September 18, 2020

TO: LAFCo Commissioners

FROM: Bryan Goebel, Executive Officer
Ryan Powell, LAFCo Research Associate

SUBJECT: Item 6 Presentation and Discussion on Cooperatives as an Alternative to “Gig Economy” Platforms

Today we are excited to present the report, “Cooperatives as an Alternative to Gig Economy Platform-Based Delivery Services,” by Ryan Powell, a LAFCo research associate who is a graduate student in the Urban and Public Affairs Program at the University of San Francisco.

In its recent report addressing problematic issues in the on-demand economy, the LAFCo recommended the City explore a ride-hail and delivery cooperative as an alternative to the big platform-based companies. We noted that San Franciscans clearly value these services, but that the companies’ business models are not sustainable.

The report recommends that the City facilitate the establishment of a pilot delivery cooperative while outlining many of the concerns and challenges. Further research and engagement efforts are needed, but as Ryan points out, this would be an opportunity for the City to lead the way in supporting a cooperative restructuring of “gig economy” platforms and rethinking a system that has exploited workers for the past decade.

RECOMMENDATION: Receive the report and offer feedback.

ATTACHMENTS:

-Cooperatives as an Alternative to “Gig Economy” Platforms
-Power Point presentation
Cooperatives as an Alternative to "Gig Economy" Platforms

Ryan Powell, LAFCo Research Associate

September 18, 2020
Background

• Recommendation from LAFCo to investigate how cooperatives would meet the needs of the gig economy labor force

• Ryan Powell brought on to conduct interviews and research on how cooperatives work, and what stipulations they require to operate

• Findings from UC Santa Cruz Study guided the research to focus on labor, equity, and benefits for gig economy workforce
Methodology

• Acted under the supervision of Executive Officer Goebel to understand how cooperatives could mitigate the inequities of gig economy work

• Researched the history of cooperatives, the conditions they are typically formed under, and the principles that they typically adhere to
Interviews: Courier and labor cooperatives, labor scholars, and innovators in the coop industry
How can San Francisco aid in and contribute to the success of a worker owned delivery cooperative?
History of Cooperatives

Cooperatives have historically formed to meet the needs of a workforce in their own respective era

There is a cooperative in nearly all industries in the United States

1 in 3 Americans are cooperative members

$652 B in annual sales,

$3 T in assets
Tenets of Cooperatives

Rooted in democratic participation

Rochdale Principles adopted by the International Cooperative Alliance (1937)

- Voluntary Membership
- Democratic Member Control
- Concern For Community
- Member Economic Participation
- Autonomy and Independence
- Education
- Cooperation Among Cooperatives
Models of Cooperatives

“Cooperatives are producer and user-owned businesses that are controlled by and operate for the benefit of their members, rather than outside investors.”

When we think of a typical company with the top down pyramid management structure, a cooperative is instead horizontal and focuses on equality amongst members and places an emphasis on participation.

– Melissa Hoover
Democracy at Work Institute
Models of Cooperatives

Worker ownership of businesses is applied throughout many industries: delivery, taxi-cab, agriculture, labor, grocery markets, etc.
Models of Cooperatives

Platform Cooperative

App-based cooperative that uses the internet to meet the needs and challenges of the selected industry
Findings

• Cooperatives were formed during the Industrial Revolution (1750)
• Dangerous work, under payment for labor, irregular work scheduling led to formation of the early cooperatives
• The modern era has seen a dramatic shift in labor, classification of work, and compensation for duties performed
• The “Gig economy” has revealed that the right to fair pay, access to benefits, and basic labor standards are still not guaranteed
• Cooperative principles, when applied, could mitigate the labor issues prevalent in our City
• The City has a chance to create opportunities for the members of the app-based delivery sector to take part in worker ownership
Recommendation

Establish a Pilot Cooperative

The City of San Francisco should establish a plan to develop a Pilot Delivery Cooperative. This cooperative would be run, operated, and financed by its members, but would in the initial phases be given special treatment as a business to mitigate the initial challenges.
Phase One

- Identify members within the delivery platform community who can conduct outreach and identify others who would be willing to form their own cooperative
Phase Two

• Subsidize workforce development and training for members within the cooperative

  • Administrative work, app development, subsidize consulting
Phase Three

• Utilize and promote local government agencies and offices to ensure fiscal viability in the early phases of development

  • Tax relief, protected market, partnerships, permitting, allocation of land
Conclusion

- Cooperatives as the means to tackle labor issues is a tradition in our country that has been around for hundreds of years, and by and large it’s a marked success.

