Concept Paper

Asset Building through Cooperative Business Ownership: Defining and Measuring Cooperative Economic Wealth

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Introduction

Many cooperative studies scholars and co-op practitioners believe that successful cooperative businesses create wealth and help their members accumulate wealth and/or assets. Individual asset building or wealth accumulation is assumed to be an outcome from cooperative ownership, in addition to individual and community benefits such as job creation, education and training, income generation, affordable quality products, social capital development, and economic stability (Gordon Nembhard 2002 and 2004a; Logue and Yates 2005; Williamson, Imbrocio and Alperovitz 2004; Ownership Associates 2003; and Sharf 2001). There appears to be a measurable return on investment from cooperative ownership and unique benefits to all stakeholders that could be measured, and would increase our understanding of cooperative economic impacts on an economy.

Cooperatives are a form of communal, joint and democratic ownership of a business whose equity is an asset that can contribute to an individual member’s wealth portfolio. Members of cooperatives put equity into a cooperative enterprise. A successful enterprise gives a return on that investment. In the case of cooperatives the return is sometimes annual dividends or patronage refunds (often distributed upon exit from membership); and sometimes the return is only in the form of job security and living wages and benefits, or reduced costs of products and services. Individual cooperatives often decide democratically how much of the surplus should be allocated to members and how much unallocated or retained in the business. Because of the democratic nature of cooperatives, distribution occurs in an equitable fashion, which places the wealth generated from the business into the hands of the owner-members (and sometimes other stakeholders). This means that cooperatives as a business are a democratic mechanism for wealth creation. We are concerned here with how to identify that wealth, and also with how to measure and account for the assets and wealth that are not allocated to individual members but accumulate to the collective, and spill over into the community.

The challenges are: how best to identify and measure outcomes, impacts and benefits, especially asset building from cooperative ownership. This concept paper begins to answer questions about how assets and wealth are accumulated through cooperative ownership, and what benefits this creates for all stakeholders (members and their families, employees, clients, and their communities). I propose definitions and terminology to use in identifying indicators and designing methodologies for data collection and analysis. I apply the terminology to existing data, analyzing mechanisms and indicators to measure the ways that assets from cooperative ownership contribute to individual wealth portfolios and the value of cooperatively held wealth. I delineate a methodology for further data collection, and conclude with a reiteration of a research agenda on this topic.

The Problem
Wealth inequality in the United States, as in the world, is increasing, especially between racial and ethnic groups, within groups, and between men and women. Many social welfare scholars
now believe that wealth inequality is a better measure of economic inequality than income inequality is, and that its mitigation is a better mechanism for alleviating poverty. Strategies for asset building and financial literacy, particularly among low-income populations, have become increasingly popular but seem to make only a marginal difference. My research is at the forefront of emerging scholarship on asset building through community-based economic development, non-traditional asset building and alternative wealth creation strategies for people of color and low-income communities.

The field of cooperative economics has neither well studied nor well understood mechanisms of wealth accumulation in this context. Cooperatives, however, are one of the major community-based institutions that democratize capital. Research in this area would help us better understand the impacts and benefits of cooperatives, and their contribution to community asset building.

How do we measure wealth through cooperative ownership? There is not a strong body of scholarly data or analysis on wealth accumulation from co-op business ownership in general, particularly in the United States. Most cooperatives do not trade publicly or even trade their stock; and sometimes do not distribute dividends. This means that there is usually no equity market for a cooperative business - which is how value is usually assigned. While some of the large agricultural cooperatives have become public corporations with tradable stock, this is not the norm for cooperatives in general. Often much of the co-op’s wealth is retained in the enterprise and not distributed. This makes it very difficult to use traditional indicators (such as value of stock) to measure investment value of or business equity in a cooperative. In addition, cooperative businesses are not identified as a separate category in U.S. government statistics. Traditional official data sets, therefore, are difficult or impossible to use for this purpose. Also, the national wealth data sets do not distinguish between cooperative business ownership and other types of business ownership, though business equity is an important category in the wealth portfolio. Any existing evidence is mostly anecdotal, with isolated examples from case studies of specific cooperatives or co-op sectors about their patronage refunds, reduced costs of goods and services, employee benefits, and equity values.

Moreover, cooperatives often face what appear to be conflicting goals of affordability and capital appreciation. Many members have ambivalent feelings about whether or not they should be in the business of appreciating assets. One of the international cooperative principles (www.ica.coop) adds to the complication of acknowledging and measuring both individual and cooperative wealth creation - limited compensation. This third ICA principle states that:

Members contribute equity to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership (NCBA 1998: 16).

Interpretation of this principle varies such that some cooperatives do not compensate their members directly, others severely limit the compensation of their members and retain most of the
surplus, and others try to find a balance between contributing to the individual wealth of members as well as the well-being of the enterprise. Here there is a direct dynamic between the value of the whole versus its parts and the sum of its parts. The principle suggests that individual members are only due a part of the total value of the business, and yet the business is owned collectively by all members. So if members individually are allocated only a part of the whole value, as a collective they have additional wealth. Some would say this limits their wealth building capabilities, but if we recognize the strength and potential of the total corporate wealth under each member's control, member-owners are actually wealthier even if the specific assets or increased value does not count in their individual portfolio. On the other hand, if wealth creation is not the primary goal of a cooperative enterprise, how do members "legitimately" accumulate it and benefit from it? How then do we calculate the wealth accumulated by the members? Calculating a “return on investment” from ownership of a cooperative is complicated.

Often, claims about cooperatives as wealth building mechanisms are made not by experts or wealth researchers but by co-op activists. Sometimes all that is actually meant is that cooperative ownership generates increased income and a higher quality of life for its members and their families - which seems like wealth or can lead to wealth, therefore the term wealth is applied unscientifically. For co-op ownership to be taken seriously as a mechanism of asset building and asset ownership, and as an instrument of wealth accumulation, we need to address these issues with rigor and precision. There is a need to clarify conceptually and empirically the elements by which, and mechanisms through which, cooperative businesses contribute to wealth building (help their members build assets and create wealth for stakeholders).

**Research Questions**

Do and how do cooperative enterprises create wealth, develop assets, and/or help their members (and their families, employees, and communities) accumulate wealth? What kinds of assets do cooperatives develop (for their members, the company, and the surrounding community)? Do and how do members convert equity to assets - does co-op equity translate into an asset for a co-op member, and does or how does co-op equity appreciate over time?

Additional/secondary research questions: How can cooperative asset building and wealth accumulation be understood, identified, and measured? What mechanisms and structures do cooperatives use and/or are unique to cooperative enterprises to facilitate asset building and wealth accumulation? What instruments and strategies create value for members and/or for the cooperative enterprise? How does equity structure and solvency translate into assets for members when stocks are not traded on the market – and when they are? Are there unique cooperative returns on investment, and/or a unique cooperative return to stakeholders that can be identified and measured? Do and how do cooperative businesses contribute to wealth accumulation and the democratization of capital for under-served and marginalized populations? Is it only the wealth of individual members that matters? If there is more to cooperative wealth accumulation than the assets that each individual member builds by virtue of being a member, what does cooperative wealth and asset building mean? Can and how would a cooperative wealth multiplier be calculated?
Methodology Overview
This discussion paper proposes a mixed methods approach to identifying, categorizing, and measuring asset holdings and wealth accumulation from cooperative ownership. We will rely on existing data reported by cooperatives such as annual sales and revenues, assets, member accounts, equity, number of employees, number of members, etc. We will also use findings from any existing studies, and compare findings across studies. In addition, I will propose a set of indicators to measure asset building through cooperative ownership that include existing reported data and other measures identified and designed in this concept paper. This set of indicators will be piloted first with a study of credit unions and then with a broader study of several co-op sectors that will be proposed at the conclusion of this concept paper. Indicators and measures that cannot be compiled from published data will be included in a survey. Telephone interviews, focus groups and face to face interviews where feasible financially will be conducted to augment published data. Statistical analysis will be applied to all the data collected to identify the kinds of assets accumulated by co-op members and the value of those assets; and to explore the ways that cooperative resources and equity spill over into a co-op’s community.

