

President & CEO Address
2009 Cooperative Network Annual Meeting
November 17, 2009

Chairman Skemp, Members and Guests:

Thank you very much for the opportunity to serve as your President & CEO this year. 2009 has been a uniquely active year for Cooperative Network, from branding our new Cooperative Network name and identity, to educating Congress and the American public on what role cooperatives can and should play in national health care reform, to hosting our first annual Cooperative Day at the Minnesota State Capitol, to working together to defeat the Wisconsin Governor's proposed oil franchise, and to the many other activities that were included in our *2009 Year in Review*. All of this was accomplished in a year in which our nation's economic health sank to near depression levels.

This Annual Meeting will witness a substantial change in our governance structure as we end the important roles the WFC Board and Minnesota Council have played in our organization and move to the new Cooperative Network Board of Directors. We have justly honored the board and council members for the considerable leadership they demonstrated this year, and in years past, to make Cooperative Network the premier state cooperative trade association in the nation.

I. Cooperatives and the National Economy.

2009 has been a very interesting year for cooperatives for many reasons. Let's first begin by focusing on significant changes in the nation's wealth and annual income that demonstrate a real difference between Wall Street and main street cooperative businesses.

Last year, I compared the financial excesses of Wall Street with the relative stability of the Upper Midwest cooperative community. You may recall that I argued that the patient capital possessed by cooperatives and the common sense exercised by cooperative boards and management made the case that cooperatives are a solid foundation for the economies of Minnesota and Wisconsin and play a significant role in helping to distinguish the relative economic health of the Upper Midwest with the struggling costs. Yes, it's true cooperatives may not be considered by financial consultants to be flashy, but we have demonstrated that we have the ability to provide the products and services needed and wanted by our member owners to make their lives better.

Our nation's economy, judging by the latest economic figures, appears to be pulling out of deep recession. To be sure, this is good for both cooperatives and non-cooperatively owned businesses. However, this recession has only temporarily masked over the increasingly large gap between the richest Americans and the rest of our nation and cooperatives represent one of the few areas of our nation's economy where income is distributed in a very different way. Like the roaring bubble days of 2007, we are once

again starting to witness Wall Street paying out large amounts in salaries and bonuses to its employees. Please note here at the outset that I am not intending to present some type of populist political argument to you and I will agree that in some cases there are valid reasons for some of the payments. However, I am troubled because I believe these large payments reflect an increasing structural flaw in our nation's economy because our growth models are predicated on creating new financial instruments rather than manufacturing goods wanted by our own citizens and citizens in other countries.

What do I mean? Let's take a look at the six decades ending in 1989. During this time, the financial industry's total profits remained relatively constant as a percentage of the nation's total gross national product. However, beginning in the 1990s through 2007, Wall Street financial profits grew rapidly and more than doubled as a percentage of our nation's gross domestic product. You might say that this is evidence that Wall Street has provided significant vitality to the American economy and the provision of credit certainly became relatively easier during the same time and you might be right. However, I think we need to consider some additional statistics before we draw any kind of conclusion.

Another interesting fact is that we have seen tremendous concentration in the financial services sector. In 1990, according to the *Wall Street Journal*, the nation's ten largest financial institutions had ten percent of our nation's financial assets. Last year, this figure had mushroomed to 60%.

Who holds the nation's wealth continues to change and I would argue, not necessarily for the better. According to annual statistics collected by the U.S. Internal Revenue Service, the gap in U.S. wealth and income inequality continues to grow sharply. In our country, the wealthiest 1% of families own 38% of the nation's wealth. This is almost double what the number was back in the 1970s. Putting this into further context, New York University Professor of Economics Edward Wolff has determined that our closest rival in terms of inequality is Great Britain where the comparable figure is more like 22 or 23 percent compared to our 38%. Moreover, the top 5% of our nation's families measured by wealth owned 59% of our nation's total wealth. Said another way, the top 5% of our nation's families own more wealth than the combined wealth owned by the remaining 95% of our nation's families.

This has not always been the case. Once again according to Professor Wolff, up until the early 1970s, the U.S. actually had lower wealth inequality than Great Britain, and even Sweden. However, things have really changed over the last 25 or 30 years. Many countries have experienced lessening wealth inequality over time. By contrast, the income inequality in the U.S. has risen dramatically over the last 25 or 30 years.

