

## BULLETIN

### THE ROLE OF COOPERATIVES IN COMMUNITY DEVELOPMENT

BY  
KIMBERLY  
ZEULI



University of Wisconsin  
Center for Cooperatives

230 Taylor Hall  
427 Lorch St.  
Madison, WI 53706  
Phone: (608) 263-4775  
Fax: (608) 262-3251  
[www.wisc.edu/uwcc](http://www.wisc.edu/uwcc)

**P**olicy makers and community developers are increasingly interested in alternative models for local businesses that will be both responsive to community needs as well as stimulate local economic growth. The cooperative form of business should be an obvious choice. Cooperatives have the potential to foster economic growth at the community and regional level, building on the spirit of cooperation that is already prevalent in rural areas.

With local ownership and control, and net profits distributed to those who use the cooperative, cooperatives are considered by some to be an ideal model for local economic development. The structure and objectives of cooperatives compel them to behave differently in their communities than businesses with other organizational structures. In addition, cooperatives offer a way for a group of individuals to pool their limited resources to achieve a critical mass. Cooperatives combine people, resources, and capital into larger, more viable and economically competitive units.

As direct federal assistance for rural development declines, the potential for locally owned cooperatives to play a more vital and direct role in rural economic development increases. This potential was recognized in the provisions of the last two farm bills, which authorized substantial financial allocations for a rural cooperative development program. Cooperative developers have also acknowledged this potential and in 1994 adopted the following principle for their profession: “Cooperatives are development tools and should promote both social empowerment and economic goals.”

## *New Community Development Approaches*

In the narrowest sense, community development involves increasing the number or quality of jobs so that individual and aggregate income expands. In recent years it has become common to use an expanded definition of economic development that includes various quality of life measures of residents over time. The use of a broader economic development definition has led to a shift in development strategies. As the negative consequences of some industrial recruitment cases have become clear,



*The Augusta Farmers Co-op Elevator  
in Eau Claire, Wisconsin.*

communities have begun to reconsider their economic growth programs. While most cities and counties continue to recruit firms from outside their trade regions, they are also increasingly prone to implement a business retention and expansion program and a systematic effort to stimulate the formation of new, locally based entrepreneurial firms.

Agricultural and rural utility cooperatives are common in many rural areas in the US, proving the success of the cooperative model in this setting. Housing, consumer, and other service co-ops, however, are somewhat rare. Although farmers will often look to the cooperative as a model for new business ventures related to the farm, they and other rural residents too often ignore it for non-farm business opportunities.

## *Strengths of the Cooperative Model*

*Community Interest:* From a local development perspective, a critical feature of the cooperative model is that it can be owned and controlled by community residents. Therefore, a cooperative is more likely to be interested in promoting community growth than an investor-owned firm controlled by non-local investors. Since community residents control the firm they can ensure their own objectives are met, and not those of people who live elsewhere.

*Flexible Profit Objectives:* Cooperatives do not have to be concerned about generating high profit values for stockholders. Their objectives are set by their members and often focus on providing services rather than on maximizing overall profit for the business. Many non-agricultural cooperatives, for example, are created to serve a local need, not to generate profits. Investor-owned firms can be under considerable pressure to grow as fast as possible, often outgrowing their community and relocating to a location where the supply of labor is larger and other inputs can be more easily obtained.

*Financial Advantages:* Cooperatives are eligible to apply for loans and grants from a number of federal and state agencies designed to support cooperative development. These can provide significant sources of low cost start-up and operational funds for the cooperative business. In addition, other non-governmental financial intermediaries such as co-op banks provide relatively low cost loans to cooperatives. Cooperatives can also benefit from significant tax advantages. Finally, cooperatives may also be able to take advantage of lower labor costs, as members may be willing to contribute labor instead of capital as a form of investment in their business.