In an attempt to document the aspects of cooperative ownership (the benefits, distributions, and mechanisms) that contribute to each individual member’s accumulation of wealth this research process is multi-pronged. The following steps will be taken before the final surveys are designed and once they are designed.

The research process begins with what we already know. The first step is analysis of the existing research and a literature review on this topic. There is information about optimal solvency levels, equity management strategies, equity to debt ratios, and other general business information about large cooperatives, particularly agricultural cooperatives, other producer cooperatives, credit unions, and some worker cooperatives. I summarize what little research has already been conducted about wealth through cooperative ownership; what data already exists relative to individual and member accounts in cooperatives, the amounts of dividend and patronage refund distributions, and other equity derived from cooperative ownership; and what mechanisms for the distribution of equity and dividends are used. For example, some sectors do report annual aggregate holdings in member accounts and dividend distributions which are a direct form of equity in a cooperative business. Also some cooperatives distribute equity when an individual member retires or exits from the company; and others use a revolving schedule to distribute portions of equity more regularly. Different distribution mechanisms have different impacts on wealth accumulation and members’ ability to leverage assets. Corporate accounting information also helps give us a picture of the worth of the business - equity and total assets owned. Credit unions and farmers cooperatives have the best existing data in these areas. Worker cooperatives would also be a good sector to focus on early in the analysis because of the direct relationship between ownership, return on investment, and returns to labor. These are aspects of this inquiry that we can begin to tackle with existing data.
As I summarize what we know in this area, I address how this knowledge helps us to design data collection methods and understand equity holdings, distributions, and asset building in those and other types of cooperatives. Next steps then would be to analyze how this contributes to an individual member’s wealth portfolio, and find out what members do with their dividends, if and how they leverage their member accounts and equity shares; how the co-op’s collective asset(s) benefits individual members, and the impact of the cooperative’s equity and assets on the community.

An additional early task is to define wealth in a cooperative business context, and disaggregate several of the components of wealth. This requires more rigor in how we define and then measure wealth accumulation through cooperative ownership. We must define the terms more specifically, create new terms as needed that represent the specificity of the co-op sector, understand the empirical information that we have based on the terms we define, and design methods to obtain the empirical information we do not yet have. We will also need to identify the variety of mechanisms for wealth accumulation practiced by cooperative businesses and facilitated by cooperative ownership.

I explore three (3) different types of wealth or wealth outcomes from cooperative ownership: individual or family asset holdings, cooperative corporate (jointly owned) collective wealth, and community wealth. These will be described in more detail below.

The second step is research design and variable identification. I explore ways to identify, measure and access the different opportunities to accumulate wealth through cooperative ownership and the different components of cooperative wealth; i.e., to develop indicators and identify sources of data. The strengths and weaknesses of these methods and indicators are also analyzed in this phase.

The third step is to design a pilot study to test the indicators and explore the methodology. In this phase strategies for how to identify existing data and collect new data will be delineated. This phase will focus on analyzing asset building through credit union ownership. Credit unions are chosen because they are heavily regulated and so report macro and business information to national entities which means there is much existing accessible information. As both cooperatives and financial institutions credit unions also make a direct contribution to a member’s access to financial assets and contribute to community economic development. Analyzing community wealth through credit union operations is a logical extension of studying asset building through credit unions. In addition, many credit unions, especially community development credit unions, serve low-income populations. So a study of credit union facilitation of wealth helps us to understand how cooperatives aid low-income people in asset-building and wealth accumulation.² This paper ends with a proposal for this pilot study.

A fourth step is to design survey and interview instruments for a variety of co-op sectors, based on the definitions and indicators identified in this paper, and the results from the pilot study of credit unions. What we now know about asset building through cooperative ownership, and what
we learn from the credit union study will inform this survey phase. These surveys will combine quantitative and qualitative data collected from co-op CFOs and managers, and some co-op members. This concept paper forms the basis of such a study, but this survey and interview phase is beyond the scope of this paper.

In addition, I recommend a study to compare general population percentages of assets held against the assets held by co-op members – starting with producer cooperatives, credit unions, housing cooperatives, and worker cooperatives. Here we would explore whether or not co-op members hold more or less assets than the general population, and/or have a different distribution of assets in their wealth portfolio. Values of assets and number of assets would be compared to see if co-op members have a more valuable and/or more diverse wealth portfolio. The challenge is to find an existing wealth survey that could include cooperative business ownership or to cross a data set possibly from the income tax bureau with co-op ownership data in order to compare the wealth portfolios of those who are members/owners of cooperatives with those who are not. If no such match or augmentation of an existing wealth survey is possible, then one would need to conduct an entirely new survey with questions about cooperative ownership along with wealth holdings. This phase is beyond the scope of this concept paper and perhaps beyond the scope of the existing study of the impacts of cooperatives, but not irrelevant to the aims of this research.

This concept paper explores the first two of the four stages in the methodology outlined above. I end with a preliminary proposal for the third step and future research.

**Step One: Analysis: What We Know about Cooperative Wealth: Types, Definitions and Examples**

**General Definition of Wealth/Net Worth**
Wealth is a store of value, a portfolio of assets that have the potential to appreciate over time (provide a return on investment). It is typically measured as net worth - all assets minus all liabilities. It is officially measured per household or family since most official data is reported at that level, and it is also difficult to tease out individual ownership of joint assets (such as in a marriage). Usually referred to as an individual’s wealth what gets measured is a family’s asset holdings - how many assets does the family or household declare, and how much is the wealth portfolio worth. The assets included in most wealth measures are equity in a home, real estate, business equity, stocks, bonds, interest bearing accounts and other financial assets, sometimes consumer durables and sometimes the present value of a retirement fund or other insurance (I provide a list in the next subsection).

Wolff (2001) uses a more restricted concept of net worth or marketable wealth, “the current value of all marketable or fungible assets less the current value of debts” (36). This does not include consumer durables and the value of future social security benefits and other funds that are not in an individual or family’s direct control. Wolff also uses financial wealth as a more
liquid concept: net worth minus net equity in owner-occupied housing, since a home residence is more difficult to liquidate. Distinction is often made between net financial wealth and net worth. Net financial wealth is total financial assets less short term unsecured debt. Net worth is the sum of net financial wealth and net non-financial wealth. This is probably not a distinction we need to worry about in the initial study of asset building through cooperative ownership.

