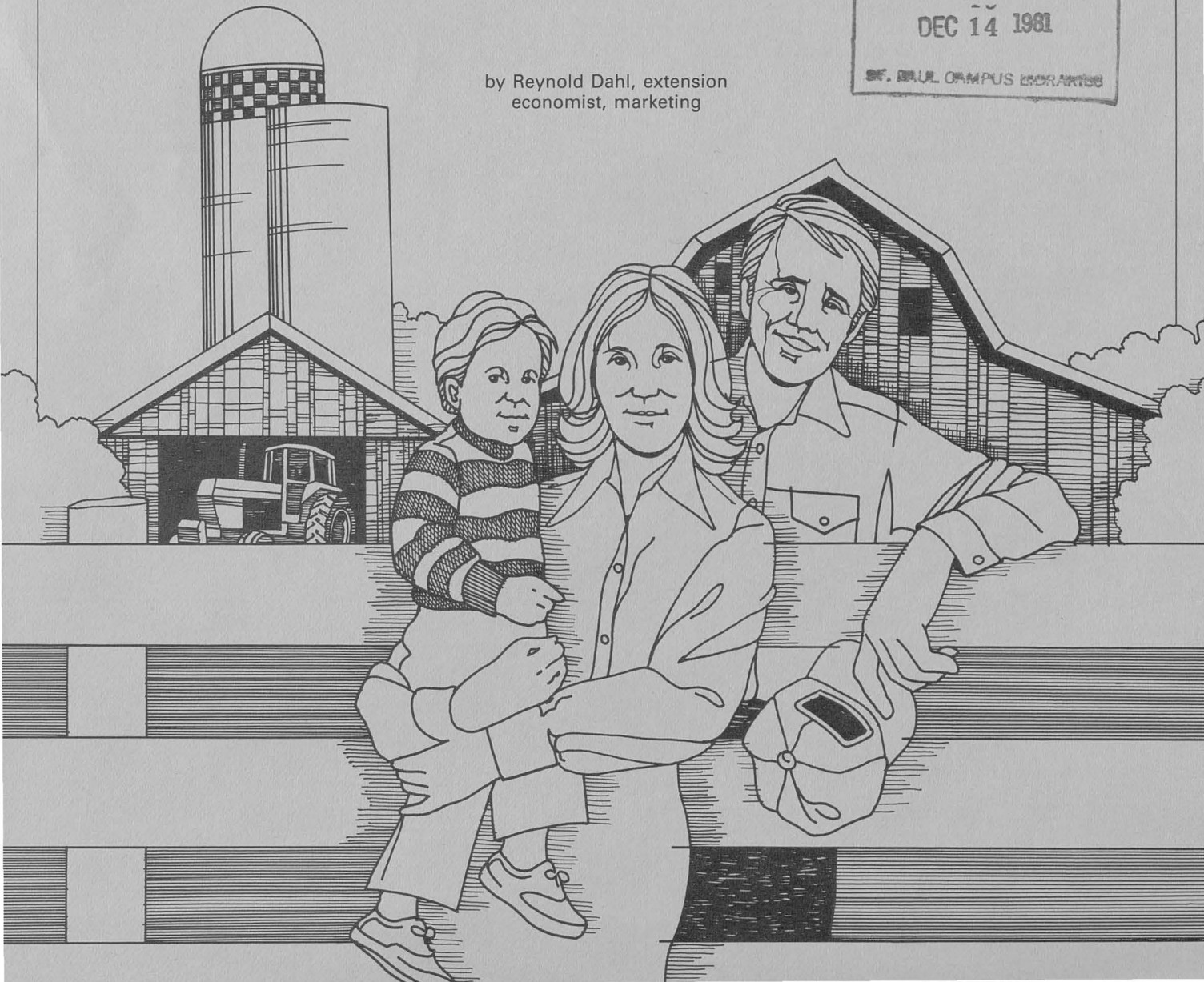


The Role of Cooperatives in the American Economy

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In recent years many questions have been raised about cooperatives and their role in our economy by those who do not understand what cooperatives are or how they operate. Let's look at cooperatives and their role in the American private enterprise system.

In exploring cooperatives we will seek to discover how they differ from other forms of business organization in our economy, if they are private enterprises, whether they pay taxes, the sectors of our economy in which cooperatives are located, their importance to the economy, and the economic contributions cooperatives make to farmers and consumers.