Yes, there is an increasing gap in wealth between the wealthiest Americans and the rest of the country. This can also be seen in annual income data. According to Economist Emmanuel Saez at the University of California - Berkeley Department of Economics, the top 10% of American families by income take home 49.7% of the nation's total annual income, up from around 33% in the 1970s and is the highest figure on record. Perhaps

more startling, is the statistic that our nation's top 14,988 families alone took home 6.04% of the nation's total income in 2007.

How about ownership in the stock market? First, it is true that many more American families own stock or mutual funds, or both. In 1983, only 32% of households had some ownership of stock. By 2001, the share had risen to 51% due to the wide availability of 401K and other retirement investment plans. So far so good. But many of these families have very small stakes in the stock market. By contrast, the richest 10 percent of American families own 85% of all stock. This same 10% also owns about 85% of all financial securities and 90% of all business assets.

I don't say all of this to demonstrate some form of populist envy. Rather, these statistics demonstrate the contrast between the investor-owned world and cooperatives because we hold to the third cooperative principle that our *members participate in the cooperative's economic success* because we:

- ✓ Return surplus revenues (income over expenses and investment) to members proportionate to their use of the cooperative, not proportionate to their "investment" or ownership share.
- ✓ Are motivated not by profit, but by service-to meet members' needs for affordable and high quality goods or services

According to the 2009 cooperative survey conducted by the University of Wisconsin Center for Cooperatives, 30,000 cooperatives and our millions of members collectively own \$3 trillion of the nation's wealth, create more than \$654 billion in revenue and pay more than \$75 billion in wages, wages paid here in the United States. This is a huge contrast to the wealth concentration I just talked about and greatly distinguishes cooperatives from investor-owned and privately owned businesses. Given what our nation has been going through, there is a very strong case for the cooperative form of business as being good for the economic future of our nation.

II. Cooperatives and Health Care

This qualitative, indeed philosophical difference, between cooperatives and the investor-owned or privately-owned corporate world can be seen in our nation's health care reform debate. As we all know, the Congress has been looking closely at what they believe will be the most effective mechanisms for providing healthcare to the uninsured and underinsured. Members of Congress have been struggling with the issue of how to make the interest of for-profit and not-for-profit insurance companies align more with health care consumers.

While I don't intend to get in the middle of the raging political debate over whether or not we should "reform" health care by creating a public option, I will note here that I had the privilege of testifying on the role cooperatives might play in health care reform before the U.S. House of Representatives Subcommittee on Health, Education, Labor and Pensions in late April. Previously I had the honor of testifying before the U.S. Senate Small Business and Entrepreneurship Committee. I also have had the opportunity to join

the National Cooperative Business Association and HealthPartners HMO in conducting educational seminars for Members of Congress and their staffs. We have a proud health care cooperative history in the Upper Midwest and one that we can share with the rest of our country. Your Cooperative Network Board, Minnesota Council, and Cooperative Network staff have been very pleased with this unprecedented opportunity to educate Congress and the American public about the role cooperatives can play in the reform debate. I, for one, was very pleased to hear President Barack Obama actually say the word “cooperative” in his September 9, 2009, health care speech to a Joint Session of Congress.

Based on the hearings and Congressional follow-up contacts with your Cooperative Network staff, I think it is more than fair to say that a number of Democratic and Republican Members of Congress have become intrigued with the idea that they could merge what they have seen as the competing interests of the health care consumer with the interests of the insurer through the cooperative form. Previously, a number of members had expressed frustration that there did not seem to be an effective way to do this.

Now the U.S. Senate Finance Committee has included a substantial cooperative section in its version of health care reform and the U.S. House of Representatives has included a cooperative provision, labeled “Small Employer Business Arrangements” or “SEBA’S” in its health care reform bill. Each bill would give a new and potentially prominent national role to cooperatives.

Before I close on this section of my address, I want to note that we are not uncritical supporters of these cooperative provisions. We hold to a vitally important position that the cooperatives must be voluntary, consistent with the first cooperative principle, and that government must not mandate the cooperative’s membership. We also hold that the cooperative must be allowed to be open and democratic consistent with the second cooperative principle and that member education must be a priority focus consistent with the fifth cooperative principle.