Income generation versus wealth creation: is a necessary distinction to make. What is the difference between income generation and wealth creation and accumulation? The two concepts are often confused. Income generation is a goal in and of itself (and often an outcome of cooperative ownership), which needs to be distinguished from wealth creation, not confused with it. The role it plays in wealth creation can be delineated. Increased income and reduced costs for goods and services can contribute to the creation of wealth, but is not wealth in itself. An increase in income can increase disposable income which is what most people use to buy investments. An increase in income can also increase short term holdings in bank accounts which are also counted in most wealth portfolios. An increase in income can also offset the need to liquidate assets in an emergency. However, many people with high incomes do not own a lot of wealth because they do not invest their disposable income, do not buy assets with it, and/or have high costs or high levels of liabilities that counter the value of their investments.

In some casual cooperative research, and particularly in cooperative advocacy, the term wealth is used broadly in terms of increased income or riches. This gets in the way of a rigorous accounting of asset building and wealth accumulation through cooperative business ownership, and does not truly refer to a member’s net worth. The 1998 Cooperative Development Forum of the National Cooperative Business Association. (NCBA 1998), for example, focused on “Cooperative Approaches to a Living Wage: Reducing Cost and Enhancing Income.” Several of the presentations discussed reducing costs through food buying clubs and consumer purchasing cooperatives, child care co-ops, and affordable housing. Cost reduction is helpful in creating or increasing disposable income, but is not synonymous with wealth. Value-added agriculture and employee ownership enhance income. Worker-owned cooperatives often generate higher-than-industry-average income, with benefits and increased job security. Job security and a steady income with benefits do impact wealth by augmenting disposable income and enabling member-owners to make investments that can increase their wealth - but are not wealth by themselves.

An assumption is often made that reduced costs and enhanced incomes allow co-op owners to save money and generate wealth. For example, Ernie Eden (of Ernie Eden realty in Atlanta) showed at the Cooperative Development Forum that residents of a housing cooperative spent $200 less per month than for a comparable rental unit. “Investing that $200 at five percent for thirty years would provide assets of $200,000” (NCBA 1998: 27). There are many assumptions embedded here. The potential is clearly great. Here is an example of how co-op income generation can possibly lead to wealth accumulation, particularly depending on what is done with the increased income or reduced costs, but is not by itself wealth. Therefore, we must be careful to delineate the differences and be precise about what we mean by wealth and when we are actually referring to wealth, and when just the opportunity for wealth building.
Types of assets in the wealth portfolio: Assets are divided into several types depending on liquidity and tangibility (physicality). The Federal Reserve Board’s Survey of Consumer Finances (SCF) and the Census Bureau’s Survey of Income Program Participation (SIPP) recognize the following types of assets:

- **Financial Assets:** Transaction Accounts (SIPP includes money market deposit accounts, interest-earning checking accounts, other interest earning assets); Certificate of Deposit; Savings Bonds (SIPP includes US government securities); Bonds; Stocks; Pooled Investment Funds (excluding money market accounts); Retirement Accounts (SIPP includes IRA, KEOGH accounts; 401K and Thrift Savings Plans); Cash Value of Life Insurance; and other managed assets.
- Other financial assets included by SCF are oil and gas leases, futures contracts, royalties, proceeds from lawsuits or estates in settlement, loans made to others.
- **Nonfinancial assets:** Vehicle; Primary Residence; Other Residential Property; Equity in Nonresidential Property; Business Equity.
- Other nonfinancial assets included in SCF are artwork, jewelry, precious metals, antiques, hobby equipment, and collectibles.
- **Unrealized capital gains** is a final category used by the SCF. Unrealized gains are increases or decreases in the value of assets that are yet to be sold (Bucks, Kinneckell, Moore 2006). The survey asks about changes in value from time of purchase for publically traded stocks, pooled investment funds, primary residence, other real estate, and current tax basis of businesses. These potential changes in the values of assets are important forms of wealth often ignored or not calculated. This may be one of the categories particularly relevant to cooperatives, particularly producer and worker cooperatives, which keep member equity as allocated or unallocated resources, in member accounts or in the corporate account (see below for importance of these distinctions).

**Defining Individual, Collective Corporate, and Community Wealth:**

How do we define wealth in a cooperative ownership context? Do we mean individual-member equity ownership and asset accumulation based on a member’s investment in the cooperative, the assets that a member (a member’s family) can accrue in general because of a steady income and the financial positioning gained from ownership, the enterprise’s value and the equity of the business itself (the collective corporate wealth of the business), and/or community-wide or community-level assets for community well being, economic stability and prosperity (because of the existence of the cooperative, and/or because of the co-op’s contributions to the community)? To understand the reality of cooperative wealth creation and wealth accumulation I suggest that we make distinctions between the individual wealth (asset holdings) of members and their families; the corporate, joint assets held collectively by the cooperative enterprise and its business equity value; and the wealth, resources and assets shared and developed at the community level that directly result from the existence and activities of the cooperative (community wealth). We need to better understand how these various wealth outcomes differ from one another, and how the three types interact with one another. These distinctions are
usually conflated in discussions of wealth, particularly as related to cooperative assets. In addition, some of these aspects of wealth are totally ignored but are important if we want to understand economic impacts of cooperatives.

Individual Co-op Member Wealth: Many of the basic, internationally recognized principles of cooperatives directly or indirectly relate to asset building and wealth accumulation for members: The principle of “one member one vote” promotes democratic member control of decisions and distribution. “Independence and autonomy” prohibit control by outside capital. The “user benefit” principle requires that benefits be distributed in proportion to use, rather than the amount or value of the initial investment. “Cooperation among cooperatives” keeps resources circulating among cooperative enterprises, and helps co-ops to augment other co-op’s assets. The principle of “concern for community” supports cooperatives contributing to the sustainable development of their communities.

Many cooperative corporations help their members profit, more than the corporation profits itself, since many cooperatives are businesses for use not for profit or have the profit motive only as a secondary or tertiary goal. In the U.S. if a co-op passes along the profits or surplus, the enterprise does not pay taxes, but the members individually pay taxes on their gains. The corporation pays taxes on the portion it keeps or retains. The Board of Directors, on the advice of the members, decides how much of the surplus the enterprise can afford to distribute each year, and how much to retain. The patronage refund is a payment from a cooperative to a member or patron from the surplus of the enterprise based on the quantity or the value of the business done with the member (USDA 1985: 5). The refund can be made in cash annually, or retained in the enterprise in a member account, as an investment - and to help keep the business solvent; or some combination. Members also earn dividends on the capital stock or equity the member has in the organization. The patronage refund is based on the member's annual use in the cooperative and the profits of the cooperative. The dividend is a distribution to a member as shareholder, based on the value of the member's equity or stock held in the cooperative. The dividend of a credit union is the interest returned to a member on any of the interest-bearing accounts held at the credit union.

Measures that may be reported or reportable that provide information about members assets that a member may hold or control from cooperative ownership include: value of equity share, schedule of equity redemptions, equity to assets percentage, equity to debt ratio, corporate solvency ratios, gross margins, and the amount and/or percentage of the patronage refund. Members of cooperatives put equity into a cooperative enterprise. A successful enterprise gives a return on that investment, sometimes in annual dividends or patronage refunds, sometimes in increased equity that is often distributed upon exit from membership; sometimes only in job security and living wages and benefits, or reduced costs of products and services. This contributes to the individual wealth of each member and his/her family, but in a variety of ways.