The emphasis here will be on agriculture since cooperatives have helped American family farmers achieve the most efficient food production system in the world. Our farmers provide U.S. consumers with a stable, high quality, low cost food supply. Enough is left over for export to make farm exports a major contribution to U.S. foreign exchange earnings.

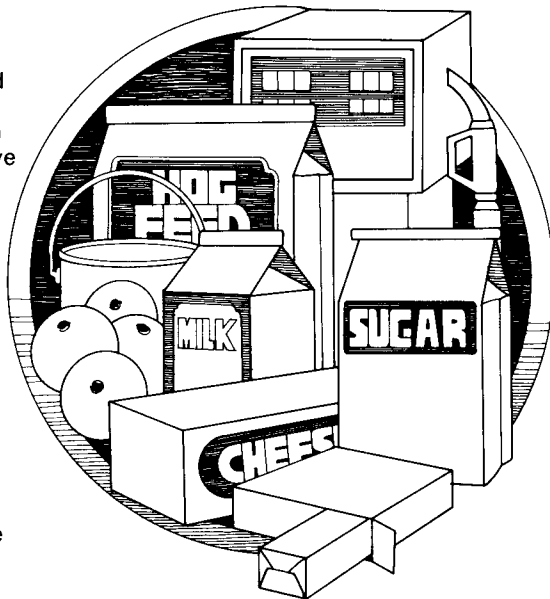
Kinds of Businesses in Our Economy

In the American private enterprise economy, we have three principal kinds of business firms; these are individual proprietorships, partnerships, and corporations.

Individual proprietorships are owned and operated by a single individual. They are the most numerous type of business firm in the United States. Most of our farms are individual proprietorships, as are many town and rural stores.

The second kind of business firm, the partnership, consists of two or more persons jointly owning and carrying on a business. Partners generally share in the responsibility of financing, managing, and operating the business firm. Many law and accounting firms, for example, are organized as partnerships.

Corporations, the third kind of business firm, can be broken into two types, regular corporations and cooperative corporations.



Regular corporations are defined as a group of people (stockholders) empowered by law to act as a single person. In effect, a corporation is an artificial being created by law to conduct a business; the articles of incorporation spell out the kind and scope of the business. Ownership of a corporation is divided into shares that are called stock. Each share carries one vote.

Stockholders (the owners) in corporations have limited liability. They risk only the amount they have invested in stock purchases. This is not the case in a proprietorship or a partnership where there are unlimited liabilities. Many of our largest business firms in the United States are regular corporations.

Cooperative corporations are like regular corporations in that the shareholders have limited liability. They differ from regular corporations in the following three respects, however.

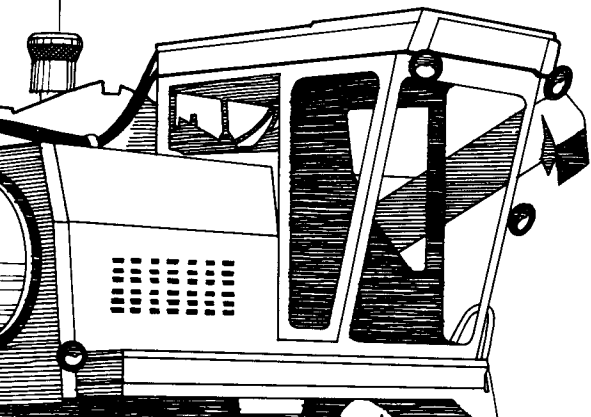
- Member-patrons exercise control in a more democratic way in a cooperative corporation than in a regular corporation. Regardless of capital invested, cooperative members have one vote and sometimes may vote according to their patronage of the cooperative.
- Returns (dividends) to stock invested are usually limited to 8 percent. Cooperatives emphasize returns to patronage rather than returns to capital invested.
- Cooperatives furnish service at cost. Any excess of revenue over expenses at the end of the year is divided among the patrons in proportion to the amount of business they have done with the cooperative.

Cooperatives Are Private Enterprise

Some people see the cooperative as socialistic and fear that the creation of cooperatives is a step toward a socialistic state. These fears are unfounded; socialism represents ownership and control of the basic means of production and distribution by the state for the benefit of society as a whole.

Summary of How Cooperatives Differ from Regular Corporations

	Cooperatives	Regular corporations
Control	member control	each share has one vote
Return on capital	limited to 8 percent	unlimited
Distribution of net margin	on a patronage basis according to use	distribution on basis of shares held
Economic purpose	maximize returns to patrons	maximize returns to shareholders



Also, socialism implies subordination of the individual to the state and places the interest of the general public above private interest. Socialism would eliminate competition as the regulative force in economic society and would substitute control by the government.