- Members within the cooperative industry are excited.

- The City can take a stand for the delivery workforce and create an opportunity for equity, fair pay, and worker ownership.
Thank You

More online at sf.gov/lafco
Cooperatives as an Alternative to Gig-Economy Platform Based Delivery Services
San Francisco Local Agency Formation Commission

Ryan Powell, Research Associate

Introduction:

In 2019, the San Francisco Local Agency Formation Commission (LAFCo) commissioned a survey led by UC Santa Cruz Professor Chris Benner to better understand the experiences of so-called “gig economy” workers for the ride-hailing and food delivery sectors in San Francisco. This first of its kind survey sought to characterize the conditions of ride hail and delivery work, as well as provide a snapshot of the demographics of workers who are carrying out what has become an essential service in the current global pandemic. Within this survey’s findings were blatant examples of a workforce being left out of basic employment benefits typically extended to California workers who perform the same hours of work but under a different employment classification. The LAFCo proposed a list of preliminary recommendations to address the problematic findings revealed in the survey. Among these recommendations was one that encouraged the City of San Francisco to explore the formation of a ride-hail and delivery cooperative in order to meet the challenge of providing equitable benefits and better job security in place of existing app-based companies such as Uber, Lyft, DoorDash, Grubhub, and Instacart. What followed was a process to research, from a scholarly and occupational perspective, the benefits and challenges associated with worker-owned cooperatives. Furthermore, this research explored different types of cooperatives and elements within them that could be applied to meet the needs of consumers and businesses, as well as provide a flexible and equitable framework of employment for current delivery and ride-hail workers within the City. The research was conducted by Ryan Powell, a research associate who was part of the initial findings report presented by Dr. Keally McBride and her graduate students from the University of San Francisco, and overseen by Bryan Goebel, the LAFCo executive officer.

In order to investigate the workings of cooperatives, and which elements could translate into a working alternative to private platform based options, the research process included interviews with members and owners of courier cooperatives throughout the country, experts in labor and cooperative organizations from Rutgers and Boston College, along with cooperative platform developers. When conducting interviews, employment and labor equity issues were at the forefront of conversations, and the UC Santa Cruz findings guided the line of questioning regarding employment benefits such as health insurance, equal pay, sick pay, diversity of the workforce, and the challenges in meeting labor standards. Due to recent legislation and actions taken at the state and local levels of government, it is becoming clear that the companies in question who are contracting this under-paid workforce will not be able to meet the labor requirements designated in California. Because of this revelation it will become imperative that the City offer an alternative, or at the very least become a vested interest in one for the purpose of meeting the needs of this essential workforce.
Acknowledgements:

Margot Consadine (Manager/Courier, Cut Cats Courier Service)
Margot has been with Cut Cats Courier Service since 2012 and works as both a courier and account manager. Her experience within the organization really shed light on how a courier service could organize itself to allow for equal representation in decision making, establishing an hourly pay-scale for what is traditionally considered gig work, and allow flexible hours for its couriers.

Juliet Schor (Professor, Boston College) After the Gig
Juliet has written extensively on the gig economy. Her upcoming book, After the Gig: How the Sharing Economy Got Hijacked and How to Win It Back, served as an entry point on how the major gig economy platforms have failed promises to workers. It referred the research to Platform Based Cooperatives and where they could fit in the next era of delivery and ride-hail services.