I also want to note more locally that we have been working closely with AgStar Financial Services and UFC in Winthrop, along with Sheffield, Olson & McQueen and Key Benefit Administrators, to create a Minnesota health care cooperative for agricultural producers and those agri-businesses whose producers depend upon for the production of food, feed, or fiber. Some of you have already met Char Vrieze who is coordinating this project for us as our newest staff member in the Saint Paul office. We have spent several years working to get this important project launched and to be sure, the state regulatory process has been complex and time-consuming. Yet, we hope to bring important news on this very important project to our Minnesota members in the very near future.

III. Communication By Cooperatives

As I just noted, *education of members* is the fifth cooperative principle and we demonstrated the critical importance of this principle this year. As cooperatives, we tend to wear what some legislators say are the “white hats” at the Capitols in Madison and Saint Paul. We do not make political endorsements, our political action committee and conduit contributions tend to be very bi-partisan, and we base our legislative arguments on sound public policy rather than partisan gain. We also, very importantly, represent large numbers of members who are legislative constituents across the two states. This gives the cooperative system a reputation for using soft power on legislative issues. There is nothing about this the Cooperative Network Board of Directors would want to change.

However, there are times when we need to use the harder power we as cooperatives also possess: That is the power of engaging our grassroots cooperative members in a significant political issue. Prior to this year, the best example of this occurred in 1995 when the Wisconsin Legislature was [preparing](#) to restructure electric utilities as had been done in California and elsewhere. The stated public policy purpose was to give consumers a choice. The reality is that some in the investor-owned utility world weren't happy with the returns being provided to stockholders. Restructuring--commonly and erroneously called deregulation--would offer the potential to diversify utilities into other businesses, many of them riskier than providing electricity to consumers. Wisconsin electric cooperatives banded together and defeated this harmful proposal. It took years, it took hard work, and it took a bit of luck. But cooperatives spared their state this public policy nightmare by mobilizing individual members and keeping them informed; by unceasing, face-to-face contact with policy leaders on all sides of the issue; and by reaching outside the co-op community to help form a broad coalition including organizations not always thought of as our natural allies. By identifying compelling common interests, cooperatives formed a working alliance with municipal utilities, [an](#) investor-owned utility, environmental, labor, and consumer organizations. This coalition earned the respect of the political and regulatory community, and whatever our differences may be on other issues, it still functions even now, fourteen years later. In the waning days of government's enthusiasm for electric restructuring, a state utility commissioner who is a strong believer in free markets and minimal regulation told a member of our association staff, "You guys have been the truth-tellers through all of this." It would be hard to think of a more gratifying compliment.

Those same cooperative communication and education skills came into play this year on another big issue. As many of you know, our Wisconsin farm supply cooperatives were faced with a very damaging proposal by Governor Jim Doyle that would have required payment of a new tax of up to 3% on fuel brought into the state. The Governor's proposal was based on his view that oil companies were making record profits from the backs of taxpayers and that some of this profit needed to be captured to reduce the state's estimated \$7 billion deficit. We were able to work with the Governor to exclude off-road fuel usage from this tax for a savings of about \$12 million per year. However, the Governor's proposal would still tax other fuel usage and we estimated the cooperative system would be required to pay about \$10-\$12 million per year in new taxes. This is roughly the amount of patronage paid by the cooperative system in the state for fuel purchases each year. In other words, cooperatives would have been paying the

“patronage” to the state rather than to cooperative members. And, it would have been a short time before the Minnesota Legislature would have been considering a similar tax.

We had to rely on all of our powers to defeat this proposal. We developed a number of new communication tools to respond to the Governor’s proposal by speaking directly to our cooperative members, including fact sheets for members and legislators, postcard contacts from members to legislators, in-district meetings between cooperative managers and directors with legislators, and television and newspaper advertising. I will note that this is the first time in our history Cooperative Network has utilized television advertising as a means of getting across a policy message to our member-owners and public officials.