In contrast to the doctrines of socialism, cooperatives represent private ownership; they oppose ownership and control of the means of production by the state. The cooperative idea of distributing net earnings according to patronage rests on the principle of productive contribution, which, in turn, fits into the principle of distribution commonly accepted in a private enterprise society.

Cooperatives are an integral part of our private enterprise economy just as regular corporations, partnerships, and individual proprietorships are.

Cooperatives Pay Taxes

Cooperatives are subject to the same taxes imposed on other businesses. These include property, excise, sales, and income taxes. An essential objective of a cooperative is to furnish service at cost. Hence, a cooperative distributes its net earnings to patrons in proportion to the amount of business each does with the cooperative. These distributions are called patronage refunds. The cooperative is not required to pay the corporate income tax on the net earnings it distributes as patronage refunds. Such amounts are income to the patron, who in turn pays the tax. Any net earnings not distributed in this way are subject to corporate income tax.

Generally cooperatives retain a portion of the patronage refund instead of paying the entire amount to the patron in cash. The patron is notified of the retained refund and must pay income tax on the entire refund.

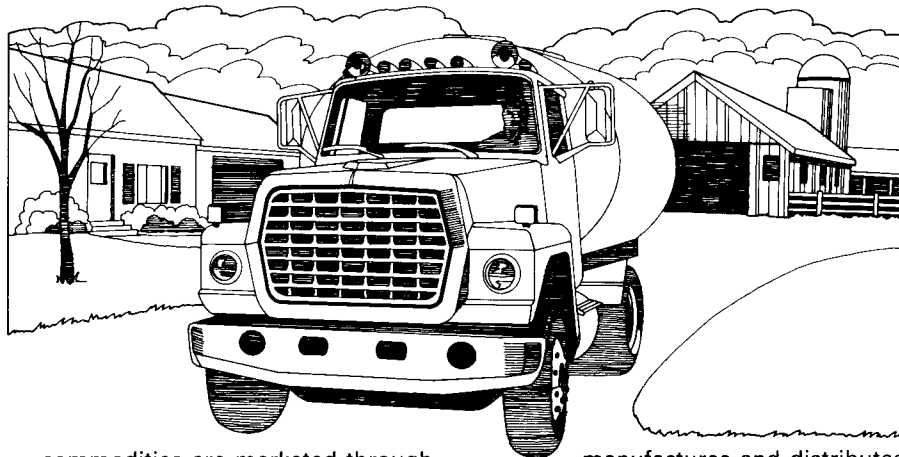
Cooperatives are owned by their patron-users who must supply the necessary owner capital. A principal way in which patrons supply owner capital to their cooperatives is through reinvestment of patronage refunds.

Cooperatives in Our Economy

Cooperatives are found in many sectors of our economy; they are, however, especially valuable to farmers. There are marketing, supply, and service cooperatives.

Marketing Cooperatives

Agricultural marketing cooperatives have a considerable impact on the farm economy. It is estimated that nearly 30 percent of all farm



commodities are marketed through cooperatives. They are particularly important at the level of first sale by farmers and at the first level of processing of farm commodities.

Examples of large marketing cooperatives are given below:

Dairy

- Land O'Lakes, Inc.
- Mid-America Dairymen
- AMPI (Associated Milk Producers, Inc.)

Grain

- GTA (Grain Terminal Association)

Livestock and Poultry

- Central Livestock Association
- Farmers Union Marketing and Processing Association
- West Central Turkeys, Inc.
- North Central Wool Marketing Corp.

Potatoes

- International Co-op

Sugar

- American Crystal Sugar Company
- Southern Minnesota Beet Sugar Cooperative

Supply Cooperatives

Almost one-fifth of the production supplies and equipment used by farmers is purchased through cooperatives. Examples of some of the larger farm supply cooperatives are:

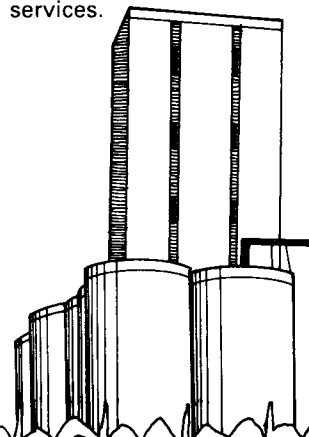
- CENEX
 - Midland Cooperatives
 - Farmland Industries
- Interregional cooperatives include:
- CF Industries, Inc.,

manufactures and distributes fertilizers to its member regional supply cooperatives that now handle almost 40 percent of the fertilizer purchased by farmers.

