going to each member. If the cooperative issues preferred shares, they will likely have to pay dividends, which will also bring down the total amount of profits that can be distributed. This means that there are negative incentives for members, in the short term, to expand (Perotin, 2012). Newer members that plan on leaving may still see incentives for expansion because they will likely be with the firm long enough to see some returns on their investment through profit distributions on their labor (Artz and Kim, 2011). Even if the cooperative has the money to expand operations, there is a negative incentive to grow because the fraction of profits

allocated to any individual member decreases as new members are added (more members means more people to split profits with). According to one respondent, disincentives to grow and create jobs are "one of the least-attended-to problems within and outside the movement". Others have suggested these challenges are the biggest single challenge for worker cooperative growth (GEO, 2016).

General Firm Challenges for Financing

The above challenges are further compounded by general firm challenges in acquiring funding. In general, businesses get external funding through taking on debt (debt financing) or through the issuance of equity in the form of stock (equity financing usually through preferred shares). The worker cooperative model may hinder equity financing in that equity financing does not come with a right to vote in a worker cooperative. In a regular business, investors can purchase shares and voting rights attached to these shares to make company changes. This is not possible in a worker cooperative since members, not outside investors, must be in control of the cooperative (Artz and Kim, 2011; Thompson, 2011). This may mean that outside investors will not be guaranteed set percentages of dividends if any at all, because the purchase of stock does not authorize decision-making authority (Artz and Kim, 2011). A respondent from a cooperative development fund said, "We still don't have a good system that gives worker coops debt equity in a streamlined standard way". It is not impossible to secure equity financing. At least two of the worker cooperatives interviewed did secure at least a million dollars in equity financing; this will be explained in detail in the next chapter. Obtaining equity financing, however, may be significantly more difficult for worker cooperatives than for conventional firms (Artz and Kim, 2011).

Unfamiliarity of the Structure

From a general firm perspective, many debt financers[7] don't know what the worker cooperative model is, and don't know how to treat them. Financers often use what's called "the five C's" to assess risk: Capacity, Capital, Collateral, Character, and Conditions (Project Equity, 2016). These 5 C's, in the way they are traditionally used, are difficult to apply to worker cooperatives because there are multiple owners of the business (Project Equity, 2016). In the case of collateral, for example, a respondent asked "Whose house are we going to repossess, all twenty of them?" (if the loan defaults). To measure character of a loan applicant, credit scores are usually used, but for worker cooperative applicants, does the lending institution single out the best or worst credit score among worker co-op members, or should they take the average of the credit scores? Assessing risk for worker cooperatives, and tailoring the underwriting to fit them, takes time and research, both of which have not been given to worker cooperatives by most banks. Because financial institutions don't understand the co-op model or how to assess them, they may consider them riskier.

For respondents, the lack of familiarity with the co-op model among financial institutions was the most commonly cited financial challenge. Debt financing from either personal or business bank loans was the most common way respondents financed their cooperative outside of member contributions, and many of them went through great difficulty in receiving these loans because banks did not understand how to loan to more than one person.

[7] Usually banks or credit unions

Respondents familiar with worker cooperatives and work in either credit unions or community development funds have reported that worker cooperatives are not riskier, in terms of risk in paying back loans or in terms of startup failure risk. The lower risk for worker coops is supported by some limited evidence. For example, Community Development Fund of New England has loaned $50 million since 1975 (CFNE, 2018). Food, housing, and worker cooperatives make up the majority of the loan recipients (CFNE, 2018). Since its inception, the cooperative fund has earned a 99.3 percent payback on loans (CFNE, 2018). Compared to Small Business Association loans from 2006 to 2015, which saw a default rate of 17.4 percent, the Cooperative Fund of New England has a significantly higher payback percentage (SBA, 2015). In terms of equity investments, the Cooperative Fund invested $18,538,710 and has not lost a dollar for investors since 1975 (CFNE, 2018). Yet despite actually being lower risk for financiers, worker cooperatives are perceived to be riskier.

Conversion-Specific Challenges

A significant player in worker cooperative development is cooperative *business conversions*, and two respondents indicated that this was the easiest means of cooperative development. This is due to the fact that conversions sidestep many financial challenges startups face, because the business already exists and assets are often already available. Also, lenders in the community can rely on the track record of the business itself, rather than the model, to assess risk. Moreover, members frequently already know how to do their job; thus developing a business plan or what to do is not a problem.

Of the current worker cooperatives operating in 2015, 21.1 percent were started through business conversions (DAWI, 2017). Business owners choose to convert their

business as an exit strategy, as a component of the mission of the business, to help employees build wealth, or as a way to give the business a competitive advantage (Project Equity, 2015). The wave of retiring Baby Boomers underscores the need for clear, easy, and profitable mechanisms for business conversions. There are an estimated 12 million private business owners looking to retire in the next two decades, and it is likely that most of these owners do not have a succession plan (CABB, 2018; Project Equity, 2015). Even if a retiring business owner wants to sell their business, selling to a third party isn't guaranteed to happen. Successful sales of businesses only happen 20 percent of the time (Project Equity, 2018). Workers lose their jobs when a business owner retires without finding a buyer, and often lose their jobs even if the sale of the business is successful. A sale of a business to its workers can mitigate risks to selling business owners, and for workers, as the sale of a business to its employees is successful 80 percent of the time (Brown, 2018). Sales of businesses to employees are a win for them, a win for the business owners, and a win for communities (Project Equity, 2015). According to conversion specialist Rob Brown from the Cooperative Development Institute, it allows business owners to "enjoy a comfortable retirement, employees would [have] the opportunity to build wealth through ownership, and ownership [stays] local" (Project Equity, 2015).

Business conversions can happen via ESOP or worker cooperative structures. Although ESOPs and worker cooperatives share many of the same success factors, such as increased productivity from shared ownership and increased governance, there are many more ESOPs in the United States than worker cooperatives. Seven thousands ESOP companies employ 14 million people, while 297 worker cooperatives employ an estimated 6,033 full-time employees (NCEO, 2017; USFWC, 2017).

General Firm Challenges

ESOPs have overcome many of the general firm challenges that worker cooperatives face. ESOP-specific legislation passed in the 1970s and ’80s “caused an explosive growth in ESOPs” (Artz and Kim 2011; Logue and Yates 2001, pg. 20; Rosen et al., 2005). This legislation was written with language specific to employee ownership through stock programs, and included legal provisions protecting the ESOP form, tax credits to employees buying from stock plans, “tax breaks for owners selling to ESOPs, for companies sponsoring ESOPs, and for banks lending to ESOPs (between 1989 and 1996)” (Logue and Yates 2001, pg 21; Rosen et al., 2005). This legislation sparked a boom in promotion, education, and awareness surrounding ESOPs. Professionals such as “attorneys, valuators, investment bankers, trust departments, and accountants” realized there was money to be made through ESOP conversions, and tax incentives were significant enough for multiple stakeholders to consider the form (Logue and Yates 2001).

Legislative language in the U.S. is specific to ESOPs and helped create a business environment that supported ESOPs much more than worker cooperatives. For example, the 1042 rollover tax provision is a major incentive for business owners to sell to their employees as it removes capital gains taxes for them if they sell 30 percent or more of their business to their employees (Abrams, 2008). ESOPs have been enjoying this tax provision since it was passed in 1984 (Artz and Kim, 2011). It was unclear if this tax incentive could also be used by business owners selling to their employees via the worker cooperative structure, and wasn’t used in this way until 2005 (Abrams, 2008; OEOC, 2005).

It is generally recommended that companies have at least 25 employees before considering becoming an ESOP (Abrams, 2008). “Only companies of a certain size can

afford to become an ESOP… most [businesses] cannot afford to become an ESOP" (Respondent 11). ESOPs are much costlier to set up and maintain than worker co-ops because of their relative complexity, regulatory statutes they fall under, and professional services required (Abrams, 2008). ESOPs require a hiring a bank trustee, appraiser, and legal counsel, and are subject to regulations such as ERISA that worker cooperatives are not (Abrams, 2008). Depending on the source, set-up costs for business conversions to ESOPs range anywhere from $20,000 to $50,000 (Artz and Kim, 2011; Abrams, 2008). One respondent interviewed, a conversion specialist, said that starting costs often range from $50,000 to $75,000 and up. In addition to initial set-up costs, ESOPs require an annual maintenance cost of between $7,500 and $20,000 (Abrams, 2008; Artz and Kim, 2011). Worker cooperatives, however, will typically incur a onetime cost of $5,000 to $25,000 (Artz and Kim, 2011; CDI, 2018). On a case by case basis, ESOPs are much more expensive. From a larger movement-level perspective, however, this increased cost in initial set-up and annual maintenance for ESOPs gives them advantages in creating a supportive business environment. Mainly, ESOPs are much more complex, thus there is more money to be made from ESOP conversions; i.e. there are more incentives for supporting professionals to learn and promote the structure. Firms that specialize in conversions will likely make more money from an ESOP conversion than a worker cooperative conversion. This is just speculation, but it may be a contributing reason to why there are more ESOPs than worker cooperatives.

Structure of Conversions and Tax Incentives

Despite being more expensive, ESOP conversions can obtain tax benefits more easily than worker cooperatives. For example, in order to receive the 1042 tax rollover

benefit, ESOPs can finance their conversion over the course of many years, 10 years for example (Artz and Kim, 2011). This is done through the sale of shares in multiple stages until 30 percent of the shares are held by the ESOP. A business conversion through a worker cooperative model must be financed in a shorter amount of time (Artz and Kim, 2011). Instead of shares being sold to an ESOP over time, the sale of a worker cooperative happens all at once where the whole business is being sold to workers at one time (Artz and Kim, 2011). Also, according to a respondent, share distributions in 100 percent S-Corp ESOPs are not taxed at the individual level until the employee sells them. Worker cooperative members are taxed when their patronage distributions are initially allocated. This means that employees of a 100 percent S-Corp ESOP defer payment of taxes for years potentially, where worker cooperative members must pay taxes on distributions in the year after they are allocated. Taxing worker cooperatives in this way would incentivize them to keep money within the cooperative.

A critical success factor in business transitions from owners to employees is the involvement of the owner in teaching relevant business practices to employees (Project Equity, 2015; Berner et al., 2014). There may be more incentives for business owners to be involved in teaching employees in ESOP models than in worker co-op models. Owners can retain control over the company in an ESOP throughout the sale, and even after, if they sell 30 percent of company stock and retain another 31 percent for themselves, for example. This allows owners to continue contributing their knowledge and assistance to the company throughout the process of the sale, and even after if they still retain shares. In worker cooperatives, once the sale is complete, owners no longer have control over the business, and may not have a monetary incentive to lend their experience to the cooperative unless

they have been preparing for the transaction in advance or become a worker owner themselves (Project Equity, 2015).

In conclusion, ESOPs are more prominent primarily because they have benefited from federal legislation since the 1970s whereas worker cooperatives have benefited from some of this legislation since only 2005 (Abrams, 2008). ESOPs have overcome many general firm challenges that worker cooperatives struggle with such as familiarity of the firm among financial institutions and lawyers (Artz and Kim, 2011; Logue and Yates, 2001). The sale of a business through an ESOP conversion can be spread out over many years and be spit up so that only 30 percent of the business need be sold to receive tax incentives for the seller (Artz and Kim, 2011; Logue and Yates, 2001). A worker cooperative conversion must be financed for the full sale all at once, where 100% of the business is sold (Artz and Kim, 2011). ESOPs have the advantage of being able to create situations in which the owner has more incentives to lend their business expertise than worker cooperatives.

Respondents from support organizations that work with conversions say the biggest challenge for worker cooperative conversions is promotion. Three respondents who work with or have worked with business conversions, as conversion specialists or financing organizations, said promoting the co-op conversion option was the biggest challenge. Other conversion specialists, such as Project Equity in the San Francisco Bay area, mention this as a challenge and work with local governments to promote worker cooperative conversions to retiring business owners. Also, state laws and incentives that make worker cooperative conversions easy and lucrative was mentioned by two respondents as something that is needed. A respondent who works in a financial support organization said:

"the typical business owner wants to find a buyer, sell, and get out. Unless the owner is motivated by the wellbeing of their workers, they won't care about them". Another respondent is working in his state to help pass legislation that would give business owners and financial institutions state tax incentives to sell their business and finance the sale via the worker cooperative model. Respondents reported that financing worker cooperative conversions was not currently their biggest concern at the moment. In one respondent's words, "Financing is not my problem right now, but that isn't to say that it wouldn't quickly become one if I were to scale up conversion operations". As the wave of baby boomers start retiring, financing conversions might become a challenge if steps aren't taken in advance.

Promotion and Education

Other commonly cited challenges during interviews were related to promoting worker cooperatives (seven of nine members and six of seven support agencies); education and training (seven of nine members and four of seven support agencies); and challenges with the democratic organizational structure (seven of nine members).

Lack of promotion of the worker cooperative model, and its benefits, limits worker co-ops from obtaining financing, educating about the cooperative model[8], and prevents worker cooperatives from "reaching a critical mass to play a part in public consciousness." Worker cooperatives in places such as France, Italy, and Spain do not have many of the same challenges with education, lack of awareness of the cooperative model, and lack of political support because cooperatives have achieved a critical mass and are part of public consciousness (Corcoran and Wilson, 2010).

[8] Especially among entrepreneurs, accountants, lawyers, financiers, and investors

Education in Schools

Worker cooperatives in the United States are not well known and are not taught in schools (TDC, 2014). Attracting managers and people with business expertise may already be more difficult for worker cooperatives because of lower pay rates (Corcoran and Wilson, 2010). This is why the Mondragon cooperative hires managers straight out of business school (Corcoran and Wilson, 2010). This strategy cannot be utilized by worker cooperatives in the United States because, apart from an undergraduate certificate at the University of Massachusetts and a graduate program in Canada[9], there are no educational programs dedicated to cooperatives in the whole of North America. Current business curriculum in colleges may actually be harmful to worker cooperatives, as the cooperative structure is rendered invisible by textbooks, and that the United States has incorporated close supervision into business practices more than any other country (Hill, 2000; Rosthchild, 2009). Besides educating business students in the cooperative model, educating supporting professionals such as lawyers and accountants is another challenge facing worker cooperatives. At least five respondents interviewed said finding accounting and legal counsel was difficult and a challenge for them.

Supporting Professionals

Promotional challenges have more ramifications than preventing entrepreneurs from choosing the model, or for it being difficult for worker cooperatives to find lawyers and other professionals. For many respondents, promotional challenges had significant ramifications for educating and training members. Most respondents noted that new

[9] Located in the Sobey School of Business, St. Mary's University, Halifax Nova Scotia- which is a well-developed program

employees did not know what a worker cooperative was before applying. New employees must be trained in business skills to be able to make better decisions and to be competent business owners. For this reason, many worker cooperatives whose members I interviewed went to great lengths to train incoming employees. Incoming employees were given financial, technical, democratic training (one cooperative interviewed even trained incoming employees in the historical roots of worker cooperatives). One respondent mentioned that his cooperative went through difficult times when it expanded too quickly, primarily because incoming employees simply did not know how a worker cooperative functions and had little to no business understanding.

Lack of Unifying Message

Another common challenge that arises from lack of promotion and education for worker cooperatives is that there is not a clear message about what they are. Some respondents reported that worker cooperatives are confused with state communism. More dangerously, worker cooperatives were reportedly mistaken for some kind of political or ideological movement. This caused people with no business background or marketable skills to "get excited about the cooperative model," use resources to start a worker cooperative, and go bankrupt. In the words of this respondent, "having business knowledge is far more important than understanding the model, in the startup phase at least". Another respondent cited the enthusiasm of "young" ideologues as a reason why his cooperative is on the verge of failure. The cooperative spent money and time training would-be members, just to have them get disillusioned with the for-profit nature of the business and quit to work for a non-profit. This happened despite the cooperative being successful enough to pay a livable wage and distribute annual patronage dividends of $10,000.

