

# Time to Recycle Cooperative Wealth

*Your life has a purpose—shouldn't your assets?*

BY ADAM SCHWARTZ

One of the more popular definitions of insanity is doing the same thing over and over again while expecting a different result. And so it goes with our economy. The all-too-familiar boom-and-bust cycle continues. The wealth gap, with more resources being concentrated in the hands of fewer people, continues to grow. According to a well-researched article, "What's Inside America's Banks? How Wall Street Could Blow Up the Economy—Again," in the Jan./Feb. 2013 issue of *Atlantic Monthly*, our economy is in as much peril today as it was in the fourth quarter of 2008, when the country was on the brink of a financial calamity not seen since the Great Depression in 1929.

At the same time, with every paycheck, millions of Americans pour billions of dollars into investor-owned businesses of all types through 401(k) retirement plans and other investments. Due to the opaque nature of these investments, many people have no idea or maybe at best a vague notion of the type of businesses they are supporting.

Yet, even for those who do know where they are investing, it seems to make little difference. In part this is due to a real lack of alternatives that would allow people to invest in businesses they actually would patronize.

Several years ago, I was speaking to a group of credit union executives who, reflecting their profession, are much more sophisticated in their knowledge about their investments than most of the rest of us. I asked how many of them have 401(k) plans at their financial cooperatives (aka credit unions). Every hand in the room went up. I then asked if they knew where the money was being invested. Many but not all knew. I then asked if any were investing in banks such as Wells Fargo, Bank of America, or Citicorp? Many admitted they are investing in these institutions that try to put them out of business every day. My final question was, "Would you walk through the front door and open an account at these mega banks?" Not a single hand went up.

So, what we wouldn't do through the front door, we do through the back door every day.



Psychiatrists have a word for this type of behavior—please see the first sentence of this article.

To my food co-op brethren, I ask: Do you walk into Kroger, Safeway, Trader Joe's, or Wal-Mart to spend your hard-earned dollars? Probably not—yet if you invest in mutual funds, which are just groups of stocks, there is a very high likelihood you are doing the same thing as our credit union friends—investing in the competition.

It is time to change that paradigm. While movements like Kickstarter—the online money-raising site to support small businesses and projects—offer rewards, I am proposing an investment fund. Ironically, we need to look no further than our shared cooperative history to see how we can pool our resources to find such a solution.

## Rural electric cooperatives

In 1969, the nation's roughly 1,000 rural electric cooperatives grew concerned that perhaps the federal loan program that had been the sole source of their financing might not always be there. Consequently, after several years of debate and planning they formed the National Rural Utilities Cooperative Finance Corporation (CFC), a co-op of co-ops, one whose product

is money. By pooling their resources, they have created a sustainable source of financing that the co-ops themselves own.

In addition, CFC raises money from outside investors, mostly institutions that seek to find a way to invest in electric cooperative utilities, thereby bringing some of the Wall Street money back to Main Street. Today, CFC is a \$20 billion-asset institution. This is a strongly successful model that has been effective in the business-to-business market. Now we need to bring this type of thinking and opportunity to individuals who seek to support co-ops through investment.

## How we do this

Cooperatives in the U.S. directly employ almost a million people, have over \$25 billion in payroll and \$3 trillion in

assets, yet we have no place to invest our money through 401(k) plans that will invest in co-ops. Yes, there are the Cooperative Fund of New England and the Northcountry Cooperative Development Fund that give us the opportunity to earn a return while supporting cooperatives. These very important organizations do amazing work to support cooperative development. Yet their assets are so small compared to the massive amounts of money cooperators pour into the stock market.

Let's begin with the core belief that most people want to do the right thing but that we need to make it easy for them to do the right thing. Currently, folks invest in companies they might not otherwise support simply because there are very few alternatives. Most companies give their employees a fairly limited number of options for the funds that they can invest through 401(k) plans. A cooperative plan, by contrast, would create an investment fund that invests exclusively in cooperatives through preferred stock or subordinated debt. Neither of these financial mechanisms would threaten cooperative governance and would ensure that members, rather than outside investors, still own and control the co-op.