Bromell-Tinubu (1998) discusses the implications of the “user/benefit” principle for asset accumulation. Members are entitled to the net income of the enterprises' surplus based on their
patronage (use) of or participation in the co-op. Individual cooperatives decide how much of the surplus should be allocated to members and how much unallocated or retained in the business. Usually not more than twenty-five percent and often between fifteen and twenty-five percent of resources are designated as unallocated in cooperatives. The patronage refund may be made annually in cash, or retained in the enterprise in a member account, for each individual member; or in some combination. Members also earn dividends on the capital stock or equity the member has initially invested in the organization. Allocated resources, particularly patronage refunds are what the individual earns - individual wealth. Ananor-Boadu et al (2003) summarize this relationship: “The members of the cooperative are the residual recipients of the company’s financial performance and their payment is referred to as patronage distribution or refund. The patronage distribution or refund received by a member depended on the volume of business the member did with the cooperative” (11). Michael Cook notes that “Traditionally, farmer cooperatives have been formed to secure producers a larger portion of the proceeds from the sale of their product, or ‘a larger piece of the pie’, and the co-op supported their efforts as individual entrepreneurs.” (Cook quoted by Hueth 2007: 8)

In some ways, particularly for producer cooperatives, the purpose of the cooperative is to augment income, provide a greater return to the factors of production than they could otherwise achieve alone. The co-op structure allows farmers to face the market as a collective to get a better return and to turn their production activities and participation in the cooperative into an investment. This allows them to create an asset out of their production activities - to get out more than they put in. The purpose of a cooperative is also to better control that process. Cook observes that in this way members become "investors, and the cooperative should understand where along the patron-investor spectrum their membership wishes to be" (quoted by Hueth: 8) Similarly Harry Fehrenbacher, president of Effingham Equity, notes that capital asset decisions are difficult and in some ways are "the most crucial" that the co-op (particularly a producer cooperative) can make (Hueth 2007: 7)

Barton (2004) contends that most income is patronage sourced. It can be distributed in a way to create permanent, semi-permanent or revolving equity, in terms of permanency. Revolving equity is that equity eligible for redemption using standard systematic redemption methods, such as age of patron, revolving fund, percentage pool and base capital. Semi-permanent equity is eligible for redemption only under special circumstances, such as the death of a natural person patron-owner, or the exit of a corporate or other patron-owner, such as due to bankruptcy or retirement (Barton: 5). Patronage and nonpatronage income can be distributed in several ways. These strategic choices include:
1. Choice of solvency level: high to low
2. Choice of allocated versus unallocated ownership: high to low
3. Choice of high or low common stock level, where common stock is non-revolving (Not redeemed by systematic methods such as age of patron and revolving fund)
4. Choice of using publicly listed equity, such as preferred stock.
5. Choice of balance sheet equity management (pro-active versus passive) and patron Account equity management (use of redemption methods such as age of patron,
Barton et al (1996) contend that “decisions by the cooperative and members on equity investment should be made based on the members cost of equity capital. The cost of providing equity to a cooperative by the member is the opportunity cost of investing money in a member's own operation or other alternatives” (1-2). They also show how macroeconomic policy affects the optimal solvency level of an agricultural cooperative. “Variance in the interest rate and the level of interest rate affects capital structure and must be accounted for. An increase in the interest rate from 9.4% to 10.3% caused the optimal solvency ratio to double while a similar percentage change in the variance of interest rates was much less dramatic effect” (11).

Kenkel and Fitzwater (nd.) delineate the activities of specific equity plans: Raise Adequate Equity, Minimize Redemption Burden, Assure Fair Treatment, Generate Adequate Returns over Time, and Choose an Equity Plan That Meets Their Own Circumstances. Alternative equity redemption methods include special programs often using a trigger event; the age of patron either a) oldest first, redeemed at specific age for everyone, but not proportional to patronage (because the member expects redemption regardless of financial conditions); or b) by age of patron prorated or a portion of each patron’s account redeemed past a set age such as 55, at a fixed percentage; or by the age of the stock plan – first in to first out (ranges from 18 months to 30 years). Some co-ops use multiple revolving funds where equity is somewhat proportional, and the co-op can adjust the payout by the length of time. The disadvantages of these schemes are that there can be bad years that would unbalance the amount or effect of the equity payout, disparities can occur between equity and use, and members may expect a fixed revolving distribution regardless of financial conditions. Kenkel and Fitzwater (nd.) also describe the Base Capital plan where under-invested members continue to increase investment, while over-invested members get partial or total redemption. This can be combined with a variable cash patronage refund plan where over-invested members receive a larger cash refund. The advantages of that scheme are that it is equitable, management can make alterations, and under-invested members pay an interest fee to over-invested members. However, this scheme is complex, new members or under invested members may not be able to invest at needed levels immediately, and boards do not like to change the base. Another plan is the “percentage of all equities” plan. Under this plan member equity is reduced by a percent of retiring and a percent of outstanding equity, regardless of issuance. This is used by a limited number of cooperatives, but is easy to understand, rewards new members, and works well with stable membership and patronage. Disadvantages are that it is a “poor transfer of ownership,” and the transfer cannot be completed without additional provisions (Kenkel and Fitzwater nd.).

One way to enhance individual member's wealth and provide easier access to the member's investment is through the use of a revolving payment system or using minimum vestige. In the revolving system, as Kenkel and Fitzwater also describe, a member may withdraw all or most of what is in that individual's member account after a stipulated time period (one third of the
members after three years, another third after four years, etc., for example). Minimum vestige means that the co-op retains any surplus under a certain minimum amount needed for operations (and to grow), such as $20,000 for a small business or ten percent, and distributes annually to the members the remainder of the surplus over the set amount (Tim Huet, 2001). These are ways that the enterprise can retain what it needs for its own survival and advancement, and enhance the collective asset – the cooperative corporation itself; and also disperse as much as possible to individual members for individual asset building. In addition, the unallocated equity acts as a kind of unrealized capital gain for member-owners.

Chris Peterson suggests a theory-based value proposition that a cooperative can create value at both the member farm level, and at the corporate level of the co-operative business. Returns at the cooperative business level can be measured by the net income used for patronage refunds and dividends on capital. However, Peterson notes that the returns at the member farm level are more difficult to quantify. “The value of these benefits, which include price and service differentials, risk reduction, and the market existence provided by the co-op, accrue to each individual’s farm operations, and member perceptions of these returns will vary.” Quantifying and establishing the appropriate balance between individual and cooperative returns is a “subjective, challenging process” (Peterson quoted by Hueth 2007: 2).

Examples of Individual Co-op Member Asset Building: It is actually difficult to measure the wealth accumulated by individual co-op members in most cooperatives. There is not a lot of information about and ways to measure asset accumulation for individual co-op members. Some cooperatives like Childspace provide an IDA (individual development account) program (Clamp 2002 and nd.), linked to the federal program which matches the savings of low-income people for education and business development. Other cooperatives offer retirement accounts for their worker-owners, and in some industries are actually more likely to provide retirement accounts and higher valued retirement plans.5

Logue and Yates (2005) find that U.S. agricultural cooperatives have higher average payout rates to members than shareholder dividends from public agribusiness corporations. The “Members payable” accounts of U.S. farmers cooperatives, “representing cash patronage refunds, dividends and revolving equity that have been declared but not yet paid” (Chesnick 2000: 4), provide some sense of the funds members have tied up in these co-ops. In 1998, these liabilities increased twenty-nine percent to $1.3 billion. Total member equity increased ten percent to a record high of $9.9 billion (5). Equity certificates increased to $6 billion. All commodity groups showed this increase. The total of members payable accounts, total member equity, and equity certificates of $17.2 billion constitutes 63.7 percent of the total assets of these companies.6 Not only are these co-ops healthy, but also a majority of the assets actually belong to individual members.