Nevada state politicians interviewed seemed very open to worker cooperatives, but one did confuse them for some type of quasi-political movement, and another was convinced they weren't a form of communism only after I explained what they were. For worker cooperatives to grow, it is important that more of them are created and economically successful. Being mistaken for an expression of political ideology can have negative consequences, and could become politically polarizing, which could be detrimental to passing supportive legislation in the future.

Business Skills

A lack of business skills within the cooperative community in the United States, in general, has been cited as a major challenge for worker cooperatives (TDC, 2014; Tanner, 2013). "Many worker co-ops are initiated by workers who have relevant job and industry expertise but lack business management experience" (TDC, 2014). Also, many worker cooperatives are started by underprivileged and often uneducated individuals who lack business skills. City initiatives, such as New York City's worker cooperative initiative, were designed to address such issues. This initiative disbursed $1.2 million in 2015 to partnering organizations which organized and trained worker owners to create worker cooperatives and linked them in a network (NYC, 2015). A respondent in New York City works for one of these partnering organizations that teaches worker cooperative members business skills needed to run their business, such as creating a business plan and general entrepreneurial skills. A worker cooperative respondent in the California Bay area has donated a "bookkeeper" in the past to help train other worker cooperatives during their startup phase. As a whole, however, the lack of business skills within the cooperative

community is a challenge (TDC, 2014). I will address how some cooperatives have dealt with this in the next chapter.

Culture

A contributing factor to the lack of promotion and education surrounding worker cooperatives is culture, according to four cooperative members. This cultural challenge was defined as either, "the culture of greed", "machismo entrepreneurialism", or the culture of sacrificing the greater good for one's own ambitions. Many other authors have cited cultural values as being harmful to the workings of a worker cooperative and their propagation, especially since worker co-ops rely on values such as trust and cooperation (Battilani and Schroter, 2012; TDC, 2014; Rothschild, 2009). In a culture where greed is valued and competition is assumed to be natural to human nature, cooperation can be sidelined, according to respondents. If viewed from a purely monetary perspective based on American culture, most entrepreneurs have more of an incentive to start traditional business structures where they can "have all the money and glory to themselves," according to a respondent.

A study in countries around the world has correlated the spread of individualistic and neoliberal ideologies with the demutualization of cooperatives (Battilani and Schroter, 2012). As cultural narratives that pushed privatization and neoliberalism spread during the 1980s and '90s, demutualization often spread with them (Battilani and Schroter, 2012). Cooperatives demutualized to fit political narratives to gain power, and due to cultural incentives that valued the concentration of wealth. Individualistic values, like those that laid the foundation for "trickle-down economics", gave managers the incentive and political power needed to demutualize in order to concentrate wealth in their hands at the

expense of members (Battilani and Schroter, 2012). In many countries, laws against demutualization stopped cooperatives from changing into a non-democratic structure (Battilani and Schroter, 2012). Mass demutualization only stopped after the 2008 crisis exposed flaws in traditional structures, and cooperatives showed their resilience in the face of this economic hardship (Battilani and Schroter, 2012). The pervading individualistic values are putting pressures on a new generation of worker owners, in Mondragon[10] and elsewhere, to break away from cooperative principles (Cheney, 2002; Gibson-Graham, 2006). Perhaps this is evidence that individualistic values do in fact hinder and destroy worker cooperatives and cause them to fail via demutualization or to not start in the first place (Battilani and Schroter, 2012).

Democracy

Seven out of nine worker cooperative members interviewed said that the democratic structure of worker cooperatives was challenging either personally or for the firm. At least five of the respondents reported democracy within the cooperative as simultaneously their favorite and least favorite aspect of the business. For example, democratic challenges for worker cooperatives were reported by members in various organizational structures: collective[11]; collective-representative hybrid[12]; representative structure[13]; using managers for day-to-day operations, or not, and using either consensus or majority voting. Challenges that came up regarding democracy were:

- the law of averages where the best decision doesn't win

[10] New evidence suggests that there is has been a recent resurgence in cooperative values in Mondragon, according to professor of communications and Mondragon researcher George Cheney.
[11] No board of directors, everyone has an equal vote in every meeting
[12] No board of directors in separate collectives, but each collective elects a manager and other positions, and the board of directors are elected by all members
[13] All worker members elect a board of directors who make most of the decisions

- slowness in decision making, lack of clear roles
- "democracy by those who can stick around long enough" in meetings
- democracy being too foreign for some members to be able to grasp and are unable to think like an owner
- increased tension as people argue to make the best decision[14]
- keeping things transparent
- attempting to include all voices

These are not inherent challenges; practices in one cooperative can mitigate challenges in another. This will be discussed in the next chapter.

Adoption of Average Ideas

One worker member respondent reported that the adoption of average ideas by the cooperative was a major downside to democratic decision-making in his cooperative. Other authors have written about this, and this challenge may be related to "insufficient rewards for high-ability workers" (Artz and Kim, 2011 pg. 26; Kremer, 1997). According to Kremer, the average workers and high-ability workers will vote on different earning models (Kremer, 1997). High-ability workers will vote for things that allow them to earn more based on their own abilities, while the average worker will likely vote for decisions that redistributes income equally regardless of ability (Kremer, 1997). High-ability workers, according to Kremer, will inevitably become frustrated and leave the frim (Kremer, 1997). This phenomenon assumes that members only care about pay, and not other benefits of worker for a cooperative (Artz and Kim, 2011). This "law of averages" challenge that was reported by this respondent is not an inherent challenge for worker

[14] Although this respondent said it was still better than having a boss

cooperatives. Company culture and training can mitigate this effect. Another respondent said that creating a culture that values good decisions, and getting members acquainted with each other's merits, allowed him to make the most of democratic governance.

Complex and Time Consuming

The complexity and protracted nature of decision making in a democratically run organization was cited by six members as being a challenge. Members from all three governance structures cited slowness as being a challenge. Legal statutes in some states may compound this challenge. For example, before the passing of AB816 in California in 2015, worker cooperatives needed to give members at least a week's notice before calling a meeting, this was later reduced to 48 hours (CWCPC, 2015). This may have posed a challenge when important decisions needed to be made quickly, but members needed a week's notice before convening. Keeping things transparent and making sure all members are up to date during meetings also contributed to slowness in decision making, according to respondents. Practices such as creating agendas for meetings before hand, and continually updating worker owners about the workings of the business can mitigate the time it takes to make decisions.

"Democracy by Those Who Can Stick Around Long Enough"

Heavy reliance on deliberation in meetings had potentially detrimental consequences for one member respondent. If meetings do not have a specified end point then a situation can occur where there is "democracy by those who can stick around long enough". If there is no set end to a meeting, members with opposing views can prolong the meeting until other members cannot stay any longer due to other priorities. Once enough people have left the meeting, members can then take a vote to pass a measure they see fit.

According to this respondent, this can be a big problem for members with children or other people they are obligated to look out for, which is "a big problem for cooperatives with a diverse workforce" (Respondent 5).

Balancing Mentalities and Clear Roles

Other issues involved with democratic principles are the inability to think like an owner, and increased tensions between members. Getting a member to think like an owner is crucial in democratic governance. The member that cited this as a problem said that members who do not think like an owner require constant supervision, which can become taxing on other members. This was also a problem for worker cooperative organizations during the Great Depression, when some members would work as many hours as possible instead of trying to benefit the organization as a whole (Curl, 2009). This is a challenge for democratic principles, because democracy in a worker cooperative assumes that members will balance their own self interest with the interest of the business, as they are both related. When everyone does think like an owner, and realizes their own responsibility, they can come into tensions with others who also realize they are owners as well. Increased tensions can arise from increases in horizontal peer monitoring; this has been described in the literature as having the potential to "increase interpersonal frictions" (Artz and Kim, 2011, 22). Clear roles can help mitigate this, as every member can agree to what their role is, and focus on their own jobs as best as possible. The respondent that cited increased peer monitoring noted, "it's still better than a boss."

Legal Challenges[15]

Challenges with the law, across a variety of states and at the federal level, were cited as significant challenges for worker cooperatives by respondents. Two respondents had the opinion that state laws were not a significant challenge as worker members could file as an LLC and function as a cooperative in many states; neither of these respondents were worker members. State and federal laws pose challenges for six of the nine cooperative respondents, and only federal laws were cited as challenges for four of the seven cooperative support organizations. State laws were constraining in that they:

- are often ambiguous and unclear
- inappropriately define member buy-ins as a security
- inappropriately apply labor laws
- inappropriately tax worker co-ops
- doesn't automatically protect boards of directors in their ability to take into account multiple bottom lines
- make it difficult to fire members because of worker privacy laws
- generally aren't specific to worker cooperative

Worker cooperatives had almost all of the same challenges with federal law, because federal law supersedes state law, and because federal laws usually do not address many of the same issues state law does not address. There were two federal laws that did

[15] The following legal challenges have been described to me by the opinions of respondents. I am not a lawyer, nor do I have a degree in law. I, Robert Teuton, am merely trying to describe the opinions of respondents as they were described to me. The legal challenges listed are not meant to be exhaustive, but merely represent what I found through my own research. This paper is not meant to give legal counsel. If you have legal questions, contact an attorney. There are good ones who can help you as it pertains to the worker cooperative structure (although not nearly enough).

not apply to state laws but were constraining to members in regards to the ability to take loans from credit unions, and challenges with the IRS.

Federal Law

The first federal law mentioned is a restriction on the amount of loans credit unions can loan to businesses. This law disproportionately impacts worker cooperatives because credit unions have historically been the primary funders of worker cooperatives. As of 1998, credit unions cannot lend more than 12.25 percent of their total assets through business loans unless they meet special criteria, as specified under the Credit Union Membership Act of 1998 (NCUA, 1998). A respondent explained how this limits worker cooperatives because credit unions are "more likely to look under the hood, so to speak, and see what's going on" with how the worker cooperative business actually works. Also, credit unions are more similar to worker cooperatives in that they are a consumer cooperative and are more likely to understand the structure. Three respondents, one member and two support organizations, cited this law as being limiting.

The second federal challenge was related to the Internal Revenue Service. A worker-owner of a support organization who is also a lawyer reported that many provisions and language in the Subchapter-T IRS designation are not specific enough in describing the worker cooperative structure. The subchapter-T designation was originally written for agricultural cooperatives, but has been used by other consumer and producer cooperatives. Whether or not this designation applied to worker cooperatives was contested in the 1965 case, Puget Sound Plywood, Inc. v. Commissioner. The court agreed that the subchapter-T designation applied to worker cooperatives as long as they were "operating on a cooperative basis" and referenced the subordination of capital, democratic control by

members, and allocation of "fruits and increases arising from their cooperative endeavor" among members based on the "proportion to the [member's] active participation in the cooperative endeavor" as being prerequisites to operating on a cooperative basis (Kreis, 2015). However, this case did not define what a member is. This legal ambiguity may have caused one worker cooperative to be unjustly persecuted by an IRS agent who tried [unsuccessfully] to make the case that worker members were actually independent contractors and not owners; thus, the argument went, the cooperative was evading taxes.

Employee vs. Owner

Apart from there not being a unified legal definition or test determining what constitutes a member vs. an employee between states and the federal government, the definition of an "employee" is defined differently between legal statutes (Cordeiro et al., 2015). For example, workers compensation law, minimum wage and overtime laws, unemployment insurance laws, and others all define employees differently (Cordeiro et al., 2015). Adding more complexity to the issue, worker cooperatives are often structured differently: some are collectives where all members are on the board of directors, and others vote to elect a limited number of directors. Different states, statutes, and the federal government may have differing findings regarding whether members of worker co-ops are employees under different worker co-op structures (Cordeiro et al., 2015).

Most worker respondents had difficulties with federal and state labor law (five worker members), which may further constrain worker co-ops financially. For labor law purposes, federal and state laws generally define employees as having a superior-subordinate type relationship (Helfman, 1992). Legal tests are applied to determine if a worker is an employee. If workers cannot determine their own pay, do not have a say in

decisions over the terms of their employment, cannot set their own work schedule, and do not have a say in who is hired or fired, then a superior- subordinate relationship exists with the worker and employer (Helfman, 1992). In the eyes of the law the worker is then an employee (Helfman, 1992). Worker-owned cooperative members, however, make their own decisions, set their own pay, collectively own the cooperative, and vote on who is hired and fired, although the way in which they do these things often differs depending on the worker cooperative.

Respondents in California, Massachusetts, and Wisconsin stated that labor laws on state and federal levels caused unnecessary financial constraints on them. These labor laws included overtime laws, unemployment insurance, and workers compensation laws, all of which do not apply to owners of conventional businesses (Helfman, 1992). Another state law that may constrain worker cooperatives, depending on the state, is the state personal withholding tax (Helfman, 1992). A respondent from Colorado only mentioned federal labor laws by name, but it is likely that state labor laws are also limiting. The federal laws listed by respondents were the Fair Standards and Labor Act (FLSA), and the Federal Insurance Contributions Act (FICA). The other federal labor law that may be constricting to worker cooperatives is the Federal Unemployment Tax Act (FUTA), but was not mentioned by respondents (Helfman, 1992).

The most common way labor laws challenged cooperatives were through overtime laws. The following scenario occurred in multiple cooperatives: a worker member works a full 40-hour week and then attends an owners' meeting at the end of the week to discuss company policy or vote on company decisions. Because labor laws are not clearly defined in that they do not distinguish between worker-owners and employees, the worker-owner

would be subject to overtime payment of 1.5 times their hourly salary. “This brings weird psychological dynamics into meetings,” a respondent explained, “I don’t want to feel guilty being paid overtime when that’s not what I even want.” Another respondent said that overtime laws can cause members to doubt why they are at meetings: are they there for the extra pay? Or are they there because they are thinking like an owner? To add another layer of complexity, if members getting paid overtime have questions or objections, will they be accused in the minds of their fellow members as simply wanting more pay at their expense? In order to sidestep this problem, a worker cooperative in California simply pays overtime to all members during ownership meetings. This practice, however, can be very costly, according to a respondent. California has tried to address this issue by stating the following in its worker cooperative bill: “Election to be organized as a worker cooperative or an employment cooperative does not create a presumption that workers are employees of the corporation for any purposes” (CLI, 2016). For respondents in California, however, this does not give them enough security as “nobody wants to be a case law creator.”

A respondent in Massachusetts had a different type of legal challenge concerning what membership entails. A member in his cooperative wanted to take an extended leave of absence but was advised by legal council against doing so because of legal ambiguity in the Massachusetts 157A Employee Cooperative Corporation statute. Provision 6(a) of Massachusetts statute 157A states, “No person may be accepted as a member unless employed by the employee cooperative on a full-time or part-time basis” (GCCM, 2018). Under this provision, a member who takes a leave of absence for an extended period may not qualify as being a full-time or part-time employee. For example, if a worker-owner wants to take an 8-month sabbatical, the law is unclear as to whether this worker-owner is

still a member because they wouldn't be working in a part-time or full-time basis. Thus, the worker-owner may have to restart the trial process again.

Under statute MA 157A, there may be a way around legal challenges involving labor law. Pedal People, a worker cooperative in Massachusetts, does not pay workers' compensation, or unemployment insurance because members are legally "associates" of the cooperative (Cornwell et al., 2014). There are, however, major disadvantages to the "associates model" used by Pedal People. Members are not paid wages and are instead paid entirely through patronage distributions in advance, on a monthly basis (Cornwell et al., 2014). Also, members cannot easily pay themselves for, "sick days or vacation times" (Cornwell et al., 2014, pg. 114). Moreover, members cannot give themselves benefits such as health insurance, and the cooperative cannot easily hire externally for temporary work (Cornwell et al., 2014). This model for worker cooperatives in Massachusetts thus may only be viable for part-time workers, or for businesses operating under special conditions.

