

2017 The State of the Co-op Economy



By Brent Hueth

In the Fall 2017 issue of the *Cooperative Business Journal*, I provided preliminary estimates of economic activity attributable to cooperative businesses using a new commercial data product. I also discussed the status of efforts to add a question to the 2017 Economic Census as means of improving identification of cooperative businesses, and of developing capability for “official” reporting on the sector by the U.S. Census Bureau. This article provides an update on both efforts and discusses questions regarding defining criteria for the sector in future years.

As I noted last year, this reporting is important because none of the 13 federal agencies comprising the U.S. Federal Statistical system currently report statistics on the economic activity of cooperatives.¹ Lack of data to describe and track the incidence of cooperative businesses severely limits opportunities to assess existing and future policy initiatives designed to support their development and operation.

First, a brief caveat regarding measurement of growth (or contraction) in sector-wide economic activity. Numbers reported in this article are *not*

directly comparable with reporting from last year. Tracking change across years requires consistent application of criteria for defining the relevant population of firms in each year and, as I explain below, we have not settled on a single criteria for defining the population of “cooperative” businesses. We anticipate evolution of relevant criteria as we learn from analysis of historical microdata at the U.S. Census Bureau,² and from responses to the 2017 Economic Census (which contains a new question designed to improve identification of the sector).³ By this time next year, we hope to benchmark our current estimates of sector-wide

1 The U.S. Department of Agriculture’s Cooperative Programs administrative unit (formerly, Cooperative Services) within Rural Development collects data and reports on activities of farmer cooperatives, but is not listed as an agency of the Federal Statistical System. See, [Statistical Programs of the United States Government, Office of Management and Budget, 2017](#).

2 The term “microdata” generally references data reported at the level of individual persons, households, or firms. Such data are often subject to “restricted access” provisions intended to protect the identity and privacy of person or entities represented in the data. In last year’s CBJ article, we discussed our work on cooperatives using Census microdata accessible to us through the [University of Wisconsin Federal Statistical Research Data Center](#).

3 The interested reader can [browse pdf versions](#) of the forms used by the Census Bureau to conduct the 2017 Economic Census (actual forms are completed electronically at a secure web portal). There are two forms for each of 819 industry sectors, one designed for single-unit establishments (SU forms), and another for individual establishments of multi-unit firms (MU forms). The co-op identification question is Item 26 in the SU form, and Item 3 in the “[company organization survey](#)” (which requests firm-level information and has a common structure for all MU firms).

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establishment counts and employment against comparable data for 2015 in the U.S. Census Bureau's [Longitudinal Business Database](#), and then to report in 2020 using data from the 2017 Economic Census.

Cooperative economic activity in 2017

In comparison with our 2007 project, [Research on the Impact of Cooperatives](#) (REIC), where we reported at *firm* and *establishment* levels, 2017 data includes information at the establishment level.⁴ We are using the conceptual framework (firm/establishment) that the U.S. Census Bureau and Bureau of Labor Statistics use for the purpose of reporting on business and employment dynamics (and at the Bureau of Economic Analysis for national income and product accounting). For the 2007 REIC study, we reported 29,284 cooperative firms and 72,993 establishments with housing cooperatives accounting for nearly 10,000 of those establishments. Using our new 2017 data, we report more than 64,000 establishments, *excluding*

housing cooperatives. The source data and [collection methodology](#) for REIC was quite different from the approach we use here. Comparing numbers across these two snapshots (taken a full decade apart) is therefore problematic; nevertheless, we are encouraged by the general level of agreement.