Christopher McCleary (Founder, Candlestick Cooperative)
Christopher has been a bike courier in San Francisco for the last decade starting with Taking Care of Business (TCB), and now as a founder of Candlestick Cooperative. Our interview shed light on the relationship between courier services and the original food delivery-app Eat-24, as well as how the formation of his courier service could be supplemented by local government assistance.

Alexandre Segura (Co-Founder, Cycle COOP)
Alexandre is the founder of Cycle COOP, an open platform to help courier cooperatives throughout Europe and Canada. What started with a delivery app Take Eat Easy in Belgium failing after a dismal round of funding, Alexandre developed his app with the intention of giving cooperatives a way of connecting with restaurants and customers. Our conversation exposed the harsh realities that large platforms have on local cities as well as the effects on workers.

Douglas Kruse (Professor, Rutgers)
As a professor at Rutgers, Professor Kruse has written at length about the economics of employee ownership, profit sharing, and disability. Our conversation focused on key components that drive success within worker ownership, and it led me to other interviews that provided insights as to what generally makes a cooperative successful.

Talor Jacob (Owner/Courier, Pedal Express)
Talor has been a bike courier since 2010, and our conversation was the starting point to my research. His involvement in the Bay Area bike courier scene is far reaching beginning with TCB in San Francisco and then in Berkeley and Oakland with Pedal Express.

Melissa Hoover (Founder/Executive Director, Democracy at Work Institute)
Melissa has been a leader in expanding worker cooperatives as a means to address economic and racial inequality. As a founding member of the Federation of Worker Cooperatives, the work Melissa has
performed for the sake of cooperatives has brought cooperatives to the forefront of solutions for the current predicament that the gig economy has left upon our labor forces across various industries.

Camile Kerr [7/14/2020] (Founder, Upside Down Consulting)
Camile has been involved in worker owned organization formation for the last decade and has used her expertise in the sector to help promote the worker cooperative model over a vast array of industries. Upside Down Consulting is her organization that offers services to businesses to assist with transitioning to the cooperative model and offers help to ensure that democratic processes are applied and functioning within organizations.

Ra Criscitiello[7/8/2020] (Deputy Director of Research at SEIU-UHW)
Ra Criscitiello is Deputy Director of Research at SEIU-United Healthcare Workers West in Oakland, California, a labor union of nearly 100,000 healthcare workers. Her work focuses on the intersection of organized labor and worker cooperatives, and she has helped build several innovative employment models that collectivize the employment status of unionized workers on scale.

Trebor Scholz [7/16/2020] (Professor, The New School, Platform.Coop)
Trebor Scholz is a scholar-activist and founding director of the Institute for the Cooperative Digital Economy at The New School in New York City. In 2014, he introduced the concept of “platform cooperativism” as a way of bringing the co-op model into the digital economy.

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Models of Cooperatives

While a cooperative can be defined in numerous ways, for this report’s purpose we will use the definition found in “Research on the Economic Impacts of Cooperatives” by Deller, Hoyt, Sundaram-Stukel, et al. It highlights five potential criteria for defining purposes: “application of a statement of principles; self-identification; incorporation status; tax-filing status; and governance structure” (Deller et al, 2019). Furthermore, the United States Department of Agriculture (USDA) has a general description that will be used to guide this report: “Co-ops are producer- and user-owned businesses that are controlled by -- and operate for the benefit of -- their members, rather than outside investors. The co-op business model is highly flexible and can address a wide variety of needs (USDA, 2020).” Featured in these two loose definitions is a concurrent theme of worker ownership for the purposes of directly benefiting those who take part in the cooperative process.

These fundamental principles of worker-owned cooperatives have been applied over a large swath of industries, particularly in the agricultural and labor sectors. When we examine how worker ownership can be translated into the modern era of technology based employment, there are examples of cooperative ownership structures that exist and provide opportunities, job security, and benefits for their members.