Privacy Laws

Worker cooperatives are not always utopian businesses in which no one is reprimanded or fired. There are times when members do things, or don't do things, that result other members making the decision to fire them. Alas, another legal challenge arises: workplace privacy laws. One respondent in California reported that his cooperative ran into legal challenges when trying to fire members, as doing so potentially breaks employee privacy rights. Privacy laws protecting employees vary from state to state and federally. It was not brought up in the interviews for this study, but even hiring employees may violate privacy laws since the resumé and qualifications would be circulated among a number of

members. Human Resources policies are still being articulated and refined in the United States as they apply to worker cooperatives.

Securities Laws

Securities laws were mentioned by two respondents as being limiting to worker cooperatives. According to the Encyclopedia of American Law, a security is, “usually applied to a deposit, lien, or mortgage voluntarily given by a debtor to a creditor to guarantee payment of a debt. Security furnishes the creditor with a resource to be sold or possessed in case of the debtor's failure to meet his or her financial obligation. In addition, a person who becomes a surety for another is sometimes referred to as a "security.” (Farlex, 2018). Depending on the state, a security must be filed with the state, and can be complicated and require legal assistance (Helfman, 1992). Respondents did not think member buy-ins should qualify as a security. In California, stock or investments of $1,000 are exempt from security laws (CLI, 2016). In Massachusetts, small worker cooperatives are exempt from security laws (GCCM, 2018). At least five respondents, however, required buy-ins of more than $1,000, meaning that under these laws they are required to file buy-ins as a security.

Other Laws

Two other legal challenges mentioned by worker members were the lack of protection for boards of directors for taking into account multiple bottom lines, and demutualization clauses. A respondent in Colorado is seeking a Benefit Corporation designation so that his board of directors cannot be held liable for considering more than profit in making decisions governing the cooperative. Some states, unless otherwise stated, do not allow boards of directors to take anything but returns on investment for class-A

shareholders into account when making decisions; this is called having a single bottom line (BL, 2018). If a corporation wants to consider things such as the environment or workers' wellbeing into account when making decisions, corporations in these states must seek a Benefit Corporation status to protect their boards of directors. Also, demutualization clauses were cited as a potential issue for worker cooperatives formed as LLCs. Although LLCs can have a section in their bylaws prohibiting demutualization, which is the transformation of a cooperative into a non-democratic business, LLCs can change their bylaws and subsequently convert. There could be a situation in which a new generation of members joins an LLC cooperative, and votes to change their bylaws so that they can sell their business and profit from the labor of previous generations of the worker co-op. While only one member respondent cited this as a challenge, demutualization does happen, and was a major challenge in other countries previously to the 2008 financial crisis, especially in countries that did not legally prohibit demutualization (Battilani and Schroter, 2012). For example, a worker cooperative could be started by a generation of workers who build the cooperative through hard work and years of labor so that the cooperative acquires millions of dollars' worth of assets. As the founding generation of worker owners retires, they hire a new generation that subsequently sells the cooperative to a non-democratically run business, and personally appropriates funds. This was a concern for at least one worker owner interviewed.

Difficulty in Finding Legal Counsel

Lastly, worker members cited the ability to find legal counsel, extensive paperwork, or differing legal opinions between counsel to be challenging. Legal counsel was either difficult to find or expensive for many member respondents, although this was not a

problem among members in Northern California. Members often did not know the answer to many legal issues regarding their business, or had difficulty with general legal issues that could have been resolved through legal counsel that was not sought. For example, a member respondent had great difficulty filing paperwork to apply for the subchapter T IRS designation and was "taxed heavily" when it could have been avoided. At least three respondents suggested increased paperwork was a major challenge for worker co-ops because there are multiple owners, which makes it difficult when applying for women's business or minority-owned certifications that often give businesses preferential treatment by government agencies. A respondent in California had challenges in balancing differing legal opinions regarding the ability to designate a portion of profit to a worker cooperative startup fund before patronage distributions. According to this respondent, different lawyers had different opinions, so they did not create the startup fund.

Adverse Effects on Startups

Many of these challenges can be disproportionately challenging for worker co-op startups. Minimum wage, unemployment insurance, workers compensation, and personal withholding taxes can be expensive. If worker members are treated as employees under the law, they would have to pay themselves overtime and minimum wage, along with workers compensation and unemployment insurance, from the onset of incorporation. This would further compound financial challenges worker cooperatives already face. Also, having to navigate ambiguous legalities necessitates legal counsel, which is expensive in and of itself, especially in states where cooperatives are a legal specialty (Helfman, 1992). Furthermore, having to file ownership shares and external investments with state security

offices adds further complexity and paperwork to an organizational form that is often used by underprivileged and uneducated communities (Helfman, 1992).

Challenges in the Context of Nevada

During the course of my research, I did not find any worker cooperatives or supporting professionals who know anything of the structure in Nevada. Many lawyers I talked to had never heard of the structure at all. Only one state senator had heard of worker cooperatives, as she was familiar with a housing cooperative in Florida. On top of all the other legal challenges, there are limited support agencies in Nevada. There was an initiative to support worker cooperatives, but the initiative may have fallen apart, according to a state senator, and they did not respond back to numerous calls, voicemails, emails, or Facebook messages.

There are limited statutes in Nevada that regulate and define worker owned cooperatives (State of Nevada, 2018). These laws were most likely intended for consumer cooperatives, and the statutes make no differentiation between the types of cooperatives in Nevada (State of Nevada, 2018). One statute in Nevada says that cooperative associations cannot raise capital stock, which was used by almost every respondent as the mechanism through which they assigned voting rights (State of Nevada, 2018). Massachusetts and California state statutes specifically authorize the use of capital stock by worker cooperatives for a number of functions (CLI, 2016; GCCM, 2018). Also, Nevada has no state income tax, personally or for businesses. States such as California, Massachusetts, and Maine (to name just a few), all have tax incentives for worker cooperatives, something Nevada could likely not have because there are few taxes to begin with. Thus, in Nevada,

the only tax incentives for worker cooperatives are federal, relating to worker cooperative conversions.

Labor laws, limited protections for boards of directors in making decisions that take multiple bottom lines into account, difficulty in finding legal counsel, lack of tax incentives, and federal legal challenges likely all apply to worker cooperative in Nevada. These legal challenges would likely compound other challenges in Nevada, such as difficulty in acquiring funding, lack of education and promotion, and perverse incentives surrounding worker cooperative startups. Lack of support agencies that could train would-be members in best practices surrounding democratic decision-making, financial literacy, and cooperative business skills would make it difficult to start or expand a worker cooperative.

Chapter Conclusion

There are many challenges for worker cooperatives related to their structure and the socio-economic and legal environment in the United States. Their structure requires democratic practices in governance, which gives rise to its own challenges. Democracy is a necessary component for worker cooperatives as without it, they cannot function as a true worker co-op and will demutualize into a non-cooperative business. Culture and education also make democratic practices challenging in the United States as most people are not familiar with true democracy.

Education in general is a challenge for worker cooperatives, as workers must be educated to make good decisions in the business. Even if members are educated, it is unlikely that their education was tailored to worker cooperative business practices. Compounding matters, worker cooperatives may have negative stigmas, providing an

additional barrier for worker cooperatives in attracting talent. Educational and promotional barriers also make it difficult for co-ops to find supporting professionals, such as lawyers and accountants, who are familiar with the cooperative structure. Also, banks and financers may consider worker co-ops riskier because they are not equipped to finance, understand, or support worker co-ops.

Cooperative principles give rise to financial challenges as patronage dividends must be distributed based on patronage. This gives rise to situations that do not incentivize worker members to finance expansion, and disincentivizes people from starting worker cooperatives in general. The next section will discuss ways in which these challenges can be addressed, and success factors that have been used by respondents and others to mitigate or prevent these challenges.

Chapter 4. Challenges Addressed

This chapter will provide information about the success factors that respondents have used to overcome some of the challenges identified in the previous section: financial challenges, challenges in promotion, education, and other general firm challenges. Legal challenges will be addressed in the next chapter, in the context of a state statute. This chapter is organized in a way that presents a solution or success factor that can address one or multiple challenges, then critiques the solution. Solutions and success factors are presented in an attempt to reflect their implications, possible reasons as to why they are not already being implemented, and challenges in their implementation. These implications are labeled in the "Legal Actions and Implications" and "Legal Implications" sections. Steps government agencies can take to address these challenges are also labeled in this section. Although there are many challenges being presented throughout this thesis, even in this chapter, they are not absolute challenges.

Challenges are addressed in this chapter in three ways: strategies individual worker co-ops can utilize, the utilization of support organizations, and strategies government agencies can utilize. These solutions are discussed in various sections, and each section is divided into subsections. If there is a challenge that has not been solved or addressed by a respondent, I will address possible solutions based on the literature, ideas from respondents (that they have not tested themselves), and ideas I have thought of but not tested. Success factors that do not address challenges identified in the previous section but have been useful for respondents or cooperatives studied in other papers, will also be explained in this section.

Not Addressed in this Chapter

A number of success factors identified were not cooperative specific and would be relevant for any business. For example, three respondents said their biggest success factor was that their founders simply picked a good industry. These cooperative respondents said they were lucky to be in an industry that had such high profit margins. The high profit margins in these worker co-ops are not realized simply because the business itself is a cooperative; i.e. any business structure used in this industry would still yield high profit margins. This may be relevant for cooperative development agencies, whose mission is to create worker cooperatives regardless of industry, but it is not worker co-op specific enough to be thoroughly analyzed in this paper.

Success factors dealing with basic business strategy will also not be addressed in this section. For example, one respondent noted that the primary reason why they are still in existence is because members refused to move locations without the guarantee that they would own the next location. If members had not bought that location outright when land and building prices skyrocketed in their area, they likely would have never been able to afford rent when their lease expired. Another business strategy example was the use of prepaid maintenance plans to sustain revenue and avoid not being paid by clients. Basic business strategies such as these will not be mentioned, although business education (which was cited as a challenge) will be addressed.

Financial Challenges Addressed

Future Earnings and Loss Based Compensation

In the previous chapter, I explained the challenge of cooperatives not being able to reflect future earnings in present values. This challenge gives disincentives for members to

invest in the cooperative because their investment will likely not receive adequate returns relative to their risk, especially for startup cooperatives. The U.S. Federation of Worker Cooperatives has identified this as a significant challenge inhibiting the growth of cooperatives in the United States (GEO, 2016). An accounting strategy is used to mitigate this problem, via the use of internal accounts such as the "negative equity account" and the "collective reserve account" (sometimes called an indivisible reserve) (Leung, 2016). When losses occur, the negative equity account or the collective reserve will reflect the losses, but individual member accounts will remain the same and not reflect losses. This merely hides losses for external investors and may lead members to think they have more cash, collectively, than they actually do.

There are a few solutions to this challenge that have been written about, largely by cooperative financial theorist Mike Leung. Leung lists many potential solutions to these challenges (Abolish Human Rentals, 2018). For brevity, I will explain a few of Leung's suggestions, most of which have not been widely talked about in the community or in the literature. As a disclaimer, I have not found any evidence of these strategies being used by cooperative start-ups in the United States, or anywhere else.

One of Leung's suggestions is for the cooperative to implement "loss-based compensation" to startup members without the use of internal accounts to hide losses (Abolish Human Rentals, 2018). Using this strategy, members are compensated for their losses, while taking into account their total compensation while working in the cooperative (total compensation= wages + patronage dividends) (Abolish Human Rentals, 2018). Using loss-based compensation, members are only compensated for the money that is lost in the cooperative. Money that is not lost, will remain in each member's individual account. This

insures that the cooperative and future members do not compensate founding members for money that was not lost, and the cooperative does not pay interest on assets that are already gone. At the same time, founding members are compensated for their initial investment.

The loss-based compensation model assumes that the cooperative will continue to be profitable after the startup period, so that members can be paid their full loss based compensation. This model also gives founding members an incentive to create a profitable business as quickly as possible so that they can realize their full loss-based compensation. This model does not address, however, the "horizon problem" mentioned in the previous chapter in which members see little incentive to expand because expansion means lower patronage dividends and having to share profits with another member. Loss-based compensation may exacerbate the horizon problem, because members might be incentivized to make sure their return on investment can be realized as quickly as possible by the cooperative; adding new members might delay this process.

The "Horizon Problem" Addressed

Leung offers a potential solution to the horizon problem by incentivizing growth through incoming members mimicking the startup period endured by founding members. New members would mimic the startup period through decreased wages and limited patronage dividends for as long as the original startup period lasted. Leung also suggests that this period could be built into the trial periods for prospective members. This would give incentives to grow the cooperative as the cooperative would see increased productivity from expansion while keeping employment costs low, essentially giving current members a bonus throughout the mimicking startup period. Forcing new members to receive limited compensation may have legal implications, however, as it could perhaps not be justified,

under the eyes of the law, that members are actually equal owners of the cooperative. Thus, it may only be viable for cooperatives to use this method for new employees during trial periods.

Incentivizing growth through reduced wages in an employee's trial period may incentivize members to simply hire new employees and fire them before they are eligible to become new members. Evidence from Uruguay and the Plywood cooperatives in the United States suggest that including job creation to the cooperative's goals minimizes employment cuts to increase profits (Burdin and Dean, 2009; Craig and Pavel, 1993). This effect could also be minimized through the implementation of an incentive program that rewards the creation of new members. For example, a cooperative might allow members who created new memberships to calculate their patronage dividend through an increased factor. "Hours worked" could be multiplied by a "membership creation factor", and the total hours worked in the cooperative could be adjusted to compensate for the additional hours created through the "membership creation factor". One member respondent said that the California state statute was helpful because it allows members to use jobs created in order to calculate patronage dividends, much like the "membership creation factor" method just described.

Many cooperatives in Italy have more flexible cooperative principles that allow them to reflect future earnings in present stock prices (GEO, 2016). This may look like the method plywood cooperatives used in the 1970s and '80s. Perotin (2012) described Plywood cooperatives advertising membership shares in the local newspaper that incoming members could purchase at higher prices than present values. This may be another method in which members could be compensated for their investments in the cooperative. This

method would break the cooperative principle associated with members being compensated for their own labor, as future values represent labor being performed by members in the future (Leung, 2011). It may also deprive members of participating in future earnings because they would be paying for them in the present (Leung, 2011).

Lessons in solving capitalization challenges can be learned from cooperatives in France and Italy, and at Mondragon, where cooperatives have mandatory indivisible reserves (Corcoran and Wilson, 2010). An indivisible reserve is an account that cannot be used or distributed among members for personal gain. Upon the sale or closure of the cooperative this account is donated to some kind of nonprofit or development fund (Corcoran and Wilson, 2010). Indivisible reserves help solve challenges related to access to capital and may solve the horizon problem (Corcoran and Wilson, 2010; Perotin, 2012). In the case of Italy and France, the law mandates that indivisible reserves are established and maintained by worker co-ops (Corcoran and Wilson, 2010). For example, if Italian cooperatives want a 40 percent tax advantage, then 30 percent annual net profits must be allocated to an indivisible reserve. In the case of Mondragon, bylaws insure that cooperatives contribute 30 to 50 percent of profits annually to an indivisible reserve (Corcoran and Wilson, 2010). Whatever the reason, indivisible reserves accumulate enough money over time to ensure that access to capital is not a problem and contribute to institutional sustainability of worker co-ops (Perotin, 2012). The time horizon challenge is also addressed "because this reserve helps insure the long-term existence of the cooperative, members can rely on the cooperative in the future for jobs, giving them less of an incentive to cash out when times are good in preparation for a day when times are

bad" (Perotin, 2012, pg. 213). At least two worker co-op respondents mentioned they had an indivisible reserve; neither identified it as a significant success factor, however.

