TRANSFORMING CAPITAL IN THE SUSTAINABLE FOOD MOVEMENT

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In the Spring issue, Robert Karp began to articulate the features of an Altruistic Stakeholder-Managed Economy as he sees it emerging within the Sustainable Food and Farming Movement. In this installment, he takes up the important issue of capital and attempts to point again to the promising emergence of new approaches to fostering its healthy circulation within society. In future issues, Robert will then take up the question of ownership structures and the importance of wedding a new approach to finance with a new approach to ownership within our movement.

The new economy trying to take shape in the world and in the Sustainable Food and Farming Movement clearly requires a new approach to both finance and ownership. It is one thing to decry the sale of independent organic food companies to investor groups and transnational corporations, or the industrialization of organic farms. It is another thing to understand and address the underlying financial and structural realities that produce these results. Efforts to think creatively about these issues have been hindered by the fact that our movement tends to be divided between activists who are skeptical of large businesses and large capital flows of any kind and savvy business people who are very idealistic but who are often too embedded in current economic realities to have the time, interest, or ability to conceive of significant structural changes.

From my own perspective, our task is not to eradicate capitalism, globalization, or even corporations, for that matter, but rather to *transform* these realities from within, to learn how to bring them to a point where they serve human ends, rather than human beings serving their ends. Accomplishing this task, however, is going to take a more profound level of cooperation among the various players in our movement and a deeper rethinking of economic assumptions than we have yet to practice. Only in this way can we meet the challenges posed by the increased cooperation and economic integration among those in our society who do not, or do not *yet*, share a set of altruistic social, ecological, and economic values.

Regarding financial capital, historical solutions to the problem of its concentration, misuse, or lack of widespread availability have generally taken three forms. One solution has been to place responsibility for it entirely in the hands of the state. Another has been to trust entirely the wisdom of the marketplace and the economic virtues of individuals to manage capital. And the third, most common at the present, has entailed a combination of these two: private ownership of capital tempered by government regulation, taxation, and redistribution of wealth.

In an Altruistic Stakeholder-Managed Economy, however, another alternative emerges, which is the formation of altruistic financial entities that make available grants, loans, and equity investments to businesses and non-profits that are delivering significant social and environmental benefits to their communities. These non-governmental financial entities, while paying attention to the bottom line, are primarily focused on maximizing these social and environmental returns rather than on maximizing the financial returns for their investors. As idealistic as this may sound, there are actually quite a number of such entities now in existence, which have begun to be loosely referred to as social finance organizations (SFOs).[1] Below are a few examples:

• **ShoreBank**, a vibrant financial institution with banks and affiliated non-profits in over half a dozen communities in the United States and nearly 5,000 individuals, corporations, and non-profit organizations supporting its work as depositors. ShoreBank focuses its wide array of investment, lending, and technical support services on businesses and organizations working to create strong, sustainable communities from a social, economic, and environmental point of view.[2]

• **RSF Social Finance** is a non-profit social finance service organization with over 100 million in assets. It serves investors, borrowers, donors, and grant recipients through its social enterprise lending and philanthropic services programs. Investors earn a consistent return on money loaned to non-profit and for-profit organizations. RSF serves donors through grant-making services and grants, both nationally and internationally, to charitable tax-exempt organizations.[3]

• The **Calvert Social Investment Fund**, which pools money from a wide array of individuals and institutions who are willing to place capital on softer terms to finance affordable homes, fund small and micro-businesses, and make available essential community services. The Calvert Foundation describes its broader objective as creating "community investment as a new asset class in the financial services industry."[4]

• **Local Initiatives Support Corporation**, a national non-profit organization that provides capital, training, and technical assistance to local community development corporations (CDCs), of which there are some 3,600 across the country. CDCs are small non-profit, community-controlled business development organizations dedicated to the revitalization of poor neighborhoods. They undertake physical revitalization, particularly of housing, as well as economic development, social services, and organizing and advocacy activities.[5]

• **Community Development Venture Capital Alliance**, a network of over sixty funds around the country that use equity capital, as well as entrepreneurial and management assistance, to promote economic development and job growth in economically distressed communities.[6]