The Platform Cooperative model will be featured in the recommendations that will follow in this report; it is undoubtedly the most comparable cooperative model to the app-based platforms at the center of this discussion. From interviews conducted over the course of the last month from members of the courier cooperative community, academics who have studied cooperatives, and key players in the
platform cooperative sector, it is apparent that a solution can exist that allows for a broad spectrum of worker-owners in the delivery and ride-hail industry. Most important to highlight, however, is that the challenges of forming a cooperative will require special attention from the local government as well as the private sector to ensure that equity, diversity, and inclusion are at the heart of the founding values for a potential cooperative to mitigate the issues surrounding gig-economy work in the coming decade.

Findings:

Historically, cooperatives have played crucial roles in meeting the challenges of the era from both an economic and social perspective. Though the intended purposes, organizations, and overall structure may vary from cooperative to cooperative, the democratic process in decision making is foundational and prevalent in most if not all worker-owned cooperatives. The role that government has played historically, with regards to cooperatives, can provide insight as to how in the current era we can incentivize and incubate cooperatives with the intention of providing equitable employment opportunities for a workforce that has largely fallen under the radar in recent years due to misclassifications by platform-based companies. By understanding the context of how cooperatives came to be formed, and what socio-economic challenges there were in reaction to, we can identify how in the modern era the cooperative model can be applied for the same purpose and aided by local governments.

The first cooperatives in America were born out of necessity when market and social conditions required outside the box thinking. As explained in a resource guide from the University of Wisconsin-Madison (Lynn Pitman and UW Center for Cooperatives, 2018), the early formation of cooperatives in the States as well as the founding principles are rooted in the European tradition of worker-owned cooperatives. In Europe between 1750 and 1850 the Industrial Revolution was changing the social landscape in which rural areas experienced a mass exodus, and the conditions in which labor was performed in industrial centered cities were deplorable to say the least (Pitman, 2018). Cooperatives sprang up in response to this dramatic shift in the socio-economic landscape, and the principles developed by a prominent cooperative in Great Britain at the time called the Rochdale Society of Equitable Pioneers are still prevalent in most worker-owned cooperatives today (Pitman, 2018).

Our modern era has also seen a dramatic shift in how labor is performed, classified, and ultimately compensated. A rampant abuse of independent contractor classifications among operators in the modern “gig economy” has led to the necessity of the state government to intervene. The passage of California Assembly Bill 5 (AB5) requires many large platform-based companies to classify this workforce as employees, making them eligible for benefits, hourly pay, and employment status. Though this law aims to force companies to offer employment status to this workforce, the companies are waging a ballot initiative to opt out of the regulations the state has put forth. This ongoing issue of labor classification and equitable job benefits for a largely underserved workforce highlights similarities during the 18th century throughout the United States and Europe. We find a labor force performing work in conditions that fail to meet their basic needs, and they experience little to no job security in performing what is deemed an essential service in light of the coronavirus pandemic. In drawing comparisons between the two eras, we can look to the cooperative model as a remedy for the issues pertaining to gig economy work and replace
the existing model that has locked the workforce out of well-deserved benefits and equitable employment standards.

Though cooperatives have been at the cornerstone of nearly all American industries, there is still push back on the utopian ideologies usually associated with cooperatives in the modern era. This push back is typically due to a lack of understanding of what a cooperative is, what it sets out to accomplish, and how it organizes itself to carry out its mission. When we distill the defining qualities of worker-ownership within the cooperative organization structure, the defining principles agreed upon during the founding of a cooperative typically seek to establish a business model that emphasizes workers’ rights, equal pay, and democratic decision making capabilities. As shown in the Rochdale Principles adopted by the International Cooperative Alliance in 1937, the principles focus on elements such as “Voluntary membership, democratic member control, member economic participation, autonomy and independence, education, cooperation among cooperatives, and concern for community” (ICA, 1937). Keeping in mind these basic tenets of cooperative formation, the role that cooperatives have played in the United States economy only furthers the notion that cooperatives are a solution and have proven time and time again to be a viable alternative to traditional business and corporate structures.