- Farmers Export Company exports grain for its member regional grain marketing cooperatives.
- Universal Cooperatives, Inc., distributes tires, steel products, chemicals, etc., to its member regional farm supply cooperatives.

Service Cooperatives

Service cooperatives deal in such areas as finance, credit, insurance, and other services.





Finance and credit

—The Farm Credit

Administration consists of the Federal Intermediate Credit Banks and the affiliated Production Credit Associations (PCAs), the Federal Land Banks and the affiliated Federal Land Bank Associations (FLBAs), and the Banks for Cooperatives. All are cooperative and owned by the farmers who use them.

—Through these cooperative lenders farmers obtain more than 30 percent of their credit needs.

Insurance cooperatives

—MSI Insurance

—Mid-America Mutual Life Insurance Company

—Farmers township mutual insurance companies

Utilities

—Rural electric cooperatives

—Rural telephone cooperatives

Other services

—Minnesota Valley Breeders' Association

—Midwest Breeders, Inc.

Cooperatives also are found in other parts of our economy besides agriculture.

Consumer cooperatives

—Food

—Housing

Credit unions

—State Capitol Credit Union and many others

Health

—Group Health Plan, Inc.

Economic Contributions of Cooperatives in Our Agricultural and Food Industries

The major purpose of cooperatives is economic—namely to improve the incomes of their member-patrons. Cooperatives increase incomes of their member-patrons through patronage refunds on products they sell and supplies or services they purchase. In effect, these patronage refunds increase farm product prices and reduce prices of farm supplies and services to farmers.

Cooperatives achieve their major economic purpose in several ways. First, they strengthen the bargaining power of the individual

farmer. Agriculture is largely a perfectly competitive industry characterized by a large number of small producing units. Though technological change has increased size and decreased numbers of farms, and corporations have expanded in such areas as poultry, the bulk of our agricultural production still comes from individually operated family farms. A farmer acting alone lacks bargaining power both as a buyer and as a seller. By organizing into cooperatives, farmers strengthen their bargaining power in the face of the larger organizations that buy their products and provide their supplies. So farmer cooperatives improve competition in farm product and farm supply markets.

Second, cooperatives make an important economic contribution in providing more and better marketing services needed by farmers. For example, cooperatives took the lead in providing formula-blended feeds and fertilizers to their members. Many marketing cooperatives engage in food processing, which enables farmers to obtain a larger share of what the consumer pays for food. And credit cooperatives, such as the Production Credit Associations and the Federal Land Banks, have been innovators in tailoring credit services and loan repayment programs to farmers' needs.

Finally, cooperatives assure their farmer members a source of supply for vital farm necessities such as petroleum and fertilizers as well as a market outlet for their products.

Are Cooperatives Too Big?

Efficient competitors present a continuous challenge to cooperatives to render better service at lower costs. Reciprocal competitive action of efficient cooperatives and efficient noncooperative business firms is a most desirable goal for our economy.

Critics of cooperatives argue that farmers' cooperatives have become too big. However, farmers' cooperatives have had to grow along with noncooperative business firms in the United States to achieve the lower costs associated with large-scale operations. Cooperatives have become larger as they perform more marketing

services such as processing and packaging. Farm supply cooperatives also must be large in order to refine crude oil and manufacture fertilizer. Farmers' cooperatives still are small relative to noncooperative firms with which they compete.

Employment Opportunities

Many graduates of the College of Agriculture of the University of Minnesota obtain employment with cooperatives. The curriculum of Agricultural Business Administration, which is offered jointly by the College of Agriculture and the College of Business Administration, is particularly well suited for students preparing themselves for employment with cooperatives.

Many students in agricultural economics and other fields in the College of Agriculture take a special course entitled Cooperatives and Agribusiness Organization, where they have an opportunity to study in depth how cooperatives fit into the American economy.

Summary

Cooperatives are privately owned business firms that are an important, integral part of our American private enterprise system. They provide a means of complementing and strengthening our economy.

Although cooperatives are not a panacea for all of the ills of the American economy, they do perform a positive role in our private enterprise system by helping achieve a better allocation of resources and higher total production.

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