• The **North Country Cooperative Development Fund**, a cooperative financial intermediary that gives loans to consumer- and worker-owned cooperatives and cooperative housing projects, using the financial strength of the cooperative movement and many other socially motivated institutional and individual investors.[7]

• The **Investor's Circle**, a network of angel investors, professional venture capitalists, foundations, philanthropic investors, entrepreneurs, and others who are "using private capital to promote the transition to a sustainable economy." Investor's Circle has helped a number of companies in the organic and natural food sector and is currently working to put together a special fund focused on early stage food companies.[8]

• **New Profit Inc.**, a "venture philanthropy" organization, which uses funds from a wide array of individual and institutional donors to invest in a small portfolio of innovative social change organizations.[9]

• **Capital Missions Company**, which works to create networks of investors, business leaders, and philanthropists who work together with visionary thinkers and practitioners to catalyze sustainable economic development.[10]

While none of these entities and efforts are yet functioning at a scale or with a focus that will profoundly impact the Sustainable Food and Farming Movement in the short term, they do bring to expression, in a very modest way, the potential of an Altruistic Stakeholder-Managed Economy in the domain of finance. They represent, I would suggest, the beginnings of where we need to be turning as a movement if we do not wish the good work of the last thirty years to be turned into simply another commodity within our current economic system.

Underlying these financial entities are three tacit ideas that go well beyond the concept of socially responsible investing—three ideas that I believe need to become more and more explicit and conscious for the sake of the health of our society and our movement. The first idea is that the surplus value generated by the economic life of society can ultimately be administered the most wisely and to greatest social benefit by creative, altruistic individuals and organizations acting together in free partnerships, rather than by the government programs designed to re-distribute wealth. I hope to elaborate further on this idea in a future essay.

The second idea, closely connected to the first, is that there is great power in forming real relationships between the providers and recipients of capital. Just as we need grocery stores that connect rather than separate producers and consumers, so we also need social finance entities that work to connect, rather than separate, lenders and borrowers, investors and companies, and donors and recipients, so that along with financial resources can flow the wisdom of relationships and community.

The third idea, which I will elaborate on further as it is so essential to the emergence of an Altruistic Stakeholder-Managed Economy, is that financial capital should be stewarded and managed primarily for the purpose of bringing forth new economic, social, and cultural values rather than for securing profit for the investor or lender. In other words, we need an approach to finance that gives lenders and investors modest returns while bringing their capital into widespread circulation on behalf of altruistically minded ventures. Why is this? Why is it best for the economy and for society if investors and lenders do not seek to profit to the highest possible degree from their financial resources? A good place to start might be to ask ourselves: what really is capital, how does it arise, what is its role in the world? Drawing freely on the ideas of Rudolf Steiner, let me venture a few thoughts on this far-reaching topic.

To address these questions it may help to first look at the role capital plays when it is made available to others in the form of investments, loans, gifts, and grants. Here is revealed the profound connection between financial capital and human creativity. How would children develop without the freely given support of their parents, which is in truth a kind of gift and investment in the future? How would any new business get started by anyone who was not already wealthy, unless someone gave an entrepreneur a loan or partnered with him or her as an investor? How would most non-profit organizations carry out their work without at least some form of gifts or grants? Certainly most of us can recognize that the health of a community or society depends on the degree to which its members have the opportunity to develop their inherent creative capacities. What is less recognized is the role that financial capital, in the form of investments, loans, and gifts, plays in this process.

From this perspective, capital, shared widely and *wisely* through finance and through gifts, is like the yeast in the dough of the body social, the ferment that makes it possible for human beings, regardless of their racial, cultural, or class backgrounds, to have the opportunity to develop themselves and realize their gifts and creativity. It is thus through the widespread availability of capital, wisely administered, that our society can ensure the long-term health of the economy as well as the long term vibrancy of the culture as a whole. This reality is being modestly demonstrated at this time in the developing world through the micro-credit movement.[11] Rudolf Steiner described it this way:

> Whatever a person's situation in life, it is in his interest that nothing be lost of what flows from the sources of human nature in the form of individual abilities, by means of which the goods are produced that purposefully serve human life. The development of these can only ensue when their possessors are able to activate them with their own free initiative. The welfare of mankind is, at least to a certain extent, deprived of whatever is not able to flow from these sources in freedom. Capital is the means by which such abilities are made effective for wide areas of the social organism.[12]

With these ideas in mind, we can begin to form a picture of the healthy circulation of capital in a society as follows: through the creation and efficient exchange of goods and services, surplus value (profit) naturally arises. Here it is important to note that this surplus value arises even among companies that are not externalizing their social and environmental costs. In other words, we need not think of the origin of surplus value as having anything to do, intrinsically, with the exploitation of workers or of nature, which is not to say that some or even most of the surplus value in our current system is not created this way. The real source of surplus value lies in the abundance of nature and of human culture and the efficiencies created by the division of labor that bring people selflessly together to invent, produce, and distribute goods and services that are needed by others.

When this surplus value comes to rest in sufficient quantities, it forms what we call financial capital. This is money that has been freed from its original relation to the goods, services, and means of production from which it arose and can thus be deployed for new purposes. In a healthy economy, this capital begins a new cycle of movement, moving from accumulation to distribution and consumption, ideally in the following ways:

1. Some of the capital is reinvested in the business or company where it first accumulated for the sake of its own growth and development;

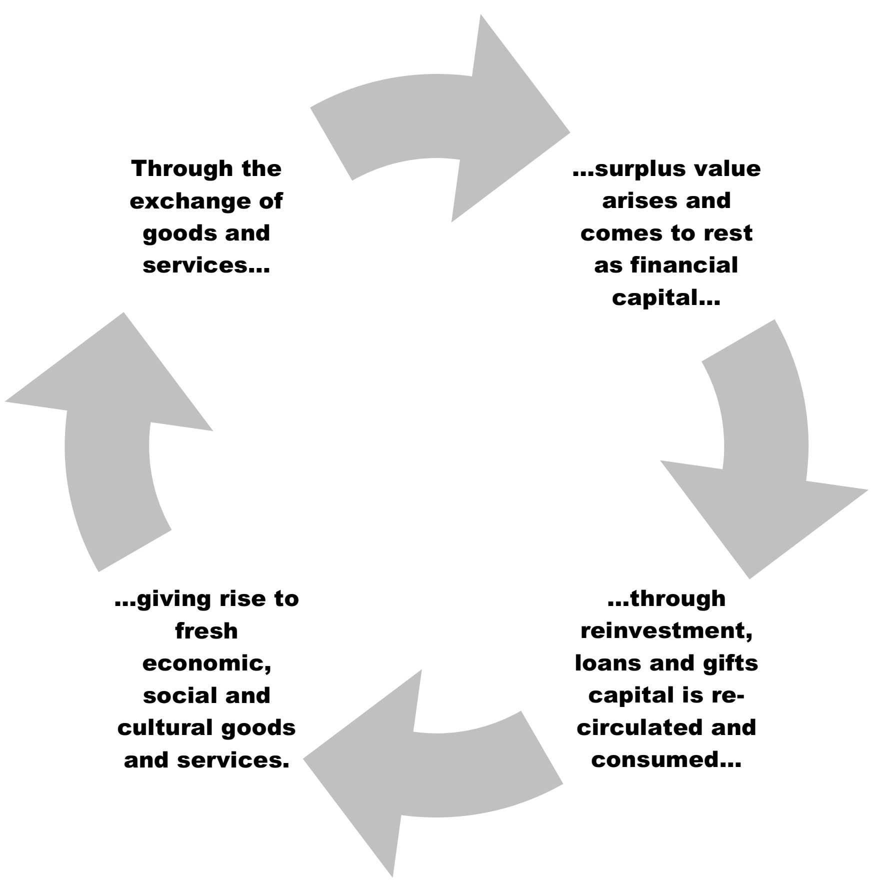
2. Another portion becomes available for loans and investments to help other creative ventures grow or get started;

3. And finally, another portion becomes available for those cultural and educational activities (including, for example, the retraining of workers) that require gifts for their development and sustainability, but which ultimately support the economic life, too, through the human capacities and community assets that are fostered thereby.