These are just a few strategies that help solve the financial disincentives for worker cooperative startups and the horizon problem. There is no right way to solve these challenges, and it is up to each cooperative to try to solve these challenges more efficiently and equitably as possible so that other cooperatives can learn from their experience. Ideological and legal implications to proposed solutions are discussed next.

Ideological and Legal Implications

The "loss-based compensation" model may cause a cooperative to lose, or not qualify for, the Subchapter-T IRS designation. The 1965 case Puget Sound Plywood, Inc. vs. Commissioner identified one of the components of a cooperative that made it eligible for the subchapter-T designation. To qualify for subchapter-T, the cooperative must be "working on a cooperative basis," which includes the sharing of "fruits and increases arising from [members'] cooperative endeavor" based on the "proportion to the [members'] active participation in the cooperative endeavor" (Kreis, 2015). Since some of the profits would be going to a member's individual account based on money lost and not their labor, it is unclear if the subchapter T designation would be in jeopardy if the loss-based compensation strategy was implemented.

The "job creation factor" does not specifically adhere to cooperative principles either, but at least one state, California, has language in its statutes that allows members to compensate themselves for job creation. Section 12243 (2) of AB 816 reads, "patronage" may be measured by work performed, including, but not limited to, wages earned, number of hours worked, number of jobs created, or some combination of these measures". A

respondent in California mentioned this provision as being useful in incentivizing growth, but this provision does not specify between the type of job being created: membership vs. employment. The "job creation factor" incentive for creating new members may also disqualify cooperatives from the subchapter-T designation.

A state law could mitigate the incentive for members to use employees for cheap labor through components of a state statute. A state statute could say that all employees automatically start their trial period upon employment and must be terminated if the cooperative no longer intends to offer membership to the employee. The cooperative could still keep the employee with the employee's consent, but it would then be up to the employee to determine if they want to continue working for the cooperative as an employee. If a cooperative continually fires employees before they are eligible to become members, they would be in violation of the law, as employees were hired for the sole purpose of low costs of employment. In the case where cooperatives need to hire externally for individuals with special skills or talents, it is important that the law explicitly says that worker cooperatives can hire independent contractors. This insures that the cooperatives can get the necessary workers they need, without simply hiring employees for cheap labor or taking advantage of the cooperative model.

Forcing cooperatives to maintain a mandatory indivisible reserve may infringe on their autonomy and independence, the fourth cooperative principle (CWCF, 2014). The worker cooperative federation of Canada considered lobbying to make indivisible reserves mandatory by law, similar to the laws in Italy and France (CWCF, 2014). The Canadian federation decided to lobby on behalf of this law only with the consent of the majority of worker cooperatives under their constituency, as to not break with cooperative principles

(CWCF, 2014). Simply giving tax incentives for indivisible reserves, such as is the case in Italy, may not break the fourth cooperative principle and would in fact help make the most use of the cooperative business structure for communities, as it would insure long-term job stability. For example, Italian law says that money allocated into indivisible reserves are not subject to taxation (Logue, 2006). In the US, indivisible reserves are subject to corporate tax as they are treated similar to retained earnings (ICA Group, 2015). A law similar to the Italian law might give tax incentives for a critical success factor without forcing the strategy on cooperatives and breaking a cooperative principle.

Addressing General Firm Challenges for Financing

According to respondents, general firm challenges for worker co-ops in acquiring outside funding are related to the inability of outside investors to take control of the cooperative, lack of promotion and understanding of the worker cooperative model among investors and debt financers, and the inability of credit unions to loan to worker cooperatives. In the case of outside investors not being able to take control of the cooperative, this is a challenge that likely does not need to be solved. Indeed, "solving" such a problem, might compromise the cooperative structure. Voting rights can be assigned to outside investors, but only to prevent the dissolution of the cooperative structure and prevent demutualization. This will be explained further in the demutualization section. Respondents have, however, implemented strategies to mitigate almost all the other challenges in acquiring funding, and lessons from other countries have mitigated or eliminated these challenges as well.

A support organization in the New England area helps promote and educate financers about the worker co-op model and how to loan to them. According to this

respondent, the organization helped the city of Boston rewrite its loan application for worker co-ops, and educated them so they wouldn't get, "tripped up on the personal guarantee thing". Educating financers about the co-op model helps them underwrite loans more appropriately, and they are better able to assess their risk. This allows financers to feel more confident when loaning to worker co-ops. Support organizations can also help worker cooperatives in getting business loans through helping them write appropriate business plans or grants. Two support organization respondents said that members often need help writing or editing business plans, and work with worker cooperatives to make business plans or write grants that attract financers. One worker cooperative respondent mentioned this type of support being useful in getting grant money to train members.

Two worker co-op respondents interviewed said that their ability to attract equity financing was a critical success factor. These respondents issued preferred shares with targeted dividends and raised over a million dollars in financing. Although equity financing may be more difficult for worker cooperatives to attract, it is not impossible to do (Artz and Kim, 2011). The worker respondents who used equity financing issued preferred stock to "impact investors". Impact investors are investors who want to make a difference with their money and don't want to invest in many traditional banks or businesses. In the words of a respondent these investors are, "not investing in bombs, not investing in guns, not investing in coal", they are "people [who] want a secure place to hold their money where they don't have to worry about fluctuations in the stock market". Another respondent, working in a financial support agency, said that groups of people coming together to invest in worker cooperatives are not unheard of. Seeking out and organizing impact investors to invest in worker cooperatives is an avenue to acquiring more financing for worker co-ops.

Worker co-ops can acquire equity financing in two other ways: direct public offerings (DPOs) and profit-sharing returns (TDC, 2016). DPOs are scenarios in which a business offers a large amount of money in preferred stock, directly to the public via websites and newspapers. This may be an adequate strategy for "start-ups or other worker cooperatives that need high-risk capital" (TDC, 2016, pg. 5). A composting cooperative in Massachusetts, for example, offered $350,000 in preferred stock via a DPO (TDC, 2016). This allowed people in the community to invest in the worker co-op "with a minimum buy-in of $25,000" (TDC, 2016 pg. 5). DPOs can also be used by businesses converting to worker cooperatives, in order for workers to raise enough money to buy the business from their employers (TDC, 2016). The "profit-sharing returns" model of investment loans money, and is only repaid from portions of profit when the cooperative is profitable (TDC, 2016). During startup years, when cash is often short, cooperatives do not have to repay loans until they eventually become profitable. The profit-sharing returns model may be a good strategy to use for impact investors who want to help create more worker co-ops.

Legal Actions and Implications

States that are serious about creating more worker cooperatives can take initiatives to update and educate municipalities on the benefits of worker cooperatives, and how to loan to them. Like the respondents who taught financers about the cooperative model, states can organize an expert commission to teach municipalities, credit unions, banks, and cooperative development funds about risk assessment, underwriting, and the benefits of worker cooperatives. A similar initiative was outlined in the "Consolidated Appropriations Act of 2018", in which the federal government directed SBA offices to inform financial institutions about employee ownership, and "develop guidance on employee-ownership to

approved lenders" (U.S. Congress, 2018, pg. 88). Additionally, states could guarantee loans to worker cooperatives from financial institutions, at least until cooperatives have a track record and some legitimacy (TDC, 2016).

In order to help worker cooperatives attract more equity financing, states can remove security law obligations for investments in worker co-ops. For example, AB 816 in California exempts securities laws for community investments of $1,000 or less in worker cooperatives. The $1,000 threshold for state securities exemptions could be raised. In the majority of states with state taxes, income from debt and equity investments could be exempt from taxation or taxed at a lower rate. A similar federal law gave banks loaning to ESOPs tax breaks from 1989 to 1996; this could be replicated at the state level and apply to equity investments as well (Logue and Yates, 2001).

A respondent said that a federal law similar to the "Jobs Act" that was passed under Obama would be useful as well. The Jobs Act of 2012 made it easier for businesses to get outside investments from sources such as crowdfunding. Although this was a federal law, state laws and initiatives could help worker co-ops and other small businesses find outside investors. For example, a state initiative could give guidance and help create some sort of direct public offering exchange at which preferred stocks could be easily offered and bought by the public. This would make it easier for worker cooperatives to find investors, and it would allow more people have alternative ways of saving their money.

Two financial support respondents said that community development funds and credit unions were some of the best sources of financing for worker cooperatives because they were more likely to understand and fund them. A respondent said that community development funds were more likely to orchestrate strategies to help worker cooperatives

in order to fund them. For example, the respondent said that community development funds could loan patient capital as equity to help boost financial records, then turn around and loan money to the organization they just gave money to in patient capital. "No bank in their right mind would do such a thing," the respondent reported, but this type of strategy is something a loan fund or benevolent credit union might do if its officers have a strong mission to see their community succeed. States are not in control of federal restrictions on credit unions, but they aid credit unions in acquiring the necessary designations to be able to loan more money to worker cooperatives and other small businesses. Also, the state could aid community development funds in starting up and educating them about worker cooperatives.

One respondent suggested using Individual Development Account (IDA) programs to help worker members simultaneously acquire start-up funding and training. An IDA is a savings account that is matched dollar per dollar (or more) by the federal government. As worker members save money in their account, their contributions would be matched. An IDA program could be developed in which a group of prospective worker owners goes through a 12-week program where they collectively save money and receive training in business skills and democratic participation. Upon graduating the course, the cohort would have the necessary skills and money needed to start a worker cooperative.

To help worker cooperatives write grants and business plans to receive funding, states could mandate that business development organizations assist with such services. Grant writing classes could be subsidized by the state if the classes were used to help students write grants for start-up worker cooperatives, simultaneously subsidizing higher education and providing a service needed. This could take the form of state scholarships,

or grant writing classes that worked together with worker-member owners to help write grants. Another way of helping worker co-ops receive funding was utilized by the city of New York. New York City invested $1.2 million to help worker cooperatives with such issues as developing business plans, loan applications, and business skills. Most of this money went to support organizations, which will be discussed in the next subsection. Some of this money went to business development agencies, however, which could be leveraged by states in supporting worker cooperatives.

Support Organizations, Federations, and Associations Abroad

I will define federations and associations as a type of support organization for the purposes of this study. These organizations can be a source of financing for worker cooperatives, but a whole new section is dedicated to them because they often do so much more than financing alone. Challenges identified in the last chapter pertaining to education, promotion, training, democratic practices, and even some legal challenges could all be highly mitigated if not eliminated through robust networks of associations, federations, and support organizations. The support organizations and associations interviewed provide technical assistance; conduct feasibility studies; provide legal assistance, accounting services, business training, and consulting work, promoted worker ownership, help organize or start up cooperatives in the same region or industry; conduct research about worker cooperatives in the United States; and, provide conflict resolution and democratic training services, among many other services. Six of the nine worker co-op respondents mentioned they were actively engaged with some type of support organizations, federation, or association at the regional and/or national level. Three of these respondents reported that such organizations were extremely helpful in their success.

Some of the most powerful examples of support organizations are from Italy and Mondragon (Corcoran and Wilson, 2010). Italian support organizations are mandated and supported by the government, while the Mondragon conglomerate was not supported or mandated by the government of Spain (Corcoran and Wilson, 2010; Restakis, 2010). I will provide a brief overview about the most important aspects of the support organizations of these places, and then discuss initiatives in the United States and how they can address many challenges for worker co-ops in the U.S.

In Italy, it is mandated by law that all types of cooperatives join and fund federations through membership dues comprising 0.4 percent of annual sales (Corcoran and Wilson, 2010). Additionally, Italian cooperatives must contribute 3 percent of profits on an annual basis to co-op development funds within their federation to "create new co-operatives, develop existing ones, and to convert private firms into worker cooperatives" (Corcoran and Wilson, 2010, pg. 9). One federation alone had a membership of 13,000 cooperatives as of 2008, and a cooperative development fund worth $340 million as of 2006 (Adeler, 2009; Logue, 2006). In Italy, larger co-op support organizations and federations bring smaller cooperatives together to create larger conglomerates of organizations in the same sector (Restakis, 2010). For example, in 2003, a federation conducted research and offered courses in "advanced logistical systems and supply-chain management" so its cooperative members could compete on a global scale (Adeler, 2009, pg. 11). These organizations provided business services, such as negotiating larger contracts, coordinating "labor and specialized services, handled administrative, financial, legal issues, and watched legislative and environmental issues for the cooperatives" (Restakis, 2010, pg. 71). Support organizations in Northern Italy also work with local

universities to conduct research and create programs to educate and promote about cooperatives (Adeler, 2009). These Italian support organizations offer many other services, but most of the general firm challenges for worker cooperatives would be addressed from having an extensive network of cooperative support organizations like those that exist in Northern Italy, especially challenges surrounding the lack of promotion, education, political representation[16], accounting and business services, legal services, training, and financing.

Another example of the power of support organizations is the Mondragon conglomerate, which is the largest worker cooperative in the world, and outperforms most private companies in its base country of Spain in "almost all respects" (Corcoran and Wilson, 2010, pg. 13). In its 60 years of existence it has grown to include 268 business and 73,000 workers (Mondragon, 2018). The conglomeration of cooperatives works together to support each other and has four industry sectors: finance, industry, retail, and knowledge (Corcoran and Wilson, 2010). Mondragon's own credit union is responsible for capitalization, and provides loans to undercapitalized worker cooperatives and start-ups. Mondragon has refined the process of starting up worker cooperatives to the point of achieving a 90 percent survival rate for start-up cooperatives (Corcoran and Wilson, 2010). The bank is also responsible for monitoring economic conditions and takes necessary measures when economic hardships are recognized. Internal capital accounts within each cooperative insure that the cooperatives retain up to 90 percent of profits internally, as indivisible reserves and the capital accounts are able to hold on to capital for long periods of time. Because Mondragon also has its own insurance and social security service,

[16] Italian cooperatives are represented in both liberal and conservative parties, though their Federations (Restakis 2010).

payments that would normally go to other companies are kept within the cooperative system. Resources are pooled between cooperatives, so that "services like 'accounting, advertising, personnel administration, and research' were shared within cooperative groups to achieve significant cost efficiencies" (Corcoran and Wilson, 2010, pg. 17). Mondragon also has its own university, which it uses to train and educate old and new members. Because of its size, Mondragon is well known and serves as a model for what a supportive cooperative network can achieve (Corcoran and Wilson, 2010).

These are just a few examples of the possibilities of cooperative support organizations. Similar federations and support organizations in France and Quebec also help support worker cooperatives, and are supported by cooperatives themselves as mandated by public policy (France) or simply through heavy tax incentives and public policy (Quebec) (Adeler, 2009; Corcoran and Wilson, 2010). The similarities among these support organizations offer are that they offer 1) accessible capital; 2)technical assistance especially during the start-up phase; 3) provide needed business, legal, political services; 4) ongoing support, guidance, and education for workers; 5) assistance in pooling resources among cooperatives; 6) and continual development through startups or conversions (Adeler, 2009; Corcoran and Wilson, 2010; Restakis, 2010).

Support Organizations, Federations, and Associations in the U.S.

In the United States, support organizations generally act on the national, regional, and city levels. The size and scope of these support organizations are much smaller than in Italy and Mondragon; mostly for the following reasons: because there are not as many worker cooperatives as in Italy and Mondragon, the significantly smaller amount of worker cooperatives is spread out among a much larger economic and geographic area; the level

of funding allocated to each support organization in other countries is much higher. It is also important to note that different types of cooperatives often work together in places such as Italy, meaning that support organizations are often funded by many types of cooperatives such as consumer and agricultural cooperatives. This is mostly not the case in the United States, where agricultural cooperatives are some of the biggest in the world, and could be significant partners for worker cooperatives and support organizations.