Statistics relating to cooperatives in America present a startling picture of the magnitude and impact that cooperatives have on the United States economy. A resource guide on the Independent Welding Distributors Cooperative website shows a figures that portrays cooperatives as a crucial pillar in our economy: “29,000 Cooperatives operating, 1 in 3 Americans are co-op members, cooperatives generate 2 million jobs and contribute $652 Billion dollars in annual sales and hold $3 Trillion in assets” (IWDC, 2020). When these economic figures concerning cooperatives are coupled with the founding democratic ownership principles, a much different picture of cooperatives can be observed. The cooperative structure drives opportunities for its members and, as shown in the Rochdale Principles, aims to make a lasting impact on the community in which it operates. These notions that are paramount to the operation of cooperatives could meet the challenges presented in the UC Santa Cruz study commissioned by LAFCo, because cooperatives are typically born as a response to conditions workers experience. The City of San Francisco has a unique opportunity to empower the current gig economy workforce to form its own delivery cooperative through a combination of aid, incentives, and executive directives.

From early June 2020 until the end of July 2020 the interviews conducted by LAFCo sought to understand how local government could be instrumental in the development of a cooperative or perhaps a coalition of cooperatives. What was discovered was a coalition of scholars, activists, tech entrepreneurs, organizers, and workers who all believe in the cooperative model as a solution to our current predicament posed by app-based gig-economy work, and furthermore as a method that would bring real change to a workforce being shut out from deserved benefits. The conversations held each cast light on areas in which the City can be an active participant in creating a real solution for so many people. What will follow now are recommendations that draw upon these interviews and seek to compile what was learned into a process that will advocate for community engagement, equity, and employment opportunities that emphasize the rights of this essential workforce.
Recommendation

**Establish a Pilot Cooperative**

The City of San Francisco should establish a plan to aid in the development of a Pilot Delivery Cooperative. This cooperative would be run, operated, and financed by its members, but would in the initial phases be given special treatment as a business to mitigate the initial challenges.

In order to establish a pilot program, it is important to emphasize that the City cannot be a stakeholder in the cooperative organization. Instead, the City has to take on a role that ensures that members of the targeted workforce are the decision makers, and that the initial phases can progress smoothly. When looking at the scope of the labor problems inherent in the current models of app-based work, and how a cooperative could be a solution, the City has an opportunity to set a standard for the rest of the state and country, and act as a leader in addressing social justice issues through promoting worker-owned businesses.

The first step in the pilot program is informed by our interview with Camille Kerr from Upside Down Consulting. The City should establish a task force of community organizers within the app-based delivery sector who can conduct outreach and identify potential members that would be willing to form their own cooperative. The conversation with Camille stressed the need for authenticity, bottom to top organizing, and that establishing trust is a priority during the early stages of a cooperative. These early stages of organizing would act as a means to establish what principles serve as the driving force behind being a part of the cooperative. Outside of having a living wage, access to healthcare, flexible schedule, etc., this step would allow members to establish how their business ought to be run and what being a member means.

This role that local government plays should be limited enough to ensure that members of the cooperative are at the forefront of decision making. By prioritizing the Pilot Cooperative in business related areas, the City would ensure that the focus on equity and job benefits are not sacrificed due to the initial challenges the cooperative may face. The City can also serve in an advisory role that would allow for hired counseling and business development tools that could empower members of the cooperative and allow them to compete with existing companies with large scaled platforms. This advisory approach can allow the City to look at the cooperative as an investment opportunity, but as opposed to straightforward dividends being paid back, the opportunity for workplace empowerment within underserved communities serves as the return of investment.

The next step would be to ensure that workplace development and training can be subsidized for the cooperative. This would include making available the tools for administrative tasks like payroll or budgeting but would also seek to encourage and train members of the cooperative to take on the roles themselves. Ra Criscitielo from SEIU-UHW emphasized how crucial Upside Down Consulting was in the early formation period of her staffing cooperative. By providing this service the City can go one step further and allow for growth within the organization for members to develop these types of skills for their cooperative and their personal growth.