Rural electric cooperatives, as examples of consumer cooperatives, return revenue surpluses, after investment in the utility, to their members “in the form of reduced rates or retained earnings (known as "capital credits"), which are periodically rotated out of the cooperative to its consumer-owners” (NCBA 2008).
Worker cooperatives and other employee-owned enterprises generally pay wages that are competitive or better than locally prevailing wages (with profit sharing, bonuses and dividends). Worker co-ops also tend to offer better fringe benefits than conventional companies in their field. (Logue and Yates 2005). The employee ownership index, for example, outperformed the overall stock market during 1997 and since has tended to converge toward the broad stock market indicators (Logue and Yates). Review of the literature shows that cooperatives and substantially employee-owned companies also have greater productivity (Logue and Yates 2005; Levine and Tyson 1990).

One example of a worker cooperative, Cooperative Home Care Associates (CHCA) in NYC, provides several asset-building opportunities for its member-owners (most of whom are low-income and many of whom relied on public assistance before working at CHCA). CHCA pays annual dividends in profitable years averaging 25% of initial equity investment or $250; and leads the industry in above average wages, benefits, career ladder, leadership training, advocacy, and low turnover (Gordon Nembhard 2004; Shipp 2000; Glasser and Brecher 2002; and Insera et al 2002). CHCA’s worker-owners also receive a $10,000 life insurance benefit, and most owners contribute to a 401(k) plan (that the co-op also contributes an average of $100 per employee in profitable years) (Cooperative Home Care Associates 2008). As of October 2008 the value of its 401(k) plan exceeded $2.5 million and 234 worker-owners accumulated more than $4,000 in their accounts (CHCA 2008). CHCA also aids its employee-owners to establish checking and/or savings accounts. Seventy percent of CHCA’s employees use direct deposit into savings or checking accounts, but before joining the company 73% had not had a checking account and 79% did not have a savings account (CHCA 2008). The cooperative also provides small no-interest loans and allows cashing out vacation days to help members with cash flow problems. In addition, CHCA helps about 30% of its worker-owners to receive the Earned Income Tax Credit and Child Tax Credit and promotes free income tax preparation services (CHCA 2008).

My research on African American cooperatives (Gordon Nembhard 2004b and forthcoming) finds that over the past century Black-owned cooperatives have provided dividends to their members, in addition to economic control over land, quality products, and jobs, and economic stability and independence. For example:
• In the 1920s, the Cooperative Society of Bluefield Colored Institute in North Carolina paid dividends of 10 percent on purchases made.
• In 1935 Consumers’ Cooperative Trading Company in Gary Indiana began to pay dividends of 2 percent on shares of stock owned (in 1936 it was considered the largest grocery business operated by African American in the U.S. and had total sales of $160,000). The cooperative consisted of a credit union, grocery store, and gas station.
• Walker Credit Union in Montreal as the first credit union established by the Brotherhood of Sleeping Car Porters in the 1930s. It was started to help Black labor union members and their families adjust to economic crisis through savings plans and budgeting.
Credit Unions provide many paths to asset building and wealth accumulation. They provide access to financial services and loans, and opportunities for savings and investment. We have data on Credit Union assets, shares per member, and loans - to measure assets such as interest bearing accounts. This is one area where there are national-level statistics for a cooperative. Credit Union National Association (CUNA, USA) reports that in the twelve months ending December 2007, credit unions provided $10,973,774,977 in direct financial benefits to the nation’s 87,336,236 members – “equivalent to $126 per member or $239 per member household” (CUNA 2008b). Credit union members hold an average member deposit of $6,897 (CDFI Data Project 2006). In CUNA’s document, “Benefits of Credit Union Membership,” the trade organization also calculates that credit unions provide an average saving of $181 per year on a $25,000 new automobile loan, and that “those who use the credit union extensively – often receive total financial benefits that are much greater than the average.” In the past 4 years both loan and savings growth of credit unions has increased while delinquencies remained low and relatively flat (CUNA 2008a). In addition, CUNA concludes that:

Credit Unions excel in providing member benefits on many loan and saving products. In particular, credit unions offer lower average loan rates on the following accounts: new car loans, used car loans, personal unsecured loans, first mortgage-adjustable rate, home equity loans, credit cards loans. Credit unions also pay members higher average dividends on the following accounts: regular savings, money market accounts, certificate accounts, IRAs (CUNA 2008b).

Community Development Credit Unions in the USA serve low-income populations with “fairly priced loans,” financial savings and transaction services at a “reasonable cost” (National Federation of Community Development Credit Unions 2008). The 1.4 million members hold an average deposit of $3,789 (CDFI Data Project 2006). Memberships, assets, shares and net worth of CDCUs grew, expanding at rates greater than those of most mainstream credit unions over the past several years (Gemerer 2008). While delinquency rates started to increase, they are still below industry average (though higher than all federally insured credit union rates). In FY 2006 CDCUs opened an estimated 78,774 new accounts to people who were previously unbanked. As of the end of 2006, an estimated 1,889 members accumulated $1.8 million toward specific wealth-building savings goals through CDCU IDA (Individual Development Account) programs (CDFI Data Project).

About sixteen credit unions are affiliated with the Federation of Southern Cooperatives in the southern states of the U.S. to serve mostly rural low-income African Americans and other people of color. Assets of these community development credit unions have been growing, increased to approx $3,780/member in 2005. Loans are growing – the total value of loans in 2005 was $205 million. Shares per member increased to $3,132 in 2005 (up from $2,000 in 2004). While savings in absolute numbers is not large in these examples, the average value of savings (shares per member) indicate basic asset ownership for populations that often have no or negative wealth; and whose average median net worth is only about $5 –7,000. These figures show how community development credit unions help members own transaction accounts, and that they are growing - so the potential is growing.
Thus we find that credit unions provide a variety of savings instruments and asset-building programs, often at less cost and with higher return than commercial financial institutions. Moreover, Jackson’s (2006) research empirically confirms credit union pro-consumer behaviors. Credit unions exhibit a pricing asymmetry that lowers the interest expense associated with deposits but also lowers the interest revenue associated with loans over the interest rate cycle, “consistent with a strategy of maintaining constant margins between average deposit rates and average loan rates.” Keeping loans affordable and providing as high a return on savings as possible is important at any period of time and for every demographic, but is particularly important during economic downturns and financial crises, and for low-income households.

In a comparison of credit union use against bank use, Lee and Kelley (2001) find that households using both a bank and a credit union have greater wealth than households using only a bank or a credit union. Wealthier households tend to use more than one financial institution. Those who use banks primarily, however, have greater wealth than those using credit unions predominantly. Given what we already know about how credit unions benefit their members, more research on wealth accumulation through credit unions, and about if and how credit unions facilitate asset building for different demographic groups, will be fruitful.