In the United States, the largest support organization for worker co-ops is the United States Federation of Worker Cooperatives (USFWC), a national-level cooperative. It was started in 2004, and has grown to include a variety of services including business support and technical assistance, education and training, peer networking and organizing, policy and advocacy support, and dental and vision benefits (USFWC, 2018). The USFWC is primarily funded through worker member owners, co-op developers, and support organization membership dues. Through networking and partnerships, it has reciprocal relationships with many regional support organizations. The USFWC also has a nonprofit affiliate organization, the Democracy at Work Institute (DAWI), which is primarily funded through grants, and is dedicated to researching worker cooperatives and teaching people about them (DAWI, 2018). Through research, educational resources, and partnerships, DAWI helps businesses convert, communities develop supportive ecosystems, and provides education on democratic management, among other things.

Five of the nine worker cooperative respondents mentioned that their cooperatives are part of USFWC, and most of these respondents expressed something along the lines of, "I think they're doing a really good job". All but one support organization respondent currently works with or has worked with these organizations in the past. The two most used

services that respondents mentioned they received from the USFWC was peer mentoring and attending events. The peer mentoring network organizes start-up worker members to work with co-op developers or worker co-op members to leverage their knowledge. The more commonly mentioned service was the events USFWC organizes, so members can network and share knowledge. Although the USFWC has not yet eliminated previously mentioned challenges to the extent that federations in northern Italy or Mondragon have, it is a relatively new organization that is still in the process of expansion and figuring itself out (Dawson et al., 2009). Respondents did mention other organizations that could serve as a model for the USFWC, such as the ESOP Association which, "aggressively promoted the model and pushed for supportive legislation on many levels," and the National Co-op Grocers, which developed an ambitious goal of creating a specific number of co-ops and pursued that goal vigilantly.

The USFWC lists 21 regional organizations[17] as partners on its website (USFWC, 2018). These organizations support worker cooperatives at the regional level by offering technical support, political advocacy, spaces for sharing knowledge and resources, and spaces for educational development. At least four of the nine worker respondents have contributed to or benefited from regional organizations. Two more member respondents used to participate in regional organizations in Madison, Wisconsin, but no longer participate due to changes in membership and differing schedules or priorities. Regional support organizations were a great benefit to one respondent in the Boston area, as they provided him with all the necessary information he asked for. Another respondent in the

[17] It lists the Las Vegas Worker Ownership & Resource Center in Nevada as one of its regional partners, which I suspect is no longer in operation, as they did not return multiple emails, phone calls, and Facebook messages. A Nevada state senator indicated that this group may have fallen apart.

Boston area wished he could have joined the Valley Association of Worker Cooperatives (VAWC), but his location was outside the constituency of the organization. I will discuss VAWC and another organization, the Arizmendi Association, as they are exemplary examples of regional support organizations which address many challenges for worker cooperatives.

The Valley Association of Worker Cooperatives legally incorporated in 2011 and works with cooperatives in the Connecticut valley region of New England (Cornwell et al., 2013). It was modeled in part after support organizations of Emilia Romagna and Mondragon (Cornwell et al., 2013). VAWC is a "cooperative of cooperatives," so to speak, which is funded and directed by worker cooperatives as its members. Unlike the case with many regional organizations, VAWC members pay dues: 1/8th of 1 percent of gross revenues (Cornwell et al., 2013). In return, members receive a variety of services including "providing technical and organizational assistance, offering joint marketing and promotional services, developing group benefits, improving access to financial resources, strengthening ties between worker co-operatives, and developing relationships with other segments of the co-operative/labor community" (valleyworker.coop). VAWC is also dedicated to developing and helping new worker cooperatives, and promoting worker cooperatives in their region through "educating and developing community awareness of worker co-operatives" (VAWC, 2018). For example, VAWC worked with the department of economics at the University of Massachusetts to develop an internship program that places students with regional cooperatives (Cornwell et al., 2013).

Another organization that works in supporting cooperatives is the Arizmendi Association in San Francisco. It is different than VAWC in that it is not a regional

development agency; it is more similar to a worker cooperative development organization such as Mondragon. Arizmendi started in 1995 by approaching a local bakery, The Cheese Board, to become its founding member (Cornwell et al., 2013). After learning the bakery's business model, Arizmendi set about replicating much of The Cheese Board's model by creating more bakeries with the Arizmendi name (Cornwell et al., 2013). Perhaps the biggest part of the Arizmendi mission is to create more worker cooperatives and jobs. Because this is one of the primary missions of the cooperative, disincentives to grow are mitigated through the association paying most of the upfront start-up costs to create new worker co-ops (Cornwell et al., 2013). Since its founding, the Arizmendi has grown to include nine worker cooperatives in its association: six bakeries, a landscape and design cooperative, and a construction cooperative (AAC, 2016). Once a cooperative joins the association, it becomes a voting member of the association; in this way it is similar to VAWC in that both organizations that are member guided and run.

A respondent familiar with the Arizmendi model said that membership dues are based on profitability, which means that during the startup phase when there is no profit, the cooperative does not have to pay the association. Once profitable, dues are "25 percent of net profit or 4 percent of growth, whichever is lower." Once the cooperative has grown to sufficient size, dues are based on the number worker members: "for every 20 workers, [the cooperative will pay] labor, which is wages, patronage, taxation, etc. that goes for another worker to the association," according to this respondent. The amount of support that Arizmendi offers its member cooperatives varies depending on the needs of the cooperative. In the startup phase "the association takes care of all business aspects" of the cooperative. Worker members from member cooperatives help train and start up the new

location. Arizmendi also provides a host of educational modules to train members. Modules include: history and principles, democratic participation and leadership, finance, law, and meeting governance. In terms of hours, bookkeeping is the primary service provided to the cooperatives, and the association pays for a tax preparer to take care of taxes at the end of each tax year. The association also acts as a security plan so that if a member leaves the cooperative, the association can fill in for that member and train a new one to replace them. Arizmendi also partners with other regional and national support organizations to help create better environments for cooperatives, promote the model, and provide technical and educational resources.

Support organizations in the form of federations, associations, and alliances help mitigate many challenges of worker cooperatives. Organizations such as those in Italy, Mondragon, and Arizmendi provide capital to worker co-ops. Business skills and practices are given to members in the form of education, resources, and services by such organizations. Mondragon started its own university to educate people about how to run worker co-ops, VAWC set up an educational internship program, Italian federations work with local universities, and Arizmendi trains its members and provides education. Associations pool resources and help individual members source needed tools, support professionals such as accountants and tax preparers, and help members learn from each other to mitigate a variety of challenges. In general, most of the challenges for worker cooperatives could be addressed with a robust network of worker cooperatives. However, in order for there to be a need for federations and support organizations to help worker co-ops propagate, there needs to be more successful worker co-ops. Even the Arizmendi Association had a worker cooperative as a founding member. To solve this dilemma, city

initiatives, such as those in New York City hope to create enough worker cooperatives to achieve a critical mass so that worker cooperatives can sustain themselves.

Legal Implications

Many general firm challenges are addressed through support organizations, as mentioned above. Recognizing this, legislation in other countries such as Spain, Italy, and France mandates that cooperatives fund support agencies (Corcoran and Wilson, 2010; Rowe et al., 2017). For example, Spain requires that at least five percent of profits must be allocated to a promotion and education fund (Rowe et al., 2017). Currently, cooperatives would likely not benefit from such legislation as there are few worker co-ops to contribute to such organizations. How does a region develop support organizations to support worker cooperatives when there are few worker cooperatives in existence to support them and few know about the model? This is a fundamental dilemma in the United States currently. Where there are no worker cooperatives to fund support organizations, outside money from government agencies or private foundations must be used to create and sustain them. There are at least ten city initiatives to create and support worker cooperatives, and there are many strategies to cooperative development (Camou, 2016). Of these ten initiatives, there are two distinct models[18]: Cleveland, Ohio's "Anchor Institution" model, and New York City's "Ecosystem Development" approach (Camou, 2016).

I did not interview anyone from Cleveland, Ohio, or anyone who has an in depth understanding of the initiative to create worker co-ops there due to delayed response. The general strategy for this initiative includes developing worker cooperatives to supply what

[18] Two distinct models being used as massive city initiatives. There are, however, many strategies for cooperative development. Many of these strategies can be found in Hillary Abell's 2014 publication, "Worker Cooperatives: Pathways to Scale" which can be found at project-equity.org.

are called “anchor institutions” with goods and services. Anchor institutions are large and local establishments, such as hospitals and universities, that use large amounts of resources for upkeep and maintenance. Citing the need for good jobs, the city partnered with the Cleveland Foundation and other local foundations to create the Evergreen Cooperatives. The city chose a location dubbed the “greater university circle” which borders seven communities that were home to 43,000 people making an annual median income of $18,500 with an unemployment rate of 25 percent before this initiative started in 2009 (REDF, 2014). The greater university circle in Cleveland includes the following anchor institutions: the Cleveland Clinic, local university hospitals, the Veteran’s Affairs Medical Center, and the Cleveland Museum of Art. Together they spend $3 billion annually in goods and services, most of which were sourced from outside neighboring communities (CGUCI, 2013).

After conducting feasibility studies and research, which included visiting Mondragon, Spain, the Evergreen Cooperatives opened the first worker co-op business in 2009, a laundry service which cleans laundry from local hospitals, nursing homes, retirement homes, and hotels (REDF, 2014). In 2011, the second worker cooperative opened, Evergreen Energy Solutions, a solar panel installation and general construction service, and in 2013 another was launched, Green City Growers- a hydroponic greenhouse (REDF, 2014). To support these cooperatives, employees were hired by managers from the Ohio Employee Ownership Center, trained in how machines work, how businesses are run, and how to read profit and loss statements (Yates, 2009; REDF, 2014). A major component of the success of the cooperatives was the creation of support organizations: Evergreen Business Services (EBS), Evergreen Cooperative Development Fund, Evergreen

Cooperative Corporation, and Evergreen Real Estate Corporation (REDF, 2014; TDC 2018). These supporting institutions help train members, provide HR services, "fiduciary and legal oversight", help acquire funding through loans and grants, and represent investor stakeholders, marketing, and business development (REDF, 2014; TDC, 2018, pg. 3; Yates, 2009).

It appears that this initiative was successful. Evergreen Laundry and Evergreen Energy Solutions stabilized in 2011, and had their first profit sharing event with members in 2014 (REDF, 2014). As of 2016, the three cooperatives employ 120 people, and are on their way to achieving their goal of employing 1,000 people in 10 businesses (REDF, 2014; Rose, 2017). The average wage is $12.56, and patronage dividends reach up to $4,000 (Rose, 2017). In addition to wages and dividends, members own 80 percent of the businesses, and individually build equity in the businesses they own (Causey, 2017). Furthermore, the cooperatives have a homeownership program that allows members to buy and fully pay off the cost of their own homes through $400 monthly payroll deductions (Causey, 2017).

Where the Cleveland initiative focused on developing a few worker cooperatives in a concentrated area to support the supply chains of anchor institutions, New York City focuses more on creating a supportive ecosystem to support many worker cooperatives throughout the city. Two respondents interviewed worked for organizations within the New York City Worker Cooperative Development Initiative (WCBDI), which aims to create more worker cooperatives "through academies, incubation, and business conversion" (NYC, 2017). It was started in 2015 by dispersing $1.2 million to 10 partner organizations and CUNY law school (NYC, 2015). Funding increased to $2.2 million annually by 2017,

among 12 partnering organizations and CUNY law school (NYC, 2017). Many of these partner organizations have different backgrounds, areas of expertise, and strengths, and therefore offer different types of assistance. For example, a partner in this initiative is The Working World, who offers technical assistance but is most known in the cooperative community for loaning money to worker cooperative startups. Another partner is the Center for Family Life, which promotes "positive outcomes for children, adults and families in the low-income immigrant neighborhood of Sunset Park through … social services" (NYC, 2017, pg. 9). Through the network of partners, New York has created a supportive ecosystem for worker cooperatives which promotes the model, educates people about them and how they work, provides financial support and loans, legal assistance, consulting, business plan development, market research, internal manuals, coaching, strategic planning, bookkeeping, and web development support, among other things (NYC, 2017). Marketing and awareness for worker co-ops in general are major parts of the initiative. In the words of one respondent, they are trying to make, "co-op a brand like organic".

The results of this initiative speak for themselves. Twenty-one worker cooperatives were created in 2015, 27 in 2016, and 35 in 2017 for a total of 83 worker cooperatives started in three years of the initiative's existence (NYC, 2015; NYC, 2016; NYC, 2017). As of 2016, the average worker made $25 an hour, but due to lack of hours, the average annual income is $18,000 (Camou, 2016).

The two respondents working in support organizations think their city's initiative is making positive impacts, but they expressed some significant concerns. First, tensions arose when the city did not include existing worker cooperatives in planning the initiative, despite pledging to support worker cooperatives.

Second, the money that New York set aside for co-ops was only earmarked for co-op support organizations. According to a respondent "this created a class of nonprofit organizations, that while helpful, do little to sustain co-ops that are already in place." The respondent went on to say, "It takes more work to sustain co-ops than to create or grow them. The only metric for creation is obtaining an EIN number, which is easy to do. Sustaining, getting income, is difficult to do. What the metrics prioritizes is growing, growing, growing, growing, and they don't necessarily care if the businesses succeed. That means that we get funded for creating and growing cooperatives, but not for sustaining businesses that are already in place. We get that [funding] through education and technical assistance, but we have to keep growing and that puts pressure that isn't always good. What we really need is funding to sustain what we already have… we don't forget about the old co-ops or work on them less, we just don't get credit for that and it stretches us really thin." In order to support cooperatives after the star-up phase, the respondent reported that organizations encourage subcontracting different services needed by cooperatives to other worker co-ops in the network. While this is helpful it is not as supportive as this respondent would like to be.

The third concern expressed by this respondent, which is probably a contributing factor in "being spread too thin", is that worker cooperatives can become too attached to their cooperative incubators. According to this respondent, the cooperatives have a hard time becoming independent of their incubators, which may contribute to organizations becoming, "stretched too thin". For this reason, the respondent admired the structure of a support organization they did not work for: Green Worker Cooperative Academy. Unlike many of the incubator models that handled many of the business aspects of their worker

co-op start-ups, the Green Worker Academy prepares cooperatives to become independent from the get-go. "Groups of seven people go through a '"co-op academy';" [they] are trained to do their own market research and assistance, and the groups are more on their own" (Respondent 16). In this way, worker co-ops do not become co-dependent on support organizations, which are there for support as opposed to dependence.

Lastly, both respondents expressed some concerns about the sustainability of city funding. Respondents suggested that changes in political climates could put money coming from city funds in jeopardy. For this reason at least one of the respondents is looking at ways cooperatives can sustain themselves, or for ways in which profitable cooperatives can sustain the New York ecosystem in case funding is eliminated. If many cooperatives are indeed dependent on support organizations, as one respondent reported, funding cuts to support organizations may mean many cooperatives would not be able to support themselves. While both respondents expressed concern about this, only one suggested it was a major concern at the moment.

In comparing the Evergreen Cooperative initiative and New York's WCBDI, there are pros and cons to each. The Evergreen Cooperatives likely had a much bigger impact on a smaller number of cooperatives, while the New York initiative likely had much broader impacts but the sustainability of the initiative and long-term success still needs to be seen; the oldest Evergreen Cooperative is nine years old while the WCDI just started its fourth year. As a whole, the Evergreen Cooperatives were much more capital intensive, and were funded through federal programs: low-interest Department of Housing and Urban Development (HUD) loans of $11.5 million and New Market Tax Credits[19] (NMTCs) of

[19] New Market Tax Credits are a federal program in which "investors make capital available for community economic development, and receive a tax credit worth nearly 40 percent of their investment over a seven

$9.5 million (Rowe et al., 2017). It is unclear in the research how much money the city of Cleveland spent to start up its initiative, but New York City spent $1.2 million in 2015, and spends $2.2 million annually since 2016 (NYC, 2015; NYC, 2017). The Evergreen Cooperatives appear to have stabilized and are now profitable, and institutions were built around them to insure their longevity. The longevity of New York's worker co-ops remains to be seen. Both approaches use support organizations to help cooperatives, although the New York cooperatives have a broader reach.