The third step within this recommendation is to use a coalition of local government agencies and offices to ensure the fiscal viability of the cooperative in the early stages. It is imperative that the City allow for
the Pilot Cooperative to act in a way that allows it to have the capability to address labor, employment and meeting its principles, while at the same time establish a service that can compete with app-based delivery companies. In order to balance these issues, there are many areas within local government that can be amended to promote revenue streams which would allow the cooperative the ability to fulfill its established guiding principles. This isn’t saying that the local government should write a blank check. Instead the City would support a worker owned organization through existing administrative maneuvers such as tax relief, establishing a protected market through facilitation of restaurant and business partnerships, short cutting permitting, allocating land, etc. These methods of expediting the cooperatives through the initial obstacles should also include access to legal aid for taxes, LLC establishment, and general questions regarding business legal services.

This type of prioritization has existed throughout the history of business-government relations when there is a contingency to create jobs, opportunity, and community investment. The Central Market Street and Tenderloin Area Payroll Expense Tax Exclusion is a glaring example of the City expressing preferential treatment for a certain sector and making adjustments to tax law in order to incentivize businesses (OWED, 2011). Applying this logic to a cooperative, while seeking to create personal growth and empowerment among its members, would align more with San Francisco’s vision of social justice and community development in the coming decade. Utilizing these types of mechanisms would ensure that the cooperative is properly incentivized, which would establish participation early on. To ensure a revenue stream, the City can also award procurement budgets to guarantee business.

The interview with Talor Jacobs from Pedal Express highlighted that Pedal Express has contracts with the cities of Emeryville and Berkeley to deliver documents daily. This type of contract guarantees a form of revenue to a cooperative as well as ensures that a local, worker-owned organization is being prioritized to handle an essential service for the cities. Using this example as a base for procurements, the local government can also utilize partnerships with organizations like the Golden Gate Restaurant Association to create partnerships between the cooperative and small businesses that can contribute to a revenue stream, as well as form bonds between local small businesses that can be mutually beneficial.

The role that the City of San Francisco can play in ushering in a habitable climate for cooperatives can have far reaching implications, and not only for the app-based ride-hail and delivery service industries. The success of this Pilot Cooperative could serve as an example for many other industries who may necessitate worker-owned cooperatives to meet the needs of the workforce. Furthermore, this is a chance for the City of San Francisco to set an example for other cities throughout the country regarding the best way to mitigate the damage that platform companies have had on local communities and labor laws.

While conducting research that informed this report it became apparent that The Pilot Cooperative could be an opportunity for the City to put forth a program to mitigate the labor and equity issues that have arisen from platform based apps. But it is worth highlighting that this process will encounter many challenges along the way. Some concerns that were expressed in the interviews that are worth considering were tied to scaling, profitability early on, the foundational stages and the impact of strong, active participation, and that the warm relationship between local government agencies and the Pilot Cooperative must be maintained well into the future. To address these concerns the City can focus on properly incentivizing the community engagement period with space and funds while also maintaining a
formidable distance to allow for natural growth and self-determination within the delivery cooperative community. Furthermore, it is essential that following the initial stages of development, the City continues an outward support for the cooperative in both practice and policy to ensure that the community that puts itself at the front of this worker-owned business has the support of its local leaders to overcome the challenges it will face.

By considering this Pilot Cooperative recommendation, the City would be expressing its desire to move forward with a progressive and equitable shift in how local government can empower its diverse communities. When examining the current state of gig economy platforms over a broad spectrum of labor sectors ranging from ride-hail, delivery, hospitality, work-projects, cleaning services, etc. it is apparent that these labor issues are pervasive throughout the entirety of these platform based companies. Therefore the success of the Pilot Cooperative to mitigate the issues surrounding the delivery sector could usher in a new era that allows for workers throughout a multitude of labor sectors to find opportunity in organizations that allow for growth from an economic and personal perspective. For our City to lead the way in cooperative structuralization of gig economy platforms, we can rethink a system that had little notion for a labor force they have taken advantage of for the last decade.

Bibliography