A Note on Co-op Housing wealth: Homeownership is one of the traditional ways to accumulate wealth. Cooperative housing allows people who might not normally have access to homeownership a chance to be a home owner, or reduces the cost of homeownership. The Cooperative Housing Coalition (2000) cites a study which finds that cooperative homeownership is correlated with higher average incomes compared to renters, because “the average monthly housing cost in a resident-owned co-op is often significantly lower than market rents, enabling residents to have more money available” (11).

Ernie Eden (NCBA 1998: 27-31) estimates that the resale value of a $50 coop membership in a limited equity housing coop is about $7500 in 40 years. In addition, investing the $200 per month saved over renting at 5% for thirty years yields $200,000. Modest wealth can be earned from ownership in a limited equity housing cooperative. More wealth can presumably be made in market-value coop housing.

The AFL-CIO Housing Investment Trust (2000) suggests that leveraged investment creates equity, that housing equity increases over time, that tax benefits of homeownership contribute to wealth creation, and that homeowners have a much higher net worth than renters. Therefore because cooperatives provide access to homeownership, they provide equity and wealth for members. This study matches general home equity increases over the past 15 years with retirement savings accumulation (funds captured through mortgage interest deduction) to suggest combined wealth benefits of more than $200,000.

Home equity also contributes to increases in wealth if the owner leverages the asset for loans to start a business or put children through college. This is another area where the assumptions are
stronger than the evidence, but the potential is clear. This concept paper, however, does not focus on cooperative housing mostly because it is a direct form of equity that can just be added as is to an individual member’s wealth portfolio. Measuring this asset is not particularly tricky and does not require a separate or new methodology.

I conclude that cooperative businesses do accumulate assets and equity which are in some way available to members and affect members. Here the research agenda is wide open, and much still needs to be learned. If members individually are allocated only a part of the whole value, as a collective they have additional wealth - the remaining corporate assets. Some judge that this limits individual wealth building capabilities, but if we recognize the strength and potential of the total corporate wealth under the control of the members, member-owners are actually wealthier even if the specific assets or increased value do not count in their individual portfolio.

**Cooperative Collective Corporate Wealth:** Successful cooperative corporations have increasing assets, and return surplus to their members. In some ways examining corporate-level wealth may be easier than measuring how much individual members gain from their co-op. Most cooperatives do provide basic statistics about their revenues and assets. I define cooperative collective corporate wealth as a cooperative enterprise’s net assets, created through the joint efforts of the members and retained by the cooperative entity or enterprise – owned, managed and distributed democratically. How are the assets of a cooperative distributed, or of benefit to individual members? The section above outlines and provides examples of how some of the surplus is distributed to individual members. This section focuses on the value of the cooperative enterprise as a whole and the ways that the existence of the business, its placement in a community, and the opportunities it provides contribute to wealth accumulation and asset ownership.

Corporate accounting information does help provide a picture of the worth of the business - equity and total assets owned, liabilities, etc. How to tease out ways in which the corporate wealth also benefits members will require us to think about if or how the sum is greater than the parts - if there is some accumulated benefit or only a distributional benefit; and/or how to calculate the unrealized capital gains from cooperative ownership. Is a member’s wealth just the value of his or her personal account plus her per member share of the total equity of the business? If wealth is a store of value with a potential, then a member’s assets are probably more than just the divided payments, and equity share in the business. Being a part owner of a business that appreciates over time, reduces prices while maintaining quality, provides stable income and skill development, grows, creates spillover activities, and could provide collateral for other financial activities and investments, should contribute to the value of an individual’s wealth, and wealth accumulation. Such ownership also may give members another kind of present value of wealth – or at least access to wealth building opportunities and unrealized capital gain. Increasingly cooperatives are providing low interest and sometimes no interest loans to members, and savings and retirement programs/vehicles that contribute to asset ownership. There are thus a variety of returns on investment from ownership of a successful cooperative business.
Bromell-Tinubu suggests that “The community [but what I would call the collective corporate] assets are the resources that are not allocated” (Bromell-Tinubu, 1998, p. 61). Decisions about what percentages of the resources are allocated and unallocated are made by the membership. These end up being decisions not just about perpetuating the enterprise (and working within the tax laws), but also according to Bromell-Tinubu about building community (or collective) assets versus building individual assets. The cooperative democratic principle is clear that every member gets one vote regardless of how much the investment. Therefore, decisions about such allocations can be democratic, although the management, through the board of directors, actually controls use of the unallocated resources. The big questions are how much to allocate to each pot, and when and how to return the investment and its appreciated value to members.

Michael Cook observes that “The current shift in cooperative business strategy is to ‘create more pie’ by enlarging markets through value added efforts. Members look to the cooperative to serve a more ‘collective entrepreneur’ function, and capital formation becomes a larger issue” (Cook summarized by Hueth 2007: 8). At the very least these activities and opportunities provide democratic joint access to wealth-building opportunities, and thus a form of wealth accumulation. We have no good language for this and no hard indicators for measuring such wealth or wealth potential.

Hueth (2007) further highlights issues about what is the value of a cooperative business and how to measure it. He notes that the value proposition for members can encompass a wide range of benefits that may be difficult to accurately assess. Benefits may have a patron or an investor orientation, which may change over the life cycle of the cooperative, and may be further complicated by market valuation increases that are difficult for members to capture. (Hueth: 9)

Amanor-Boadu et al (2003) describe ways that cooperative enterprises’ financial performance can be measured: by size and change in size; profitability and change in profitability; solvency; and equity to assets percentage (which is comparable to all food processors not just cooperative ones, whether or not they operate on a pool basis). “Useful size measures are sales and total assets.” “Useful profitability measures are gross margin percentage, net proceeds, return on sales percentage, and return on equity percentage” (Amanor-Boadu et al). In their study of the Welch’s cooperative they find, however, that “common profitability measures, like return on equity or investment, cannot be calculated and compared in the usual way to other food processing companies because net proceeds in Welch’s [and other producer cooperatives] are not equivalent to net income.” Because Welch’s operates on a pool basis, its cost of sales does not include the cost of purchasing grapes from members. Members receive net proceeds instead of being paid a market price for their grapes. The net proceeds include the purchase value of their grapes” (Amanor-Boadu et al 2003: 9). Their study gives us some understanding of ways to measure a cooperative’s corporate wealth.
How co-ops choose equity level has implications for how we measure corporate wealth. It is important to know the equity mix, and perhaps even to know why such a mix is chosen. Ways to maximize distributions and manage equity, different distributional mechanisms each have different impacts on members’ wealth accumulation and members’ ability to leverage assets. One of the biggest co-op questions, particularly for producer and worker cooperatives, is whether or not to return earnings to member-owners, commit them to finance current investment, or hold them in reserve. Cooperatives resolve distribution differently, so to understand asset building through cooperative ownership we must know each cooperative’s distribution process.

Barton (2004) finds that capitalization has been a problem because of the unique co-op traditional business form that relies primarily on internally generated equity from operations, usually in the form of retained patronage refunds, and debt from bank financing. In this case, equity is like debt. Member-patron owners expect their retained patronage refunds to be redeemed at par value on some systematic basis such as age of patron, revolving fund, base capital or, in the worst case, estate settlements (Barton 2004: 4). Equity structure is highly variable as measured by the amount of unallocated equity, compared to total or allocated equity. Barton finds that at least 25 percent of cooperatives have more unallocated equity than allocated equity. An interesting question is, “How high can it get before members are tempted to sell the co-op to get their residual rights share?” (Barton: 17).