Last year, using the same data sources we use here, but for calendar year 2015 (we did not have access to 2016 files at that the time of reporting), we reported an estimated 39,594 cooperative establishments employing 648,181 people. A large part of the increase from last year's reporting (using 2017 data we now report upwards of 64,000 establishments and more than 853,000 jobs) is attributable to a change in our search and filtering criteria for selecting cooperative establishments from among the roughly 15 million records in our source data. In particular, for any establishment identified as a cooperative through search directly on company name, we now assume that associated "parent" and "subsidiary" establishments are also cooperatives (we did not make this assumption last year). The substantive basis for making this new assumption should, perhaps, be extended further to include all "child" establishments for parent companies identified as cooperative (through search on company name).⁵ Preliminary analysis

COOPERATIVE ECONOMIC ACTIVITY, 2017



64,000+ ESTABLISHMENTS

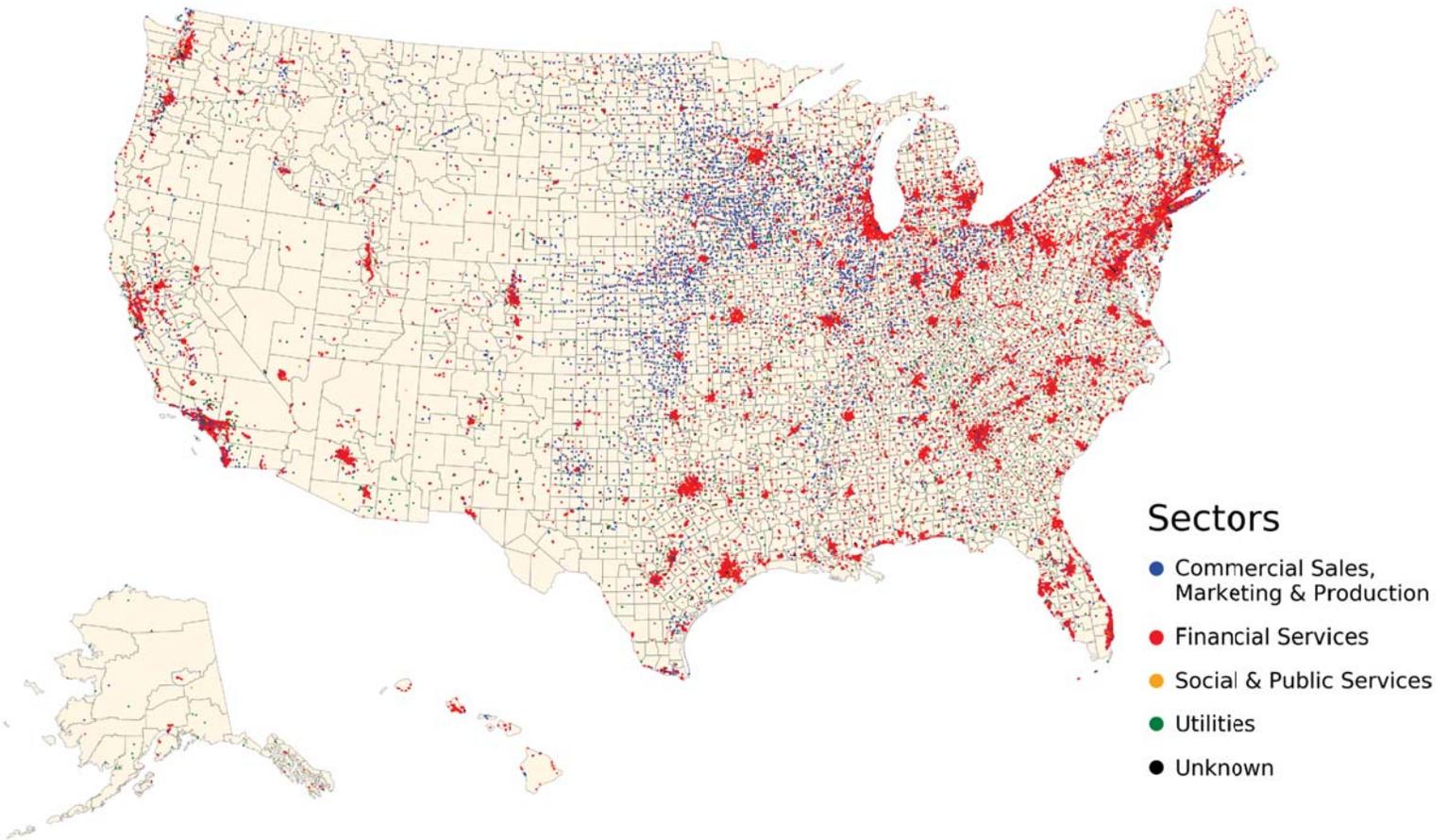


853,000+ JOBS

4 According to the [U.S. Census Bureau website for its Business Dynamic Statistics](#), an establishment is a fixed physical location where economic activity occurs. A firm may have one establishment (a single-unit establishment) or many establishments (a multi-unit firm).