When accumulated capital passes back into circulation and is used up in this way, new productive activity arises, which naturally leads to further capital formation. Thus we can think of a kind of ideal circulation of capital in a healthy economy as portrayed in the diagram below.

This capital flow already happens quite naturally to a degree within our current economy—for example, when individuals and companies put their surplus money in banks, which in turn use it for lending purposes, or when individuals and companies form charitable foundations or make charitable gifts. This healthy flow is nonetheless continually hindered by a host of policies, habits, and structural realities that foster a very different kind of relationship to capital. While space does not permit me to elaborate upon this fact, the end result is that much of the surplus value in our society is not in healthy circulation, but rather is tied up in investments (in real estate, stocks, commodities, insurance, pensions, and securities, as well as in money itself) that are to a large degree not producing new economic, social, or cultural values. And much of the "gain" made on these investments is purely speculative in nature rather than being a reflection of real economic productivity. The government, in the meantime, is left to address the social diseases created by this lack of a healthy circulation of financial capital in society, a task which it simply cannot do effectively—any more than a government can produce and circulate food effectively, as we learned from communist Russia.

What we can learn from considering the diagram of an ideal flow of capital is that it is in the creation and exchange of



actual goods and services that we should seek the healthy accumulation of surplus value in society. The zealous profits made on investments themselves, on the other hand, have the effect of restricting the healthy movement of capital, which, in turn, fosters economic disparity between those in society who have access to the appreciation of capital values and those who must subsist purely through their labor and intelligence. Investments, loans, and gifts thus do the most good when they are offered as freely and as affordably as possible and as directly to the individuals and businesses receiving them as possible. Then capital can circulate as widely as possible and be taken hold of as creatively as possible, letting the true return on investment (ROI) arise from the social, cultural, and economic benefits generated thereby.[13]

This is not, of course, an argument for making precious sums of capital available to anybody or everybody without cost or without the due diligence and relationship building required to ensure there is a good chance it will be used wisely. It is, however, an argument for monetary policies and a monetary system that fosters and rewards capital circulation rather than capital accumulation and stagnation. Rudolf Steiner had a wealth of innovative ideas in regard to such monetary policies, some of which are beginning to emerge in the complimentary currency movement but which need to find their way, eventually, into the mainstream. It is also an argument for socially-minded businesses, institutions, foundations, consumers, and other stakeholders to come together as SFOs to facilitate the healthy formation, distribution, and consumption of capital in society.

Just as we need stakeholder groups working together to intelligently harmonize the production, distribution, and consumption of goods and services out of practical, grassroots economic insights, so we also need stakeholder groups to work together so that capital can be responsibly generated and wisely distributed based on shared insights as to where, at any given time, there is a greater or lesser need for investments, loans, or gifts. Only in this way can capital begin to act as the social ferment for which it is destined. In the present, these processes are rarely coordinated, which is one of the reasons why our movement is so fragmented and under-capitalized.

These ideas about the healthy circulation of capital should sound familiar to those involved in the Sustainable Food and Farming Movement, which is ultimately based on the idea of building up the health of the soil through the proper recycling of animal manures and plant residues. This soil-building cycle on the farm finds its perfect complement in the community-building cycle that needs to be set in motion through the wise, conscious "recycling" of surplus value in society. I believe our movement would do well to put some considerable focus on this community-building cycle, as we are clearly suffering from a lack of capital on at least three important levels:

1) While we have been growing exponentially in the number of food service outlets, retailers, and consumers wanting sustainable and organic food, we have not been growing sufficiently at the farm level to be able to meet this need while maintaining appropriately sized farms and genuinely humane and ecological farming practices.

There is thus an urgent need to find the capital to properly invest in the farm level of our movement and in those organizations, partnerships, and associations that are focused on carrying out the following activities:

- Training new and existing farmers,
- Organizing and facilitating farmer cooperatives and marketing associations,
- Facilitating associative relationships between farmer groups and trader and consumer groups,
- Helping researchers and farmers carry out ongoing agricultural research and demonstration projects, and
- Acquiring and holding in trust farmland and farm equipment so that these costs can more and more be removed from the farm economy and from individual farmers (more on this in a later installment).