Perhaps an existing co-op wants to open an

additional store or renovate its existing store. This type of project could easily cost \$2 million. The co-op could apply to the fund in a manner similar to seeking a loan. The co-op would need to demonstrate it has a sound business plan, good credit, and a solid financial plan for how it will repay the investment. Once the criteria are met, the co-op fund will invest in the co-op. It will allow people to access capital that is by co-ops, of co-ops, and for co-ops. It's not charity. The investors will earn a return on their investments.

### The cooperative way

Cooperatives have a very long history of creating innovative solutions to the challenges individuals and communities face. In fact, it is the reason cooperatives exist. The market either refuses to offer a good or a service, or the price is too high, so people band together and form a cooperative solution. This is at the core of every co-op from the Rochdale pioneers in 1844 to the newest co-ops formed in 2013.

Co-op employees from all sectors need to demand that this type of investment opportunity be offered to us. One possible tactic would be to convince co-op associations like CUNA Mutual (affiliated with credit unions) and the National Rural Electric Cooperative Association, which offer investment products for electric co-op employees, that this is another fund in which to invest a small portion of their 401(k) plans. These organizations already have fund managers who are part of the cooperative community. We must convince them to make "shelf space" and offer this new fund that will support their member co-ops.


We need to be prepared to, as my grandmother used to say, "Be ready to put our money where our mouth is." We can start with co-op

employees. Every co-op will have to work to ensure that their 401(k) plan provider adds this co-op investment fund to its menu. From there, we can reach out to others such as Slow Money and socially responsible impact investors.

I am willing to guess that you are not regularly buying products that you don't like or that are objectionable in light of your principles and values. Your life has a purpose—shouldn't your assets? To do anything else many would just call insane. ■

*Note: If you are interested in joining the cause to help make this co-op fund investment opportunity a reality, please send me an email at [aschwartz@thecooperative-way.coop](mailto:aschwartz@thecooperative-way.coop) with the subject line: Co-op Investment Fund.*

FAMILY  
OWNED  
AND  
OPERATED



FROZEN  
ORGANIC  
FRUITS AND  
VEGETABLES!

Growers and Processors  
Caledonia, MN 55921  
[www.snopac.com](http://www.snopac.com) or email: [snopac@snopac.com](mailto:snopac@snopac.com)

### MEET THE CDS CONSULTANTS

#### Adam Schwartz

*Cross Sector Connections,  
Action Plans for Big Ideas*



- 20+ years working with co-ops in all sectors to meet their goals
- Executive leader at national cooperative organizations
- Innovative strategies to promote cooperative growth

**Adam's services include:**

- Creating or re-energizing a cooperative culture
- Using cooperative principles to increase margin
- Assisting big picture discussions to grow the co-op economy
- Facilitating work with other types of co-ops
- Long-term capitalization and co-op investment ideas
- Creating annual meetings that increase impact

[AdamSchwartz@cdsconsulting.coop](mailto:AdamSchwartz@cdsconsulting.coop) –or– **703-608-0534**

CDS Consulting Co-op



SOLUTIONS FOR COOPERATIVES



For a complete listing of our consultants,  
visit [www.cdsconsulting.coop](http://www.cdsconsulting.coop)

[www.facebook.com/  
CDSConsultingCoop](http://www.facebook.com/CDSConsultingCoop)

### MEET THE CDS CONSULTANTS

#### Rose Marie Klee

*Leadership Development,  
Cooperative Governance*



- 7 years of cooperative governance experience at Wheatsville Co-op, Black Star Co-op
- 4 years as board president of Wheatsville Co-op
- Founding member of Austin Cooperative Think-Tank

**Rose Marie's services include:**

- Adopting and implementing Policy Governance
- Building a supportive board culture
- Supporting board perpetuation
- Facilitating meetings and retreats
- Coaching board leaders
- Fostering healthy board/management relationships

[RoseMarieKlee@cdsconsulting.coop](mailto:RoseMarieKlee@cdsconsulting.coop) –or– **512-736-6510**

CDS Consulting Co-op



SOLUTIONS FOR COOPERATIVES



For a complete listing of our consultants,  
visit [www.cdsconsulting.coop](http://www.cdsconsulting.coop)

[www.facebook.com/  
CDSConsultingCoop](http://www.facebook.com/CDSConsultingCoop)