5 For example, the cooperative, Growmark, Inc., is listed in our data as the "parent" company for over 1,000 subsidiary and branch establishments, some with company names indicating that the branch or subsidiary establishment is itself a cooperative (e.g., Cooperative Grain & Supply), but others with names having no such indication (e.g., Agri-Visor, LLC). The search and filtering approach we are now using identifies Growmark, Inc. as a cooperative because it is the parent company for Cooperative Grain & Supply, but it does not recognize Agri-Visor, LLC (because we do not automatically recognize as cooperative all branch and subsidiary locations of a parent company identified as cooperative). Further complication arises when considering the economic activity at establishments that are owned and controlled by cooperative businesses, but that are not independent cooperative businesses themselves. Winfield United, LCC is a wholly-owned subsidiary of the Land O'Lakes cooperative, and Cenex retail outlets are often listed as stand-alone businesses owned by a cooperative business (CHS, Inc., or a local member of CHS). Lastly, how should we count the activity of independent businesses that are members of a business-to-business "purchasing" cooperative (e.g., member owners of Wakefern, Restaurant Supply-Chain Solutions, or the Veterinary Cooperative)? For such a cooperative, it might at first glance seem appropriate to count only activity within the business itself (excluding activity at each member's location, if member businesses are not also cooperatives) as a measure of its contribution to economic activity. However, this count is too low if members' profitability (or even viability) is enhanced through participation.

Cooperative Locations: Sectoral Composition



There are now more than 64,000 cooperative establishments across the U.S. Map: University of Wisconsin-Madison Center for Cooperatives

suggests that this extension could at least double the total count for cooperative establishments.

Cooperative enterprise in federal statistics

Federal statistical agencies responsible for tracking business activity in the U.S. economy produce summary data aggregated over a wide range of categories reflecting the interests and needs of data users. Among these categories is Legal Form of Organization (LFO). Table 1 reports 2016 establishment counts and payroll by each LFO category for all business establishments that report positive payroll. During 2016, there were 7.8 million business

Table 1: Business establishments and payroll by Legal Form of Organization (LFO), 2016.

Legal Form of Organization (LFO)	Establishments (number)	Paid employees (number)	Annual payroll (million)
Corporations	2,114,076	55,545,767	3,363,493
S-corporations	3,251,536	33,631,600	1,405,231
Individual proprietorships	899,679	4,749,707	157,784
Partnerships	883,952	14,926,406	682,046
Non-profit	583,712	16,045,284	715,470
Government	3,369	1,307,887	81,679
Other noncorporate	21,483	545,587	29,439
Total	7,757,807	126,752,238	6,435,142

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establishments employing 127.7 persons and paying 6.4 trillion in wages and salary. Information about multi-establishment firms is available only during Economic Census years. During 2012, the year for the most recent Economic Census, approximately 170,000 multi-unit firms controlled 1.8 establishments.

The 2017 Economic Census includes, for the first time, a question aimed at helping to identify cooperative businesses.

The [North American Industrial Classification System \(NAICS\)](#) is another common set of categories used for aggregate reporting on the economy. This system was developed for the purpose of classifying economic activity in terms commonly observed groupings of inputs and outputs operated under a single ownership structure. To make sense of economy-wide data encompassing millions of individual business locations, it's important to have some well-defined rationale for reporting on groups or categories of firms and establishments. NAICS, for example, facilitates comparison of within-group productivity differences across firms because it groups firms according to common sets of production activities. There are many other informative ways to classify economic activity, and some reclassification can be achieved by combining existing NAICS categories to produce new "satellite accounts" for particular interest areas. See, for example, BEA reporting on [Arts and Culture](#), [Health Care](#), [Outdoor Recreation](#) and [Travel and Tourism](#). In some cases, however, new classification and reporting may require new data collection. This is the case for franchising arrangements. These cut across nearly all NAICS categories, and there are no indicators for franchising in administrative data. With growing prominence of the franchise model in the 1990s and early 2000s, the Census Bureau adapted its 2007 Economic Census to [measure franchising activities](#) directly.