General Firm Challenges in Promotion and Education Addressed

The initiatives in New York and Cleveland show the importance of using support institutions to create and stabilize worker co-ops. Because worker co-ops are such a novelty in the United States, promotion and education of the model is needed to see them grow at a rapid pace (TDC, 2014). Reaching a critical mass is important so that worker co-ops can eventually support themselves, as they do in Italy and Spain (Corcoran and Wilson, 2010).

Promoting worker cooperatives (seven of nine members and six of seven support agencies) and education and training (seven of nine members and four of seven support agencies) were cited as major challenges. Apart from promoting worker cooperatives to financing agencies, and business owners for conversions (which will be discussed later), simply promoting the worker cooperative structure in educational systems would simultaneously promote and educate about the structure. Simply mandating that all schools that receive state funding must include worker co-ops in their curriculum is one option (Cornwell et al., 2014). This option could include schools that teach other professionals such as lawyers and accountants. Although no respondents had objections to this idea,

year period" (Rowe, Peredo, Sullivan, Restakis 2017). Additionally, investors earn interest on the capital made available.

many people in my university and others, including a former dean of a law school, had major objections to this. Forcing professors to teach about subjects they often know little about might make them resent the subject altogether. Also, forcing worker co-op education into schools could set a dangerous precedence in the case of future political changes. Furthermore, policies such as requiring certain subjects be taught can be hard to enforce.

Incentivizing school educational programs may be a better policy than outright coercion. Giving grants to schools to create offices of employee ownership, similar Kent State's Ohio Employee Ownership Center (OEOC), is another viable option. The OEOC promotes employee ownership "across Ohio and around the world", and is well known in the employee ownership world (OEOC, 2018). Many of the resources used in creating this thesis have come from authors who work or have worked at the OEOC. The Evergreen Cooperatives in Cleveland, for instance, received a lot of assistance from the OEOC and the people who work there. Having the goal of creating such an office is highly ambitious, and universities would likely have to be incentivized to include such an initiative in its strategic plan. This office could be used as a kind of cooperative extension for the surrounding community, while at the same time educating students formally at the university level.

Students can also be incentivized to learn about employee ownership, which can be done in various modalities. For example, competitive scholarships could be created and given to students who pledge to study more about worker co-ops. A more cost-effective option might be to create clubs that study and promote worker co-ops. Many students might like to see how they could profit off of the wave of retiring baby boomers by giving them business plans showing them the enormous opportunities to make money off of business

conversions. Studies also show that millennials are more likely to care about "good causes," and "77 percent have involved themselves in a charity or '"good cause'" (Deloitte, 2017, pg. 14). Promoting the many benefits of worker co-ops while teaching students how to make cooperative endeavors profitable, and helping them realize that this is the best time in history to help co-ops propagate through conversions, would likely cause much interest with students in universities.

We have discussed how VAWC collaborated with the University of Massachusetts to create research internship opportunities for students to research about worker cooperatives, but schools can create co-op educational experiences for students in a even more cost-effective manner (Cornwell et al., 2013). Many universities hire students to help maintain the school. Organizations that use student positions could be run similar to worker cooperatives. For example, the New Moon Café in Olympia, Washington was sold to a group of students who had previously worked at a student-run restaurant at the Evergreen State College (Berner et al., 2014). The student-run restaurant was collectively managed using consensus decision-making methods, which inspired students to continue their work together in a worker co-op fashion and taught them restaurant skills (Berner et al., 2014). The University of Massachusetts also runs eight businesses in similar fashion and has reportedly helped students transform their "sense of work, business and themselves thanks to their co-operative work experience" (Cornwell et al., 2013, pg. 6).

Another challenge mentioned by respondents was the lack of availability of supporting professionals such as lawyers and accountants. New York City, Arizmendi, and the Evergreen Cooperatives each addressed this in different ways. A state policy or initiative might address this challenge in other ways: incentivizing students through

scholarship, funding programs in law and accounting schools that educate students and act as extensions for the community, and sponsoring continuing education programs (Cornwell et al., 2013; Logue and Yates, 2001). Continuing education programs are required by many professional professions and are offered with the support of state associations such as state bar associations. Programs such as these, in conjunction with tax breaks for professionals working with worker co-ops, could provide needed promotion and education for worker co-ops.

Other ideas[20] for including worker cooperatives in curriculum are: sponsoring employee-owned programs at vocational schools; incentivizing professors to study, teach, and write on worker ownership; developing certificate programs on worker ownership in community colleges; and matching funds for organizations that promote the worker co-op structure (Cornwell et al., 2013; Blasi et al., 2013; Logue and Yates, 2001; Rosen et al., 2005).

Conversion-Specific Challenges Addressed and Success Factors

As of 2015, 21.1 percent of worker cooperatives in operation were started as business conversions (DAWI, 2017). Four of the seven support agency respondents interviewed expected business conversions increase as an area of co-op development as baby boomers retire. Many of the challenges for worker co-op conversions are related to federal tax incentives, and the nature of the worker co-op conversion structure in having to be financed all at once (Artz and Kim, 2011). There is little a state can do about these challenges, but state tax incentives and conversion financing strategies (such as financing

[20] Some of these ideas were brought up through interviews.

the conversion through loans or equity shares by the lender) can mitigate these challenges[21] (Project Equity, 2016).

According to respondents, the biggest challenges for worker co-op conversions were related to promotion and lack of state laws that streamline and incentivize the conversion process. Financing conversions was not identified as a problem currently, but could become a potential problem if business conversions were scaled up significantly. Respondents had a few ideas about how these challenges could best be addressed.

A lack of promotion surrounding conversions not only means that business owners are not aware of the option to convert and the tax incentives available for them, but it also means that when business owners do learn about this option, they have little time to plan a conversion strategy. A conversion specialist reported that he was reluctant to help conversions that have not been planned in advance. According to the respondent, it caused the conversion process to be unnecessarily complicated and could put the success of the new worker co-op in jeopardy. Informing business owners in advance would give them time to conduct a feasibility study, and develop a succession plan. Other states, such as Ohio and Vermont, have employee ownership offices whose mission is in part to promote business conversions. Also, SBA offices and business associations could help promote the option to convert for business owners.

Respondents and case studies suggest that involving the retiring business owner in the conversion process is a major success factor in the longevity of converted worker co-ops (Berner et al., 2014; Project Equity, 2015). Incentivizing business owners to develop a succession plan that includes their cooperation could be done in multiple ways. A

[21] I will not discuss these financing strategies, but they can be viewed in the 2016 report, "The Lending Opportunity of a Generation" (Project Equity, 2016).

respondent suggested that states could develop competitive grant programs for incentivizing feasibility studies for prospective business owners who want to convert their business. In the case where business owners cannot or are unwilling to be involved in the conversion process or in helping train their employees, states could make technical assistance consulting a tax-deductible expense.

There is a recent example of a state bill that incentivizes business conversions to worker co-ops. In 2018, the state of Maine passed a bill that incentivized business owners and lenders to sell and lend to employee-owned businesses: LD 1338[22] . This bill exempts state income taxes for businesses selling to their employees as worker co-ops or ESOPs (LD 1338). Maine- based lenders or sellers will also be exempt from interest income earned from the financing of these conversions (LD 1338). Respondents reported that incentives such as these would help promote and incentivize conversions at the state level. Such incentives would also incentivize financers to loan to worker co-op conversions, which might mitigate challenges in finding financing for conversion processes if conversions become more prominent.

Success Factors for Worker Co-ops

This section will address success factors for worker co-ops in light of the challenges identified in the previous chapter and will not address financial success factors or general business success factors. Challenges for many worker co-operatives were addressed through the success factors of other co-operatives interviewed. For example, a respondent cited not being able to add new worker members as a major challenge for his co-operative despite significant patronage dividends and pay. This challenge could be addressed through

[22] LD 1338 also applies to rental properties or manufactured home parks selling to their residents as housing or consumer co-ops.

practices of another respondent, whose cooperative spends significant time and energy mentoring new recruits and makes sure employees want to become members for "holistic" reasons as opposed to merely increased pay and dividends.

Seven of the nine respondents interviewed reported that the worker cooperative model itself was a success factor, which can be broken into two categories: success factors for any employee-owned business, and success factors pertaining to cooperative principles. The success factors identified in worker co-ops were strategies used to make the most of the employee or human element. Employee ownership was the cause of many of the challenges of worker co-ops interviewed, especially in regards to democratic practices. Studies suggest, however, that employee-owned businesses are more productive and profitable than businesses in the same industry that are not employee owned (Rosen et al., 2005). Respondents used a variety of methods to make the most of the employee owned-structure.

In regards to making the most of the employee ownership aspect of the business, respondents cited having good processes in adding members as a major success factor. Having members with the right attitude and skills were cited by six of the nine member respondents. At least two of these respondents said attitude is more important than skills for new employees. According to these respondents, it takes a certain type of person to be a successful member of a worker co-op because cooperation between equal members is a crucial component of democracy and co-op management. "It's much easier to hire people with no skills and teach them if they are willing to learn, than to hire someone with skills and try to change their personality" (Respondent 1). Having necessary skills was also cited as a success factor, but was never mentioned as being more important than attitude alone.

For example, hiring outside the cooperative for seats on the board of directors was cited as a success factor by four member respondents; in the case of at least two of these respondents, these outside members go through a lengthy interview process to make sure they have the right fit for the co-op. According to another respondent, hiring a member with a long customer contact list was critical in their success. Worker co-ops should be "hiring future owners as opposed to just employees" (Abrams, 2008, pg. 210).

In order to make sure that employees are a good fit, worker cooperatives use what's called a *trial period* to see if employees have the composition it takes to become members. "We spend a lot of time on our hiring, a lot of time. It takes 3 to 4 months to hire someone. We hire great people and that is a major factor in our success" (Respondent 10). All respondents had some form of a trial period, although lengths and degrees of thoroughness varied greatly. In one cooperative, it was extremely easy to be fired during the trial period, and there was an exam at the end of the trial period. Another cooperative used a peer mentoring system which taught employees skills they would need to become members, and allowed at least one member to assess the employee in depth as their mentor. In accordance with their own interpretation of state law, cooperatives fired employees who did not want to become members, although these respondents said it was good business practice whether it was a law or not. Lengthy trial periods are also a success factor in worker cooperatives in other countries such as Italy and Mondragon, where cooperatives often have a trial period of 5 years (Abrams, 2008; Restakis, 2010).

Having a significant buy-in was cited as a success factor by at least four member respondents. Apart from contributing to the financial success of the cooperative, it also added to the "holistic nature" of ownership. "There must be financial skin in the game in

order to harness the benefits of the employee ownership… if you don't feel the financial risk, you aren't feeling the holistic and systemic experience of being a small business owner" (Respondent 2). This sentiment was shared by at least four members interviewed, and has been cited as a success factor for worker co-ops in other countries (Restakis, 2010). For example, one of the most successful cooperatives in Italy requires a $300,000 buy-in that is paid off over 15 years (Restakis, 2010). Worker co-ops that do not need the capital from buy-ins use buy-ins so that members will have some type of financial "skin in the game", according to a member respondent in Northern California.

Practices surrounding hiring processes and buy-ins can prevent many challenges in regards to democratic practices, developing the right company culture, and insuring that members continue their own education and training. In developing business skills, if an employee is found to not be willing to learn new things, training will be useless. Also, if a member does not feel a financial incentive to learn new things, there is no use in providing training. Five of the nine members said their co-ops invest in training and developing skills in members. Training member owners, especially in their specific role in profits and losses, was cited as a success factor for many ESOP companies (Logue and Yates, 2001; Rosen et al., 2005). Training in democratic practices and conflict management was cited as being particularly important in two co-ops interviewed, and one of these respondents teams up with another worker co-op in their area to provide conflict resolution services to cooperatives in their area.

Developing the right company culture was cited either in passing or explicitly cited as a success factor by at least seven of the nine respondents. Again, hiring the right employees aides a lot in developing company culture, but there are other strategies that

help create good company culture[23]. One respondent said that developing a company culture that encourages employees to judge each other based on their merits and valuing good ideas can mitigate the "law of averages" challenge that can arise when decisions are made to appease the average employee, as detailed in the last chapter. Also, a company culture that encourages all employees to think like an owner encourages them to make the best decisions for the company as a whole (Rosen et al., 2005).

Although everyone is an owner, day-to-day business operations often require managers. Not all cooperatives interviewed had a manager, but at least four respondents use managers for day-to-day operations, and one said it was one of their most critical success factors. Two respondents wished their cooperative used managers, as it would reportedly reduce conflict and increase efficiency in their co-ops. The respondents who do use managers often use them in different ways other businesses do. For example, a respondent mentioned they use "coordinators" instead of managers, although the "coordinators" have very similar functions to those of a traditional manager. In this respondent's cooperative, these coordinators distribute evaluations and members are evaluated on clear roles according to job descriptions. This simultaneously reduces conflict within the cooperative, as members know what their roles should be, and also makes things more efficient, for the same reason.

Success Factors Related to Cooperative Principles

The practices in the previous section are practices and strategies that can be utilized by any employee-owned business in order to make the most use of the human element of the company. This next section will outline success factors for worker cooperatives

[23] How to develop a company culture was not the focus of this study. Books on company communication practices have been written about by many other, more qualified authors, such as George Cheney and***

specifically. These success factors are solidified through adherence to cooperative values, and many of these success factors may have come from the cooperative values themselves.

The second cooperative principle is "Democratic Member Control," and the fifth principle includes "access to information" (ICA, 2015). According to a respondent, true democratic decisions can only come from situations where there is transparency of information. At least two cooperatives interviewed make all information, including salary and patronage distributions, available to all members. Although this is challenging at times and can bring about tension, it was cited as being a success factor for these two members. Open information also means that decisions and proposals are explained to member: "you get people on board with something at a higher level, especially when they understand why … they won't sandbag decisions" (respondent 2). Although it was not explicitly mentioned, valuing democracy as an inherent virtue may solve the challenge of "democracy by those who can stick along long enough", as members would be less inclined to "win" in making decisions because they would value democracy.

The sixth cooperative principal is "cooperation among cooperatives." Eight of the nine members interviewed said their cooperative formed alliances with other cooperatives and organizations that help cooperatives. These alliances allowed members to share knowledge, promote the cooperative structure, increased buying and negotiating power, helped with marketing, helped train members, and allowed cooperatives to share resources. For example, a cooperative in the New England area formed an alliance with a cooperative in New Orleans. These cooperatives would have a "member exchange" once a year where members would travel to each other's cooperatives to share knowledge, best practices, and skillsets pertaining to their IT business. Another worker co-op made an alliance with a local

consumer co-op to promote each other's businesses, products, and services. Alliances were cited as a critical success factor for many of these co-ops.

The seventh and last cooperative principal is, "concern for community". Besides job creation and being profitable, five of the nine worker co-ops defined their success as being able to contribute to their community in a positive way. This was not simply a feel-good success factor, but has practical business implications in at least two ways. First, it contributes to the happiness of employees and makes working at the cooperative more attractive, giving members a greater sense of fulfillment. This contributes to lower turnover rates, and happier employees who are more enthusiastic about their jobs. In the words of one respondent, "I think it's harder to leave a co-op." Secondly, it creates a sense of authenticity which helps boost sales, and causes multiple stakeholders (the community, investors, member) to have concern for the success of the cooperative, according to respondents. "There's tension in balancing multiple stakeholders", said a respondent, "but it has its benefits."

Not being too idealistic and rigid was explicitly stated by three worker member respondents as being a success factor. Many others did not use these words, but cited practices such as having a "strong management culture" (at least four respondents use managers) and having "pay grades" (six member respondents) as being practices that contribute to their success. These respondents reported becoming more flexible over time with these practices, as they were important in keeping their co-operative running successfully. In the long-term viability of the worker co-op movement, having successful worker co-ops that make people enough money to become widely attractive is extremely important in promotion and culture. If worker co-ops are viewed by the larger public as an

ideological business structure that does not work, the concept will likely never propagate in masse.