The response from cooperative members was tremendous with many thousands of postcards, letters and phone calls going into the Capitol. As many of you already know, the State Assembly amended the Governor’s proposal that had been approved by the Legislature’s Joint Finance Committee in an effort to make it more palatable to cooperatives because legislators were hearing from, and responding to, the folks back home. The State Senate then killed the tax in its entirety. We were told by senior legislators and other members of the petroleum industry that “cooperatives made the real difference” and were the primary reason the Governor’s proposed oil franchise tax did not make it into the budget; the only major provision sought by the Governor he didn’t get.

These important tools may be needed in the future as issues such a global climate change and health care reform are discussed by our federal and state policymakers.

IV. Cooperation Among Cooperatives

Cooperation among cooperatives is the sixth cooperative principle and I believe that principle was demonstrated very strongly this year in the state of Wisconsin and in the State of Minnesota.

A. The Wisconsin Oil Franchise Tax Issue.

As already discussed, Cooperative Network developed a number of new communication tools to combat the Governor’s proposed oil franchise tax. However, none of this would have mattered without the active engagement of a number of cooperative sectors.

I could not have been more pleased when the Wisconsin electric cooperatives included this important issue in their Education and Lobby Day Program at the Capitol in Madison and lobbied on this issue with state legislators. WECA then included this as a cover issue in their monthly publication Wisconsin Energy Cooperative News, which reaches more than 160,000 Wisconsin homes and businesses. The four Wisconsin Farm Credit associations, including AgStar, Badgerland, GreenStone and United, included this issue in their Legislative Conference and lobbying at the Capitol in Madison. Combined with support from the Wisconsin Credit Union League, and other cooperative sectors, we created a winning coalition that was able to convince legislators that cooperatives are not “big oil” and we are essential to the economic well-being of much of Wisconsin. Truly,

together we were able to do far more than we would have been able to accomplish if only our farm supply cooperative community had worked on this issue.

This cooperation among cooperatives carried over the Wisconsin Joint Finance Committee's proposal to authorize a state demutualization process for credit unions. The new conversion process would have provided few if any consumer protections and was put into the bill in the early hours of the committee's last day of work with no notice to interested parties. We strongly objected to the process by which the provision was adopted, as well as to its lack of merit. The National Credit Union Administration has found that demutualizations generally lead to enrichment of managers at the expense of the member-owners. In support of the Wisconsin Credit Union League, the Wisconsin cooperative family actively engaged on this issue and many calls and letters were received by Governor Jim Doyle's office from cooperative members asking him to veto the provision. Governor Doyle did just that. Obviously, the bankers would have moved this issue to Minnesota if the Governor had not vetoed the provision.

B. Cooperative Day at the Minnesota Capitol.

Minnesota's inaugural "Cooperative Day at the Capitol" was a tremendous success with more than 75 cooperative representatives visiting the Minnesota Capitol on March 11, 2009, to educate state legislators on a variety of cooperative issues. Farm supply, dairy, farm credit, credit union, electric utility, senior housing, health care and other cooperative sector members joined together to make this day a real success. It has been many years since that many cooperators have gathered in Saint Paul to spend a day talking to legislators about the vitally important role we play in the state's economy. The active involvement of so many has given us the energy to continue and grow this cooperative effort and our next scheduled Cooperative Day at the Capitol will occur on February 18, 2010. We hope many of you will be there with us.

V. Cooperatives in Your Community.

As one of our new communication services, we have developed a two minute video to help explain the cooperative system to the general public. We will play it right now:

[Play *Cooperatives in Your Community* video]

Dana Kelroy has 30 copies of this video available here. Please see her if you would like a copy to play in your boardroom or on your cooperative's website.

We're eager to use these and other technologies to address important cooperative issues and we'd like to hear from you what topics it would be useful to explore.

VI. Conclusion.

This past year has been an exceptional one. With economic troubles swirling all around, the Upper Midwest cooperative system demonstrated considerable skill to not only remain financially sound, but to grow even stronger. Traumatic financial events like those experienced over the past year on Wall Street clearly distinguish between the by-

definition, selfish world of investor-owned corporations and the member-and community-focused values of cooperatives.

I wish you all a very happy Thanksgiving and thank you for participating in this year's Cooperative Network Annual Meeting.