Relative to these efforts, measuring the activity of cooperative businesses is especially challenging, because there are no existing administrative

data (e.g., tax or incorporation status), or easily measurable attributes, that definitively indicate that a given business is in fact a "cooperative." Indeed, in my personal experience, members and business professionals inside the community of cooperative businesses can disagree about the set of business practices that truly merit the "cooperative" label.

The next section elaborates on challenges with economy-wide identification of cooperative businesses for the purpose of measuring their overall contribution to the U.S. economy.

Identifying and measuring cooperative business activity

Wikipedia (as of September 6, 2018) defines a cooperatives as "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise."

This may be a reasonable definition, but it does not serve well as criteria for systematic identification of cooperative businesses at an economy-wide level. In my previous CBJ article, I suggested several possibilities for measurable criteria: incorporation status; self-identification; tax-filing status; adoption of a cooperative statement of principles; and governance structure.

There is no single definition or criteria that will be perfect for everyone. As a professional economist, I am most interested in businesses that are governed by member-users. There are many formal organizations in the economy that exist not because an entrepreneur seized on an opportunity to earn profit, but rather because a group of people wanted or needed something that "the market" wasn't providing at all, or was providing inadequately.

However, member-user governed enterprise encompasses a broad range of activities that others may not consider as "cooperative." These activities includes those of clubs and associations, religious organizations, partnerships and worker collectives and fraternal societies, in addition to more traditional forms of cooperative enterprise such as farmer supply and marketing cooperatives, credit unions, mutual insurance companies, consumer-owned

Table 2: Key Dates in Conduct of the 2017 Economic Census Timeline

February 2018	March 2018	May 2018	June 2018	July 2018	September 2019	December 2021
Classification Initial Mail	Classification Due Date	Census Main Mail	Mail Due Date	Mail Non response Follow-up Operations	Data Releases Begin	All Data Releases Complete

retail and utility cooperatives. The National Center for Charitable Statistics maintains a classification of nonprofit entities, many of which fit the member-user-governed criteria, for example.

So far, measure of the U.S. cooperative economy excludes much of the nonprofit sector, and does not count Employee Stock Ownership Plans (ESOPs) or housing cooperatives. Work remains to develop a consensus classification scheme that is meaningful for developing comprehensive measurement of the cooperative economy.

The 2017 Economic Census and beyond

The 2017 Economic Census includes, for the first time, a question aimed at helping to identify cooperative businesses. The question reads as follows:

A cooperative is a business or organization owned by, controlled by, and operated for the benefit of members using its services. Members (also known as user-owners) can be individuals or organizations, and benefit from the use of services, products, and/or earnings generated by the co-op. This includes purchasing co-ops, member/patron organizations, member-controlled non-profits, consumer co-ops, marketing co-ops, or worker co-ops. Is this company a cooperative?

Table 2 indicates the target timeline for completion of the 2017 Economic Census, and subsequent data reporting.

We anticipate that the majority of survey respondents will answer this question in a manner consistent with the way most readers of this article would expect them to; however, we also expect the question will surface new potential cooperatives that

we may or may not want to include for the purpose of reporting on the sector as a whole. We look forward to continuing to build and refine reporting on cooperatives with these and other data.

Critical to our efforts will be the support and collaboration of cooperative leaders at the National Cooperative Business Association CLUSA International, the National Council of Farm Cooperatives and various federal agencies with relevant expertise, including—most importantly—the U.S. Department of Agriculture and Census Bureau. In addition to contributing shared advocacy on the importance of this data collection and reporting, we must establish criteria to define the sector that are conceptually sound and feasible for the purpose of economy-wide reporting. 🌱

Brent Hueth is Associate Professor of Agriculture and Applied Economics at the University of Wisconsin-Madison where he directs the Center for Cooperatives and Federal Statistical System Research Data System. His teaching focuses on cooperative organizations, agricultural markets and applied microeconomics.

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