## *Quantifying the Economic Impact of Cooperatives*

Unfortunately, very few studies have attempted to measure the economic impact of cooperatives at either the state or local level, which means their contribution to economic development has not been well quantified. Staff at the University of Wisconsin Center for Cooperatives (UWCC) recently completed a study that provides some quantitative measurement of the economic impact of cooperatives (both agricultural and non-agricultural) in the state of Wisconsin. Financial data for 1999 was collected from 798 cooperatives (all of the known cooperatives in the state at that time). For the complete findings, please see “The Economic Impacts of Cooperatives in the State of Wisconsin” (2002).

Wisconsin cooperatives represented a total of 2.7 million members and reported \$5.6 billion in gross sales for 1999. It should be noted that credit unions contributed the majority of that figure, \$698 million, with an additional \$73 million from farm credit associations. The cooperatives generated \$227 million in net profits, of which they returned \$323 million back to members in the form of cash patronage refunds and dividends.

The cooperatives reported nearly \$13 billion in assets and almost \$11 billion in liabilities. They employed 17,413 people full-time and 6,021 people part-time.

The cooperatives reported paying \$583 million in salaries and wages and almost \$80 million in benefits to their employees in 1999. They paid \$64.5 million in federal, state, and local taxes. Cooperative businesses do not pay federal or state income tax on net profits allocated to members as patronage refunds, although they do pay income tax on net profits earned from non-member business and/or net profits retained as unallocated equity (i.e., not returned to members). It

should be noted that the tax figures reported in the study are probably low, since only 30% of the cooperatives in the state reported tax information in the UWCC study.

The total economic impact these cooperatives have in Wisconsin (the direct effects—listed above—as well as the indirect effects) was assessed using a social accounting matrix (SAM) model. The SAM, a comprehensive financial accounting system, tracked the economic transactions spurred by cooperative business activity within the state. The total economic impact that cooperatives have on the state’s economy through direct, indirect, and induced multiplier effects was estimated in terms of jobs, wages and salary, and total income. It



*Premier Co-op of Mount Horeb, Wisconsin  
(formerly Patrons Co-op)*

is important to remember, however, that the results produced by SAM models are simply estimates produced by economic simulations. Care should be given in their interpretation.

In the aggregate, Wisconsin cooperatives support nearly 30,000 full-time jobs and generate almost \$1 billion in total income within the state. In addition, they further produce \$140 million in federal, state, and local tax revenues.

Agricultural cooperatives are responsible for the most significant cooperative economic impact in the state.

The \$263 million total income linked to agricultural marketing co-ops and the \$254 million total income tied to farm supply & service co-ops together represent 55% of the total economic impact of cooperatives. Credit unions and rural utilities also generate a substantial number of jobs and total income in the state.

In addition to jobs and income, Wisconsin cooperatives (excluding credit unions) returned \$34 million back to members as cash patronage refunds in 1999. Credit unions issued \$289 million in dividends to their members. These dollars represent another important income stream in the state's economy, ultimately supporting 4,637 jobs and \$114 million in total income after multiplier effects have been considered.

### ***The Total Value***

The Wisconsin analysis did not attempt to measure the total value of cooperatives to their local economies or to their members. Economic impact analysis does not measure the savings that co-ops offer their members and how those savings are then spent in the broader economy. Nor does it account for the increased profitability that members may achieve through their cooperative business and how they spend those personal profits in the broader economy. Cooperatives also offer more to their communities than employment opportunities. They provide market access and essential services to farmers and other community residents. They also help develop local leadership (human capital) that can start and lead other social and business ventures.

Economic impact studies are a single, not final, measure of the important role cooperatives play in the state's economy. However, such studies are useful

because they provide some basic data for policymakers. The continued collection and analysis of comprehensive cooperative data will help policy makers and community development practitioners make more informed decisions regarding the support of cooperatives as alternative business development options.

### **Additional Information**

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*Kimberly Zeuli, currently Assistant Professor with the Department of Agricultural and Applied Economics at the University of Wisconsin-Madison and Associate Director, University of Wisconsin Center for Cooperatives. Her areas of interest include agricultural marketing and supply cooperatives, new generation co-ops, alternative business structures, membership issues, and cooperatives in rural development.*