These trends, preferences and strategies have led to a declining proportionality of investment by patron-owners of cooperatives. In addition, they have positioned co-ops to be more investor-oriented and less patron-oriented in their capitalization strategies. The impact of this mind-set and situation is causing co-ops to have a very different capitalization structure. (Barton 2004: 17)

Barton (2004) calculates that in least cost financing, equity costs more than debt and so a cooperative will hold low levels of equity. If the problem is level of risk, agricultural co-ops have high risk and so will need a high level of equity to debt. Finally if profitability is the ultimate measure, agricultural co-ops with low profitability will have low levels of equity. Barton concludes that agricultural cooperatives minimize equity, given risk and profitability (Barton 2004: 27)

Local agricultural (and perhaps other producer) cooperatives also receive patronage refunds from regional cooperatives. These refunds are paid in both stock and cash. They represent the local cooperatives pro-rata share of the regional cooperative’s profits. A local cooperative’s net savings are distributed to members in the form of cash and stock patronage dividends. Over time regional cooperatives redeem their stock for cash. These cash redemptions help the local cooperative fund the redemption of their members’ stock (Kinkel and Fitzwater 2004).

A regional stock write-down and associated loss destroys equity on the local cooperative’s balance sheet. There are several methods for passing this loss through the cooperative: to reduce unallocated reserves; to carry loss forward; and/or to cancel member stock. This decline in equity may be covered by a reduction in the value of “unallocated reserves.” Large losses often force a
cooperative to reduce the value of their stock (Kinkel and Fitzwater 2004: 1). This can provide another tension in terms of maximizing equity and collective returns on the corporate asset for co-op members.

John Schmidt (Hueth 2007) also addresses the stressors on capital accumulation: the lack of equity liquidity, lack of a means to capture enterprise value, lack of equity capital for growth or acquisitions, and the conflict of cooperative customer and owner interests. Earnings benefits must be returned to the member as customer – “earnings are the most important source of capital for creating value for the shareholder and the business” (Schmidt quoted by Hueth: 5-6). Schmidt notes that cooperative equity typically has little or no liquidity because 1) of the lack of liquidity, the equity does not reflect enterprise value; 2) there is little recognition by shareholders of enterprise value (as the result of lack of liquidity); 3) of the diversity of members perspective of value as a customer and as an owner; or 4) the Cooperative has no equity currency for acquisitions, which is a disadvantage compared to a public company. Schmidt suggests the following ways to provide equity value to shareholders:

- Retain adequate cash to handle the taxes associated with patronage income;
- Provide equity redemptions (which have greater value to the holder the sooner they are redeemed)

Schmitz suggests that a cooperative can capitalize on its strengths to strategically address these conditions. Equity and enterprise valuations are similar to an average of publicly held agribusiness corporations (Schmidt quoted by Hueth: 5).

Smalley (Hueth 2007) contends that the greatest asset or benefit to the cooperative member is sale and takeover that allows cooperative members to capture the full market value of their company - which would not be possible under the cooperative structure. This can be a measure of asset building, however it is an ultimate, one time capital gain, non renewable, nonrecurring because after the sale former members “have no investment or control over the company” (Smalley quoted by Hueth: 5). Therefore, while an important measure of how individual member assets and wealth are created through cooperative ownership, with such a strategy the cooperative ownership ends with that distribution. Current individual members capture all the measurable wealth; the corporate entity and collective wealth is divided and the potential for any new communal/jointly owned wealth and community wealth through that entity is lost.

Another type of cooperative value proposition is to examine the economic value that is created by the cooperative enterprise. In this case the annual return of investment, adjusted for a given risk level, is the key metric for assessment (Peterson quoted by Hueth 2007: 2). However, Peterson also points out that assessing value creation strictly on financial measures does not encompass the mutual benefit provided to members, nor does it reflect whether members have benefited from this type of value creation (Hueth: 2). Peterson concludes that value creation is subjective, and that remaining relevant to the marketplace while providing mutual benefit and returns at the member level will continue to be a challenge for co-ops (Hueth 2007: 2). This returns us to the question of what individual level or household level assets are created and/or amassed, and the variety of ways that members can benefit individual and as a group from the
cooperative’s assets.

Consumer cooperatives have less tangible asset development and distribution. Member equity is much more intangible if not non-existent. NCBA (1998) presentations suggest that reducing costs and providing important services and livable wages can contribute to members economic well being and asset building. Credit unions, as examples of consumer cooperatives, directly aid their members in the accumulation and management of financial assets. Leaving credit unions aside for a moment, tangible assets of other consumer cooperatives would be land ownership, business equity, other non-financial assets and other nontraditional assets and intangibles such as leadership development, training, economic stability (which also contribute more to community wealth, see below).

To summarize, while the net worth of the business translates into individual shares through member accounts and patronage rebates, cooperative collective wealth is a term that tries to capture how the sum is greater than the parts. The cooperative’s collective wealth is a store of value with a potential greater than itself. There is an accumulated benefit stored in the business that is an asset in-and-of itself, as much as a distributional benefit from each member’s share of the business’s net worth, particularly as the value of each member’s account appreciates. Members and their families prosper because the business prospers. They also have access to the value of the business separate from their interest in it as a share holder – because they own the company democratically and because in the structure and practice of the cooperative principles the company is more than just a business. Being a member-owner of a cooperative enterprise provides opportunities for cost savings and income generation (that can lead to asset ownership), as well as opportunities to maximize corporate savings, partner with the corporation on value added activities, and leverage corporate equity for individual and group gains. Accumulated benefits from cooperative corporate wealth can include:

- Joint and individual collateral for other investments;
- Finance capital for corporate and individual investments;
- Safe, low interest or no interest loans and forced savings (IDA accounts, retirement programs, EITC collections) through the cooperative;
- Business experience and skill development from cooperative membership and participation - that can be used in other settings and to maximize other assets; and
- Stable employment and/or income and health and vacation benefits that contribute to increased discretionary income to be used for asset acquisition, and prevention of asset loss.

On the other hand many cooperatives have low levels of equity and limited capital. One of the most difficult problems that cooperatives face as they compete with traditional, for-profit businesses is that of limited capital – how can a co-op with little or no permanent equity capital meet its growing capital resource needs and continually expand, update technology and improve its operations? These companies are faced with the dilemma of continually returning equity to their members through patronage refunds or redemptions of equity, or retaining equity to fund the needs of their businesses (Allston & Bird Securities Law Advisory 2005: 1-2).
Another issue is how to quantify the value of the whole, especially for non-public corporations – when there is no external valuation process or standard. These tensions reduce the impact of collective corporate wealth, and will be discussed more in the conclusions of this paper.

