The case for establishing cooperatives as the new business model in the Black Community

We been done that

In the beginning, many Millennia before the civilization of Europe, Africans had a very organized and sophisticated society. Consequently, ancient Africans had an economic system. It has been well documented but underemphasized that Africans had well established trade routes that stretched from India and China to the so-called new world of South, Central and North America. The primary method of exchange was barter. Bartering is the most basic form of commodities exchange and the commodities of that time were salt, animal hides, ivory and gold. Therefore commodities trading formed the basis of the early African economics. This is important because before we talk about changing our economic principles we must first shift our economic paradigm.¹

In the early 1900’s the Greenwood district of Tulsa, Oklahoma was the home of some 10,000 Black residents. It has been documented that the community had “21 restaurants, 30 grocery stores and 2 movie theaters, plus a hospital, a bank, a post office, libraries, schools, law offices, a half dozen private airplanes and even a bus system”.²

In the 1930’s and 40’s another Black “Wall Street” emerged in Durham, North Carolina. It was anchored by Black owned insurance companies and banks which spurred economic growth and prosperity. Both Booker T. Washington and W. E. B. Dubois were impressed by this emerging economy and actually went there to see firsthand what Black folk had accomplished. They both hailed it as a great development in Black achievement.³

Before moving forward it is important to note that these are three examples of African achievement in economics in 3 places and three time periods. The purpose of this is to set the stage by indicating through historical precedent that Africans are not foreign to economic prosperity. To the contrary, our current economic blight is a relatively short event as compared to our long term economic mastery and independence.

¹ http://en.wikipedia.org/wiki/Economic_history_of_Africa

² http://www.rosenwaldharlanites.org/Latest/BLACK-WALLSTREET-TULSA-OKLAHOMA-1921.html

³ http://today.duke.edu/2007/01/parrish.html
What have we done lately?

1. 27 percent of black Americans now live in poverty, a two percent increase since 2009.
2. According to last month’s Bureau of Labor Statistics report, the unemployment rate for black Americans now stands at a staggering 14.1 percent, a figure well above the already high national unemployment rate of 8.3 percent.
3. White Americans now have 22 times more wealth than black Americans, a figure that has nearly doubled during the recession. According to the Census, in 2010, media household net worth for whites totaled $110,729. For blacks, the figure was $4,995.
4. From June 2009 to June 2012, real median annual household income for blacks fell 11.1 percent from $36,567 down to $32,498. The drop for whites was 5.2 percent and 4.1 percent for Hispanics.
5. According to the Census, 26.4 percent of households who report receiving food stamp assistance are African American, despite the fact that black Americans constitute just 13 percent of the total population.
6. A study by the AARP found that home foreclosure rates for African American borrowers over the age of 50 were almost double those of whites.
7. High school graduation rates, which strongly influence income and job hiring, continue to vary widely by race. A recent study found the following on-time high school graduation rates: 91.8 percent of Asian students, 82 percent of whites, 65.9 percent of Hispanic students, and 63.5 percent of African American students.

It’s fair to say that by any measure Africans in American are in decline. Not much commentary need be added other than it’s time for not only a change in our tactics but also a shift in our approach to solving our problem. With all of the transitions of the 60’s and 70’s African American group economic status is in decline and some argue that our very existence is in question. There is no Black Community in America that comes close to what Africans in America achieved in the past.

The need for a new paradigm

There is a lot of to do about what is wrong with the Black community in America. Our best educators are stymied, our business leaders “don’t get it” and the community is left waiting on the next trend by the next administration. The cavalry never arrives... Or does it? The reality is that the cavalry is already here. The problem is that the cavalry is armed with inferior weapons. The cavalry gets its weapons from the very institutions that perpetuate the negative conditions that exist in the Black community. That weapon is the paradigm, the lens through which one views things. Some call it “frame of reference”.

4 http://www.breitbart.com/Big-Government/2012/09/02/7-Devastating-Economic-Facts-Affecting-Black-Americans
Many of us see how paradigms are manifest but we don’t necessarily understand it as the source. Paradigms often show up as double standards where one group commits an act which is viewed as positive and another group commits the same act and it is viewed as negative or offensive. Here is a practical example of how faulty paradigms adversely affect the interest of the black community. The current paradigm in education is that accreditation is essential in ensuring quality education for schools and school districts alike. According to the U.S. Department of Education the Black graduation rate is 63.5%. The Manhattan Institute for Policy Research indicates 49% of the Black students who graduate from High School are well below basic reading proficiency and 70% of those same students fall well behind in math proficiency. A little simple math indicates that out of every 100 Black students that enter the public school system only 19 will come out proficient in the basic things that the public schools are supposed to provide. By the way we are talking about schools and school districts that are accredited. The evidence suggests that at worse accreditation ensures Black student underdevelopment and at best accreditation is meaningless. Since the Black community is stuck in a faulty paradigm, no amount of evidence will change the approach and all remedies will be filtered through the lens of those that provide non-solutions like accreditation.
The Black community as an eco-system

“Economics is a subsystem of a larger finite system which is the biosphere.” ... Manfred Max-Neef