Chapter Conclusion

This chapter has discussed various ways in which challenges can be addressed, and success factors that prevent these challenges. The purpose of this chapter was to show there are ways of addressing the challenges identified. Individual worker cooperatives can utilize strategies such as loss-based compensations and indivisible reserves to compensate start-up founders and incentivize growth. These strategies do not have to break from cooperative principles, and do not have to totally deprive members of future earnings by making them pay for future earnings in the present.

Governments and support agencies can facilitate promotion and education for the cooperative structure on macro and micro levels. Cooperative federations, such as those in Italy and Spain, promote the cooperative structure and provide assistance to individual cooperatives. Government agencies in Cleveland and New York City support worker cooperatives through supporting support organizations and improving the business environment. Other government agencies can learn from the initiatives in these cities, and from bills such as the bill in Maine that incentivizes business conversions. There are many different legal actions governments can take in supporting worker cooperatives.

Challenges in democratic and managerial practices can be overcome by worker cooperatives through various educational and structural strategies. Examples of successful worker cooperatives from around the country and world show techniques and practices that can be used to overcome challenges identified in previous chapters. For example, using managers can help day-to-day operations run smoothly. Also, developing a culture where

good ideas are valued can be beneficial in preventing members from implementing only average ideas. All of the challenges identified did have a solution. Although many solutions brought about more challenges, no actions are perfect. The challenges addressed seemed to present more problems, but these actions were meant to show to that worker cooperative development is an ongoing process.

Chapter 5. Proposed Components of a State Statute in Nevada

This chapter will outline components of a state statute that would address challenges and success factors for worker cooperatives identified in previous chapters. It will start out with a general discussion about what laws should or should not be written. The next section discusses the strategic elements of a state statute, and how laws should be written to be strategically useful in helping worker cooperatives propagate. The following section discusses components of a state statute that could be implemented in a miscellaneous or random state; it is followed by a section outlining political findings based on interviews with three Nevada state legislators. The final section presents recommendations for a worker cooperative bill and state statute in the state of Nevada in light of those political findings.

General Legal Conditions for Appropriate Laws

Many of the challenges and success factors cannot easily be addressed through laws or policies for a variety of reasons. Changing cultural ideologies, for example, might be aided by the law in the long run by promoting some practices and limiting others[24]. The law would have a difficult time changing cultural perceptions instantaneously, however. Also, addressing challenges such as financing by simply granting cooperatives money or giving them tax breaks that are too large can make cooperatives dependent on government assistance. Dependency on external organizations breaks the fourth cooperative principle of "autonomy and independence" and is a breach of the cooperative value of "solidarity" (Macpherson, 2012). Maintaining independence from outside entities is something that

[24] Shifts in perceived social norms have been shown by psychologists to, "shift personal attitudes over time" (Association for Psychological Science 2017).

should be taken seriously, as it has major implications. For example, before the 1980s and 1990s many African cooperatives depended heavily on state aid, which was largely controlled by the multi-national financial organizations such as the IMF (Macpherson, 2012). When these multi-national organizations put pressure on governments and withdrew money, these African cooperatives suffered (Macpherson, 2012). The law and legal policies must be supportive enough to give protection to co-ops and make their structure attractive, but should not be excessive to the point that worker co-ops become dependent on laws and government policies.

Some success factors or ways of dealing with challenges are impossible, difficult, or dangerous to legislate. A success factor for many cooperatives is developing strong client relationships, which would be impossible to legislate or enforce (Majee and Hoyt, 2011; Zamagni, 2010). Also, a success factor for one cooperative might be unnecessary or even limiting for another cooperative. For example, mandating that worker co-ops should train employees in various business skills would likely help many cooperatives, and hurt many others depending on their size, industry, and stage of development. Other success factors have been found to be universally positive for worker cooperatives across industries and countries, such as the indivisible reserve. Mandating such universally positive practices would likely help worker co-ops, but at the expense of sacrificing member autonomy and control (CWCF, 2015). Such strict legislation might also make the co-op model less attractive or have unintended consequences, such as restricting success rates of start-up co-ops (CWCF, 2015).

Laws can be direct or indirect in their approach. For example, mandating that all state agencies hire the services of worker co-ops over the services of other businesses

would be an example of a law that is direct in its approach (although it might be impossible to achieve). Another approach to achieve the same ends would be to legislate how government agencies should choose to hire businesses services in general. In Nevada, state agencies contract businesses based on a point system, according to a state legislator respondent. Businesses are given points based on the cost of their services, if they are a local business, if the business is minority or women owned, and other variables. Legislatures that want government businesses to contract with worker co-ops could write legislation that does not explicitly favor worker co-ops but creates a situation in which worker co-ops would likely be favored. In states that have point systems for government contracts, points could be added for attributes that worker co-ops already have: points for distribution of profits, points for multiple owners, points for businesses that work with other businesses, points for businesses that pay dues or contribute to non-profits, etc. This type of indirect approach[25] would give worker co-ops implicit advantages without explicitly disfavoring other businesses.

It is important that policies which support worker cooperatives do not disproportionately favor one group of people over another. For example, a state could match the money worker co-ops spend on training and consulting services. This would help many cooperatives by reducing their own costs, but might disproportionally impact cooperatives in poor communities, which have less money to match the state money. This could be solved in a number of ways, such as implementing a gradual matching system that matches more or less money to cooperatives in an inverse relationship to their income levels, but such laws should not be discriminatory for any group of people. Care should be

[25] Allocating business contracts in this way could also incentivize businesses, cooperative or not, to engage in practices such as profit distribution or partnering with local businesses.

taken, when drafting laws to foster growth and stability of cooperatives, that unintended consequences of the laws do not discriminate.

In defining what a worker cooperative is, the law should be strict enough to provide structure, but loose enough as to not inhibit innovation. State statutes should provide structure to the worker cooperative form, insure its integrity, and prevent the exploitation of the form (Helfman, 1992). For example, a worker cooperative state statute that does not prohibit the sale of voting stock[26] to non-members would not insure the integrity of the worker cooperative form because non-members would then have the authority to vote on important matters. Also, legal manipulation of cooperative laws that would allow a cooperative to be created simply to secure tax advantages or other benefits should be prohibited (Helfman, 1992). The cooperative principles should all be enshrined in law to the extent that they preserve the intentions of the principles without being constricting or unnecessarily limiting freedom unnecessarily.

Four respondents specifically mentioned that laws should not be too constricting. This was also a concern in the 1980s when the first state cooperative statute was passed in Massachusetts (Ellerman and Pitegoff, 1983). Strict laws in mandating how cooperatives should be allowed to raise money, or how profits should be allocated to individual accounts, would prevent innovation. For example, a state statute that prohibits cooperatives from having multiple classes of membership would prevent worker-consumer cooperative hybrids. Also, a state statute that prohibits multiple classes of shares would prevent cooperatives from raising money through non-voting equity shares. The cooperative

[26] Some states have a general cooperative statute that could be used by worker cooperatives called a Limited Cooperative Association (LCA). This type of business entity often does not have strict limits on investor voting rights (Kreis 2012).

principles themselves can be restricting if laws are not written appropriately. For example, the "concern for community" principle could be used against cooperatives if written into law in a strict or unclear way. State statutes should be strict enough to preserve the integrity of the form, but loose enough to allow for innovation.

In general, challenges should be addressed to the extent they can be without causing cooperatives to become reliant on government subsidies or policies. Different ways worker cooperatives can address challenges, in general, should not be prohibited. Laws should be written into legislation so that even the most conservative lawyers can interpret various ways of addressing challenges as being legal. Success factors can be incentivized through tax breaks or other means when it would not be useful to mandate them outright. The state can favor worker cooperatives directly, or indirectly, depending on the circumstance and situation. Incentives, government subsidies, and policies should be structured to be accessible by all groups in a fair manner. Statutes should be strict enough to preserve the integrity of the structure, but loose enough to allow for innovation. All legal policies and laws should be examined and studied, so they can be continuously updated and amended to be efficient and just.

Strategic aspects of a State Statute

Laws are often designed to be strategic in their implications. For example, voter registration practices adopted by states like Alabama in the late 1800s and early 1900s were designed to be restrictive to African-Americans (Koussey, 1974). Mandates that voter registration only be permitted during planting season or that information be provided that African-Americans were unlikely to have were strategic in design as unjust as they were (Koussey, 1974). Legal and political practices in use today, intentionally designed or not,

still have strategic ends. For example, tax loopholes and district gerrymandering are still utilized for strategic ends. In making strategic laws for worker co-ops, they should be written to be easily understandable, accessible, and adoptable. They should be implemented in conjunction with other laws and regulations. If they are written correctly, and if the right legal actions are pursued, a state statute could aid the spread of worker cooperatives.

Challenges and success factors can be written into state statutes for strategic ends. For example, using collective or internal capital accounts has been cited by respondents and the literature as being success factors. State statutes, such as Massachusetts' 157A, define collective and internal capital accounts. The Massachusetts statute, however, only applies to corporations electing to be worker cooperatives. It does not apply to LLCs working as worker co-ops, which is the preferred method of incorporation for many immigrants as it does not require an I-9 employment form. If a worker cooperative formed as an LLC wants to use collective or individual accounts, it must engage in complicated legal maneuvers such as forming a separate corporation that the LLC then owns (Moore, 2008). Preventing challenges can also require complicated legal maneuvers. For example, states that don't define and permit demutualization clauses force cooperatives to adopt legal practices that are complicated such as including multiple anti-demutualization clauses in their bylaws (which can ultimately be changed by future worker members). Allowing co-ops to elect to be LLC's as well as corporations, defining and permitting the use of collective accounts, and anti-demutualization clauses all have many strategic implications.

States should write statutes to be in accordance with beneficial federal laws. For example, writing state statutes in accordance with the subchapter-T IRS designation would

make it easier for individual cooperatives to apply for the subchapter-T status. It might also make it easier for the IRS to give worker cooperatives this designation, as it would be understood that the compliance with states' law would be the same as compliance with the IRS subchapter-T designation. It would not automatically result in the IRS granting subchapter-T designations to all cooperatives that have incorporated under the state statute, but it would put cooperatives on more persuasive grounds.

Although state laws are separate from and have no precedence over federal laws, they may have persuasive effects on federal findings (Bintliff, 2001). For example, if a state found that worker cooperative members are not employees under state statutes or using state legal tests, this finding would not be binding in a federal court. The federal court may, however, find the state's findings persuasive and take them into account when making its own finding, or it may not. Federal courts might find a state statute to be significantly more persuasive if it were to be incorporated in all 50 states. Laws and statutes can be made uniform and consistent from state to state via the Unified Law Commission (ULC). In this way the statute could be implemented across the United States, at the state level, through the ULC, and may help the federal government in its findings regarding worker co-ops.

Unified state laws would achieve several things besides being persuasive for federal findings, which isn't guaranteed. It would allow worker cooperatives to easily expand across state lines without needing to make significant changes to their structure and form. This would reduce the cost of cooperatives expanding into adjoining states, and would allow nonprofits to easily distribute amendable bylaws that worker cooperatives could use across the country without needing extensive and expensive legal review. It would also allow cooperatives to easily access legal knowledge across the country, especially in areas

with few legal resources about worker cooperatives. This would be particularly useful if statutes were aligned with federal laws and codes such as the subchapter-T designation. A unified law would also have the effect of making case law between states more consistent, which would also benefit worker cooperatives working between states.

Components of a State Statute

There are generally three components of a state statute: legislative findings, legal definitions, and the statutes themselves. The legislative findings are important because they help state agencies, such as the Department of Labor, interpret the intention of the state legislature which enacted the statute. Legislative findings often provide a great degree of protection to local agencies if they act in accordance with legislative findings; thus they serve as a guide to local agencies (Fox & Rosenberg, 2013). Legislative findings also help courts interpret decisions and "can function to dispose of any improper or illicit motives offered by plaintiffs challenging an ordinance" (Fox and Rosenberg, 2013, pg. 2). The legislative findings section should include language about the benefits of the worker cooperative structure and the ways in which cooperatives have been historically used. It should also address why the bill is important in addressing challenges for worker cooperatives, and what its aim is, to legally support worker cooperatives.

The legal definitions section introduces language into the state's legal vocabulary. This section will define terms which can then be used in the statutes. The standardization of definitions will enable the courts and public agencies to consistently apply the law in the future. In this way, legal definitions protect worker cooperatives using tools such as the indivisible reserve and individual capital accounts, and eliminate discrepancies in the use of these terms at the state level. Worker cooperatives would no longer have to define these

terms in their bylaws. Definitions also prevent the misuse or perversion of these tools, as they define what they are and what they are not. Defining these terms also helps to promote their use, and would allow the state to easily attach subsidies or tax benefits to them.

The following terms should be defined in a miscellaneous worker cooperative state statute. Many of these terms and tools should not be mandatory for worker co-ops to use, but they can be incentivized in various ways. This is not an exhaustive list, and these terms are not written to be legally defined in an accurate manner. Some of these definitions might be moved to the statute section, but I would include the following in a state statute's definition.

Table 4. Terms and definitions for state statutes.

Term	Definition
Worker Cooperative	Any Limited Liability Company or Corporation that is elected to conform to the provisions of this chapter.
Worker-Member	This can be defined in multiple ways. One member respondent thought the best way to define "member" would be to have a legal test that would determine under which situations a member would be an employee vs. an owner. Another respondent thought members should just be defined as owners for all purposes, which appears to be the case in Spain[27]. Another respondent thought members should be treated as owners for some circumstances, such as in membership meetings, and treated as employees for other circumstances, such as conducting regular day-to-day work.
Temporary Worker Member	A member who works seasonally, or less than part time.

[27] During the early years of Mondragon, the Spanish government determined that worker members were self-employed and did not qualify for social security or other benefits that regular employees were eligible to receive (Corcoran and Wilson 2010). It is unclear to this research whether this is still the case in Spain, and if members are considered to be employees for all purposes of Spanish law.

Inactive Membership	A member who takes a long leave of absence, and is expected to return, upon which the membership status can be renewed.
Employee	A non-worker member who is employed by the cooperative and its members. Is not a member.
Buy-In	Membership rights allocated via the sale of class-A stock or other means which grants membership and a right to vote on a one member-one-vote basis. Buy-ins are not securities, and are exempt from securities regulations.
Collective Capital Account	Collective net income account that cannot be distributed to any one member, but may be used to pay wages and other things in the situation that the cooperative does not bring in income.
Indivisible Reserve	All or any portion of the capital account that can never be distributed to members. Upon the dissolution or sale of the cooperative, this account must be allocated to another cooperative's indivisible reserve, or a nonprofit. This is defined, but not required, in California.
Divisible Reserve	All or any portion of the collective capital account that can be distributed to members, employees, investors, or other stakeholders including past members.
Individual Capital Account	Individual accounts that reflect the portion of a member's investment, patronage, and/ or buy-in.
Patronage Distributions	Portion of net income made by the patronage of members, at least 20 percent of which must be distributed as cash, in accordance with the Internal Revenue Service's subchapter-T.
Demutualization Clause	A provision which, if included by founding members in the bylaws, prevents the cooperative from ceasing to exist as a cooperative throughout its existence. Outside investors should be allowed to vote against demutualization.

Using the aforementioned definitions, the legislative chapter can then go on to address the provisions that a worker cooperative would conform to, which would address challenges and solidify the appropriate success factors for worker cooperatives currently. At the minimum, the following cooperative principles should be legislated:

Table 5. Cooperative principles in legislation.