2) We also lack enough capital, provided on affordable enough terms, for our food businesses working at the product development, processing, and distribution links of the food chain, so that new ventures can get started, so that small companies can become mid-sized, mid-sized companies can grow larger, and so on, while also maintaining their independence and integrity. If we ask the question of why our large companies are selling out to multinational corporations, the simplest answer, I believe, lies in the lack of available capital for the growth of these companies, as well as a form of capital that does not seek total ownership or control of the company.

3) We also lack sufficient investment in the retail and consumer end of our movement, so that we can begin to engage consumers more actively in the food system, expand other "local food" organizing efforts, and foster the development and expansion of independent and cooperatively owned retailers in our movement, especially those willing to work on an associative basis with consumers and suppliers.

While as a movement we are not yet in a position to change many of the macro-economic structures and government policies that result in the lack of available investment, loan, and gift capital in our movement, we are in a position to begin to articulate and promote a vision of capital and capital circulation that is in harmony with the rest of our movement. And we are in a position to begin in earnest to start to grow a host of SFOs at the local, regional, and national levels of our movement. These organizations could tap the immense sources of wealth and idealism in our society on behalf of our vision for the future. And this in turn could allow us to form common cause, on a practical level, with a host of other movements and the organizations serving those movements.

Indeed, there could be no better time for this effort. Experts have predicted that in the next fifty years there will take place the largest inter-generational transfer of wealth in the history of this country.[14] This event has the potential to transform society in many positive ways as this capital comes into the hands of idealistic individuals who can recognize the need to bring this stagnant capital into greater circulation in order to generate new social, cultural, and economic benefits. In my next installment I will address how, through transforming our approach to ownership, these new SFOs could function in close partnership with businesses and other stakeholders to ensure the long term health and sustainability of our communities.

NOTES

1. See, for example, Laury Hammel and Gun Denhart, *Growing Local Value: How to Build Business Partnerships that Strengthen Your Community* (San Francisco: Berrett-Koehler, 2007), 38.

2. For more information, see Shorebank, http://www.shorebankcorp.com/bins/site/templates/default.asp (Mar. 2007).

3. For more information, see RSF Innovations in Social Finance, http://www.rsfsocialfinance.org/ (Mar. 2007).

4. For more information, see Calvert Foundation, http://www.calvertfoundation.org/about/index.html?source= (Mar. 2007).

5. For more information, see Local Initiatives Support Corporation, http://www.lisc.org/section/aboutus/ (Mar. 2007).

6. For more information, see Community Development Venture Capital Alliance, http://www.cdvca.org/ (Mar. 2007).

7. For more information, see North Country Cooperative Development Fund, http://ncdf.coop/ (Mar. 2007).

8. For more information, see Investor's Circle, http://www.investorscircle.net/ (Mar. 2007).

9. For more information, see New Profit Inc., http://www.newprofit.com/ (Mar. 2007).

10. For more information, see Capital Missions Company, http://www.capitalmissions.com/ (Jan. 2007).

11. See, for example, Phil Smith and Eric Thurman, *A Billion Bootstraps: Microcredit, Barefoot Banking, and the Business Solution for Ending Poverty* (New York: McGraw-Hill, 2007).

12. Rudolf Steiner, *Towards Social Renewal: Rethinking the Basis of Society* (Herndon, VA: SteinerBooks 2000), 96.

13. The irony here is that if one were to examine more deeply the drive for the acquisition of wealth by individuals, one would discover that what is genuine in it is the desire to capitalize one's own creative development, this being, for example, the ultimate purpose of leisure. For the economy to be healthy however, self-capitalization must more and more be replaced by altruistic financial organs that facilitate our ability as a society to capitalize one another's gifts, talents, and creative impulses.

14. John J. Havens and Paul G. Schervish, "Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy," available at http://www.bc.edu/research/swri/meta-elements/pdf/m&m.pdf (Mar. 2007).

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