Above is a classical diagram called the circular flow model of macroeconomics. It shows all of the elements necessary for a healthy economic system (eco-system). They are Firms, Factors Market, Households and the Goods Market. Any missing element constitutes a “leakage” or imbalance of the entire system. In that regard it takes on the basic characteristic of any eco-system. When the four elements are in balance we have a sustainable system. I like to call it an economic biosphere. Here is a brief synopsis of how a macroeconomic system works: The factors market and the goods market are the bridges between firms and households. The goods market is comprised products and services. The factors market is comprised of real estate, labor and capital. Firms are the companies that manage the goods market and the factors market. The most important assumption in this model is that the firms are owned by the households. In the black community the households do not own the firms so the primary management of the factors market and the goods market are not residents of the black

http://www.macrobasics.com/chapters/chapter2/lesson21/
community. The result of this is a separation of households from the rest of the eco-system. The firms, factors market, and goods market are therefore owned by households other than those in the Black community. The relationship between the Black community and the other community becomes parasitic. This relationship makes the black community unsustainable and the revenue, labor and rents benefits the other community. Gentrification is usually the end result.

Black Capitalism?

On June 29, 2000, Ron Daniels, a veteran Black Activist wrote of Bob Johnson of BET...

Mr. Johnson is widely regarded as one of the most savvy and successful entrepreneurs in Black America, a consummate businessman who has made it clear, however, that he is not particularly concerned with mixing racial and social concerns with business. Ironically, as a social and political activist in Youngstown, Ohio, some years ago, I distinctly remember being called by representatives of a start up venture called BET to mobilize Black people to demand that the local cable company carry the programming of this embryonic network. Out of a sense of racial pride and social commitment, we did just that, and I am certain that scores of communities across the country did likewise.⁶

At its height SoftSheen, a Chicago based Black hair care company grossed 100 million dollars per year. In 1998 the company was sold to L’Oreal for 167 million. Two years prior Johnson Products was sold for 67 million dollars. Today Black owned hair care companies are almost non-existent. Many Black business owners complain that the black community does not support Black business but several high profile Black businesses have shown that when it comes to supporting them “Black folks should rally to their support” but when it’s time to make a business decision for their individual enrichment “business is business”. Two years ago I attended a meet and greet for then gubernatorial candidate Scott Walker of Wisconsin. The affair was intended to give Wisconsin Black business leaders the opportunity to learn more about the candidate. The first question posed by one of the participants, who is Black, began with the statement “I find that greed is a good thing...”. To my surprise that appeared to be the consensus of the group. Why should the Black community invest in Black entrepreneurs with no guarantee of reciprocation?

Cooperative Economics... Enter the worker co op

The year was 1956, the place was the Basque region of Spain in a town called Mondragon. This is where 6 graduates from a local technical school were persuaded by a young catholic priest named José María Arizmendiarrête to form a co-operative business start up. The town of Mondragon had a population of

roughly 7,000 people. Industry was gone and the local economy was very depressed. As a result of the Spanish civil war there was still hunger and extreme poverty in that region. This was the beginning of the Mondragon Corporation. Today the Mondragon Corporation has more than 256 businesses, 83,000 employees and revenue of over 14 billion dollars.7

Another example is the Legacoop:

Back in 1854, Italy’s first consumer cooperative, the “Magazzino di Previdenza,” was founded in Turin. In 1886, 100 delegates representing 248 cooperatives with 70,000 members formed the National Cooperative Federation. In 1893, that became the Cooperative League, now known as Legacoop. Today, the Italian cooperative movement includes three primary organizations, Legacoop, AGCI and Confcooperative. Collectively, they represent 43,000 cooperative businesses generating an astounding revenue of 127 billion Euros, or 7% of the Italian GDP, and their 1.1 million employees represent 6% of the total population.8

What makes cooperatives so attractive? Here is a comparison between traditional capitalistic ownership vs. cooperative ownership.

Capitalist enterprises tend towards growth because increased scale generally leads to greater returns for a concentrated ownership. To simplify, if a capitalist bakery owner has a bakery with ten workers each earning $20,000/year but generating $30,000/year of wealth, the owner reaps $100,000 per year ($10,000 “profit” multiplied by ten workers).

Contrast this with the economics of a typical worker cooperative. In a worker cooperative, those profits not reinvested are divided among the workers who generated the wealth. Assuming no reinvestment, in addition to her $20,000 salary, each baker would receive a $10,000 profit distribution at the end of the year.8

So here is my question. What if BET, Softsheen or Johnson Products had been worker cooperatives instead of a centralized capitalist ownership? Would they have been sold or perhaps the other owners would have bought out those owners that wanted to leave. We certainly know that the revenue from the sale would have gone to all of the workers that made the companies what they had become instead of to individual owners. The most important outcome is that the wealth generated went to one or two individuals and the black community as a whole that supported the initial and ongoing business essentially gained nothing. Under the present business paradigm Black business development is the equivalent of supply side economics. The wealth just never trickles down.

7 http://en.wikipedia.org/wiki/Mondragon_Corporation


We invite any discussion on this subject. Please direct any critique to Kwojwo Manu Donkor Kwojwo@gmail.com. I may also be reached at 414455 0704