Principal	Definition	Statute
Voluntary and Open Membership	Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.	Cooperative cannot discriminate employment or membership based on gender, social, racial, political or religious discrimination. In the event that an employee refuses membership, they must submit in writing their decision to remain an employee. A cooperative must terminate an employee if they no longer have the intention of offering membership, and it is unlawful to persuade an employee against choosing membership once membership has been offered.
Democratic Member Control	Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other	All important decisions affecting the whole cooperative should be voted on by members on a one-person-one-vote basis. Cooperatives can elect to have a board of directors or have all members act as a board of directors (collective) or an arrangement using a mixture of the two. To avoid demutualization through not adding members and hiring only

	levels are also organized in a democratic manner.	employees, some minimum ration of worker membership should be required of the total workforce (Perotin, 2012). For example, Uruguay, Mondragon, and California[28] specify that worker cooperatives should make up at least 51 percent of the workforce (Perotin, 2012).
Member Economic Participation	Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.	Cooperatives are strongly encouraged to have a buy-in of some form. Members should share in patronage dividends.
Autonomy and Independence	Co-operatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations,	Members are the only stakeholders who have voting authority, besides elected board of directors who do not have to members but must be

[28] At least 51% of workers must either be members or on track to membership

	including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.	elected by members. Other stakeholders can have a vote in allowing the cooperative to demutualize, however.
Education, Training and Information	Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public- particularly young people and opinion leaders- about the nature and benefits of co-operation.	Members have the right to all information concerning the cooperative, as equal owners. Other components of this principle can be incentivized, or aided by the state.
Co-operation among Co-operatives	Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.	This should be incentivized and aided by the state.
Concern for Community	Co-operatives work for the sustainable development of their communities through policies approved by their members.	Boards of directors can take multiple concerns into account besides mere returns of profits to stakeholders.

Principles and definitions were taken from the International Cooperative Alliance.

In trying to legislate challenges, the following challenges should be addressed, either through the structure of the statutes or other types of precedence or guidance, such as through tax incentives and policies, government subsidies, or other ways outlined in this paper or others:

- Exemptions for securities laws for small- and medium-sized investments (such as exemptions from California securities laws of $1,000 or less as specified in AB 816)
- Application of workers' compensation, unemployment insurance, personal tax withholdings, overtime laws (Helfman, 1992)
- Worker privacy laws.

Success factors can also be legislated, but it may be best to simply define strategies that lead to success and incentivize them. At the minimum, none of these success factors should be prohibited in the statutes:

- Loss-based compensation (although it may not meet the requirements of subchapter-T)
- The ability to calculate patronage dividends using hours worked, wages, jobs or memberships created (much like in California's AB 816)
- Long trial periods that mimic start-up periods (one member respondent suggested that any, "any trial period less than three months" would not be useful)
- Substantial buy-ins
- Allowing for different classes of stock, with no or limited voting rights. Voting rights can be assigned to other classes of stock in the case of demutualization. If given the option to vote against demutualization, this right should not be allowed to be revoked by members.
- Requiring or incentivizing membership to Federations or Associations (such as in Italy and France)

- Requiring or incentivizing contributions to worker cooperative start-up and expansion funds (such as in Italy and France)
- Requiring or incentivizing contributions to education and promotion funds (such as in Spain)
- Allowing non-member seats on the board of directors, although Connecticut mandates that, "No less than fifty-one per cent of the directors on the board of directors of any worker cooperative shall be members of the cooperative" (Chapter 599a).

Supportive Legal Policies, and Actions

Little has been written about supportive legal policies and actions that support worker cooperatives in other countries (Rowe et al., 2017). I have tried to include all the available information in English regarding these policies throughout this thesis. I have included supportive legal policies and actions that can be taken by state governments in the previous chapter. I will summarize much of what is available in the literature, and what I have found in Massachusetts and California in the table below. For a more thorough analysis of supportive policies and actions states can take to support worker co-ops, refer to chapter 3.

Table 6. International policies supporting worker co-ops.

Policy Forms	Spain	Italy	Quebec
1. Governmental recognition: acknowledgment of the economic development and social justice benefits of co-operatives.	Constitution (1978) pledges to support co-op growth.	Constitution (1947) recognizes the value of co-operatives.	Co-operative Development Policy (2003) notes that co-operatives play a key role in the economy and affirms Quebec's aim to

			remain a leader in the sector.
2. State financing: support in the form of grants and loans	Not applicable	Mercora Act (1985) set up two funds for financing co-op development.	Government of Quebec maintains a robust low interest co-op loan fund for starts-up and expansion.
3. Sectoral financing: legislation that supports the development of financing mechanisms within the co-operative movement itself	Federal Co-operatives Act mandates an indivisible reserve fund. A minimum of 20 percent of profits must be placed into indivisible reserves if the profits result from business with the co-ops own members; the amount is 50 percent if profits accrue from business with non-members. Capital can be re-invested or leveraged for loans.	Solidarity Fund created in 1992. Co-operatives contribute 3 percent of their profits to co-op development funds. Contributions are tax exempt and pooled together to offer below-market loans to support co-operative start-ups, co-operative conversions, and co-operative expansion.	Co-operative Investment Plan (CIP) (1985) offers members a tax deduction of 125 percent for any capital invested in their co-op. The program has generated close to $500 million of equity capital since inception.
4. Preferential taxation: tax code changes that benefit cooperatives	Corporate tax rate is 30 percent; co-ops pay 20 percent (or 10 percent, in the case of "specially protected" co-ops, including worker-co-ops). "Specially protected" co-	Basevi Law (1947) allows co-ops to assign all their surpluses to indivisible reserves with large tax exemptions. In 2001, the Berlusconi government	Not applicable. Canadian tax system does not distinguish between co-ops and other corporation.

	operatives include worker co-operatives, agricultural co-operatives, and consumer co-ops; their special status derives from the social good the generate.	sought to minimize the co-operative tax advantage. Allocations to indivisible reserves are now 70 per cent tax exempt for co-ops that do at least 50 per cent of their business with members; co-ops that do less are only 30 per cent tax exempt.	
5. Supportive infrastructure: state-funded technical assistance (money ear-marked for the technical side of cooperative development).	Co-operatives Act requires that each co-op establish an education and promotion fund. At minimum, 5 per cent of profits are to be directed towards the fund.	Co-operatives are legally required to join a co-op federation. As such, federations are well resourced, politically strong, and a key support for co-op development.	Regional Development Cooperatives (RDCs), funded by the province, (formed in 1985) support co-op development.
6. Preferential procurement: public purchasing that privileges cooperative sellers	Basque Cooperatives Act gives worker co-ops preferential rights in the cases of tie bids.	Many municipalities only accept bids from organizations meeting minimum requirements of disadvantaged employees (co-ops more likely to meet criteria).	Under developed.

Table taken from Rowe et al., 2017

Table 7. National policies supporting worker co-ops.

Policy Forms	France[29]	California	Massachusetts
1. Governmental recognition: acknowledgement of the economic development and social justice benefits of co-operatives.	The French government is directly involved in support. The extent it acknowledges the benefits of worker co-ops is unclear.	Legislative findings: "A worker cooperative has the purpose of creating and maintaining sustainable jobs and generating wealth in order to improve the quality of life of its worker-members, dignify human work, allow workers' democratic self-management, and promote community and local development in this state."	Not available
2. State financing: support in the form of grants and loans	Unknown	No preferential treatment at the state level	No preferential treatment at the state level
3. Sectoral financing: legislation that supports the development of financing mechanisms within the co-operative movement itself	At least 15 percent of net profits must be placed in reserves.	Defines, but does not require, indivisible reserve.	Not available
4. Preferential taxation: tax code changes that benefit cooperatives	Do not have to pay "professional tax" which ranges from 1.5 to 2.5 percent of revenues.	Conforms with subchapter-T: Patronage dividends are taxed once, at the individual member	Conforms with subchapter-T: Patronage dividends are taxed once, at the individual member

[29] Worker Cooperatives can have external partners who can control up to 49% of the capital and 35% of the votes (Corcoran and Wilson 2010).

	Worker shares do not have to pay income taxes.	level. Patronage dividends are tax deductible to the cooperative.	level. Patronage dividends are tax deductible to the cooperative.
5. Supportive infrastructure: state-funded technical assistance (money ear-marked for the technical side of cooperative development).	Must pay 0.42 percent of revenues to French cooperative federation. Federation provides legal, political, technical support at the national, regional, and industry sectors. Multiple funds and firms are dedicated to providing capital to cooperatives, which is largely funded by membership dues.	Not available	Not available
6. Preferential procurement: public purchasing that privileges cooperative sellers	Unknown	Unknown	Unknown

Political Findings

Interviews were conducted with three Nevada state legislators, two of them were Democrats and one a Republican. Two legislators had never heard of worker cooperatives before the interview, and one had a general understanding, although this legislator seemed to confuse worker cooperatives for a political movement, or believe that people were somehow getting rich off the structure[30]. Another respondent implied that it had something

[30] Although no one is currently getting rich off the structure in the United States, worker cooperatives are known as wealth building structures with economic developmental implications. This is especially true in countries such as Spain, Northern Italy, and Quebec, and is a legislative finding in California.

to do with communism. Once the worker cooperative structure was explained, all three legislators thought it would be helpful for Nevada. All three respondents thought it was at least "doable" to pass a worker cooperative bill in 2019, although each respondent had different opinions about which provisions were likely to be passed.

Two political respondents thought it was likely that the state would pass a bill that defined worker-members as owners, and one thought it would be an important part of the bill. The other respondent was not sure, although they were worried wether collective decision making could marginalize the voices of members making them less of an owner.

When discussing whether worker cooperative members should be exempt fro worker compensation laws, one legislator thought it should be up to the individual member; one thought it was a bad idea because some member-owners could bully other member-owners into not getting workers' compensation insurance. When discussion turned to whether member-owners should be exempt from unemployment taxes, two thought it was likely, although they stated there should be conditions placed upon the excemption. The third legislator was not asked this question.

All three legislators did not think a bill would be passed if anything was attached to the form that required more than minimal state funding. By minimal, they meant anything more than the cost of creating the statutes, making the information available on state websites , and the creating standardization forms for worker cooperatives to use. "If you want to kill a bill, add a fiscal note" was the advice from one legislator. This means that all government subsidies, scholarships, support agency initiatives, and creation employee ownership offices would likely not be passed as they require funding. Two respondents did, however, think worker cooperatives were important enough that a

business conversion outreach program could be added to the governor's office of economic development office (GOED). The GOED gets its funding through the executive branch (governor's office), which means it has a better possibility of receiving funding there, especially if the governor thinks business conversions and employee ownership is important.

Nevada does not have a state income tax, so tax incentives for worker cooperatives at any level are not an option. An alternative would be to create a business license that did not have to be renewed every year, and that could be used throughout the state as a substitute for local and regional business licenses. Two respondents thought this would be unlikely to be passed, and one thought there was a possiblity.

Two of the state legislators, a Republican and Democrat, both thought the state should promote a structure if it did, in fact, benefit workers and the communities they develop in. The other legislator, a Democrat, thought it was not the job of the state to promote business structures. This legislator seemed to believe the movement[31] was a quasi-political movement, despite reassurances that it is merely a structure of conducting business. In this sense, two legislators thought robust legislative findings would be either doable or important. In assigning preferential government contracts to worker cooperatives, one respondent thought such a provision might be passed depending on the industry. The other respondent reiterated that it was not in the interest of the state to give preferance to any type of business[32]. I did not have the chance to ask the other legislator.

[31] This legislator had roots in the union movement and might see worker cooperatives as threatening to unions. Although worker cooperatives have historically been supported by unions, the largest worker cooperative in the U.S., Cooperative Home Care Association, is unionized. Respondents in New York identified unions as political allies, this is might be something to research and be aware of in the future.
[32] Worker cooperatives are not a type of business, rather they are a type of business structure.

Recommendations

In light of the political findings, a state statute with robust legislative findings and clear legal definitions for all worker cooperative specific terms would be the most viable option for a worker co-op bill for the 2019 Nevada state legislature. In order to insure the political viability of the bill, it should not include any government spending beyond the ratification of the bill, and money needed to include the worker co-op option on state websites and forms. Also, no tax incentives can be included to help incentivize success factors, such as indivisible reserves, because Nevada does not have state income taxes. These success factors should still be mentioned in the bill as to give legal protection in their use. Refer to the "Components of a State Statute" section on 141-148.

For supportive legal actions that require more money, it would be best to access the Governor's Office of Economic Development (GOED). GOED receives funding through the state executive branch and does not require a full vote from the state legislative office. This means that only the Governor and GOED need to be convinced of the value of worker co-ops and employee ownership for government assistance. GOED can then work with state cooperative extension agencies, schools, SBA offices, and other organizations to promote and educate about the cooperative model. Seeking funding in this way does not put the bill in jeopardy, and may even help the bill get passed as it would already have the support of the state executive branch.

Concluding Thoughts

In my opinion, Nevada has a lot to gain from worker cooperatives. It has one of the lowest social capital indexes in the country (Department of Agricultural Economics, Sociology, and Education, 2018; Putnam, 2001; Walton, 2004). Low social capital in

Nevada has major consequences: Nevada has one of the highest suicide rates in the country, lowest rates of volunteerism, has much lower rates of blood donations[33], is rated as one of the worst states for child care, has one of the worst school systems in the country, has a much higher violent crime rate, has a low health state index, has high rates of tax evation, and has one of the worst rankings for political corruption in the United States (NCSP, 2014; Putnam, 2000; Putnam, 2001; Walton, 2004; Schoenmann, 2015). Its most populous county by far, Clark County, where I am from, has a high inequality index compared to the national average; this rate has risen at a steady rate since 2010 (US Census Bureau, 2015). Las Vegas is more succeptible to market booms and busts, and was affected more by the 2008 recession than anywhere else in the United States (Snyder, 2010). In fact, it took seven years for unemployment rates to recover, and as of 2016, the real estate market, visitor volume, construction rates, and other indicators have not returned to pre-recessionary rates (Hogan, 2016). There are many challenges to be overcome in Nevada.

Based on my research, I think worker cooperatives can address all these issues, and in the case of real estate and the housing markets, housing cooperatives can help stabalize markets as they do in Northern Italy (Logue, 2006). Cooperatives increase social capital, and worker cooperatives generate and thrive off social capital more than the other cooperatives do (Battilani and Schroter, 2012; Restakis, 2010) This could aid in things like resiliency in the event of disasters, such as the 2017 Mandalay Bay shooting, and might bring down suicide rates. Worker cooperatives have the potential to reduce inequality as well. Worker co-ops can save jobs and help economies recover from economic disasters faster than other types of business (Perotin, 2012). This may be especially true in Las

[33] Although blood donation rates were extremely high immediately after the Mandalay Bay mass shooting in October 2017

Vegas, where our anchor institutions- McCarran airport, various hotels and casinos, multiple hospitals, universities, training centers, convention centers, and sporting arenas- have the potential to support ecosystems of worker cooperatives. Worker co-ops have the potential to help train our workforce as many types of skills are needed to run successful businesses, especially those with multiple owners. They can also help develop democratic and social skills. Most important to me is that worker cooperatives have the potential to make people better, more social, and happier (Hari, 2018; Putnam, 2000; Restakis, 2010). I think when my fellow Nevadans realize the potential and benefits of cooperation as a form of business, they will seek it out with fervor.

Upon completion of this thesis, I will continue my research in creating the most supportive possible state statute for worker cooperatives at this time in Nevada. I will consult others within the employee ownership and worker cooperative communities about my findings, finding ways of refining them. At the same time, I will continue with the development of a political strategy to implement this refined state statute in Nevada. This may include political organizing, or developing narratives upon which politicians can use employee ownership and worker co-ops as a way to boost their political platforms (albeit from a strictly economic development angle). This political strategy will be bi-partisan. With the consent of others within the community, I will explore whether or not it is viable to unify the hopefully robust state statutes across the United States via the Unified Law Commission.

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