**Examples of Cooperative Corporate Wealth/Assets:** The new University of Wisconsin Center for Cooperatives Study of the Impact of Cooperatives estimates that total assets of cooperatives in the U.S. currently total more than $1 trillion, and that cooperatives in the U.S. generate nearly $250 billion in annual revenue (and over $500 billion in annual revenue when you include indirect and induced effects) (NCB 2008: 7). Twenty-nine cooperatives in the U.S. have annual revenue in excess of $1 billion in 2005 (NCBA 2005). The top 100 co-ops in the U.S. had a combined $173,116 billion in revenues and $433,449 billion in assets in 2007 (NCB 2008). Total assets of these 100 richest cooperative corporations ranged from a high of $59.236 billion to a low of $31 million in 2007 (NCB 2008: Table 1). The average value of the assets of the Coop 100 in 2007 was $43 billion, a significant increase from almost $2.2 billion in 2000. This means that there is a considerable amount of money and resources under the democratic control of co-op members as a group, and even by each corporation – and that these assets have been growing.

Sector by sector information about the worth of cooperative businesses also gives us an idea about the level of wealth or potential wealth created by certain industries and types of cooperatives. The forty agricultural cooperatives that dominate the Top 100 co-ops, for example, have total assets worth $27.975 billion, and three of them are the top revenue earners of the richest co-ops in the U.S. (NCB 2008). Of the fifteen grocery cooperatives, including the 4th, 5th and 6th highest revenue earners, total assets are $5.488 billion. Total assets of the nineteen energy and communications cooperatives (the richest sector by asset value) are $28.817 billion (NCB 2008). More than 1,000 mutual insurance companies had more than $80 billion in net written premiums in 2005. (NCBA 2005)

Information from the Credit Union National Association (CUNA) shows that credit unions are growing in size, members and assets, and most credit unions are currently over-capitalized (CUNA 2008a; and Gemerer 2008). In 2006 total credit union assets in the U.S. were at $6.3 billion. $5.3 billion was held in share deposits for 1.4 million members (CUNA 2008a).

We see that many cooperatives are stable (viable) businesses with assets, and are growing. Control of this asset is an asset in-and-of itself. The remaining task is to adequately understand how it is an asset and how to best measure the ways it is an asset to, and/or a potential asset for, members and their communities.

**Community Wealth:** Because we have yet to sort out the benefit of the whole value of the business's wealth (the collective corporate wealth of cooperatives) versus the per member average and/or worth of each member’s account, we also have a poor understanding and acknowledgment of community wealth from cooperative ownership. By community wealth I mean the “wealth” created by the cooperative – assets (financial and tangible), resources and
capacities - that spills over into and enriches the community that surrounds it, or is somehow associated with the cooperative or the individual members of the co-op. This concept is similar to the concept of “neighborhood or locational effects” from real estate development and institutional placement. Members as well as the community do benefit from the cooperative wealth, but how do we quantify it? There are at present no formal ways to measure particularly the communal and community wealth generated - although from a business assessment we can gauge the health of a cooperative enterprise and its surrounding community. Corporate ecological sustainability and social responsibility ratings have relevance here and begin to help us measure societal and community benefits from cooperative enterprises. My notion, however, is narrower than corporate social responsibility ratings because it is focused on asset building, and more expansive because it attempts to gauge a range of indicators of economic well being for people associated with a particular type of enterprise.

Mendell (2008) describes the development of the social economy as: “a movement away from a localized and sectoral focus towards a political economy of citizenship that addresses the productive roles of democratic citizens in creating private and public wealth, of leveraging the capacity of citizens to construct collaborative alternative development strategies with private and public sector actors” (Mendell: 3). In addition she suggests that “shared objectives to promote collective enterprise, to collectively develop an alternative economic development strategy committed to democracy, equity, sustainable development, and viability, [can be] reinterpreted as socio-economic viability”(11). This is a component of the definition of community wealth that I propose. Mendell refers to Chambers and Conway’s (1991) application of “sustainable livelihood” to development:

A livelihood comprises people, their capabilities and their means of living, including food, income and assets. Tangible assets are resources and stores, and intangible assets are claims and access. A livelihood is environmentally sustainable when it maintains or enhances the local and global assets in which livelihoods depend, and has net beneficial effects on other livelihoods (quoted by Mendell 2008, note #2: 19).

The concept community wealth encompasses notions of public wealth and global assets.

Jean-Marie Peltier’s presentation on cooperative branding and corporate responsibility points out that traditional cooperative values – farmer ownership and control, economic viability of farm businesses, stewardship of natural resources, and rural community – fit in well with the current emphasis of sustainability and social responsibility in the corporate realm. NCFC is developing a cooperative stewardship initiative, and the NCFC Code of Sustainable Practices to promote these values (quoted by Hueth 2007: 8). Similarly the Federation of Southern Cooperatives has supported cooperative economic development as a way to support and sustain Black farmer ownership and control, economic viability of farm businesses - especially small, sustainable and organic farming; and stewardship of Black land, natural resources and rural low income communities (see FSC/LAF annual reports, 1992, 2002, 2007).

These applications of corporate sustainability and social responsibility to cooperative enterprises
closely resemble my notion of community wealth from joint ownership and control of collective assets. Viability and sustainability of a community is enhanced; individual and joint assets increase in value and are able to be leveraged to create more value - and a variety of values.

To summarize: Exploring ways to measure and evaluate cooperative collective corporate wealth and community wealth generated from cooperative ownership is a challenge that is beginning to be discussed, but requires more "out-of-the-box" thinking. Community wealth in particular may not be best or accurately measured using only quantifiable assets and liabilities, and the net value of those. We will need to delineate ways to measure the benefits of collective ownership and profit sharing, particularly the benefits of collective access to jointly owned accumulated assets, and benefits from association with a profitable business to members outside the cooperative, not just family members but the surrounding community, clients and non-member patrons, as well as non-participants. It will be necessary to broaden our definition of wealth to include qualitative measures that directly result from shared prosperity, such as joint control over resources, increased access to and availability of capital that can be leveraged, access to inventories of goods or services, expanded opportunities and capacities with which to participate in economic and civic participation. We will also need to think about how to measure the ensuing quantitative impacts and outcomes from those qualitative relationships. We may also need to demonstrate how such indicators contribute to more traditional wealth creation and accumulation - such as home ownership; a checking, savings or CD account; new business development or stock ownership in another business; or access to higher education - which might justify why these indicators should count in the wealth equation. Much of this kind of exploration will be pursued in another phase of the work.

**Step Two: What We Want To Know – Designing Preliminary Indicators and Measures of Cooperative Wealth**

Basically, we want to know the number and value of a household’s assets that derive from a cooperative (from co-op membership/ownership), directly and indirectly. What, for example, is the optimal equity management for co-op members’ wealth accumulation? We also want to know the asset building potential of cooperative enterprise ownership, and the spillover effects and multiplier effect of re-circulating resources. In addition, it would be nice to know if the net worth of individual cooperative members and their families is greater than or at least equal to the net worth of comparable non-co-op members.

The challenges are that we do not have an agreed upon definition of cooperative collective wealth. We also do not know if we are measuring the same thing as wealth from other kinds of assets. Is co-op wealth different? We have no good measure of a cooperative corporation’s wealth - if no equity market, how to value and measure that equity, value added and net worth of the cooperative? The not for profit mission, and limited compensation principle also get in the way of valuing a co-op’s assets. If profit is not the primary mission and return to capital limited how is cooperative business development a wealth building strategy? How do we distinguish per member assets/equity/value versus total corporate assets/equity/value – is it just the difference
between allocated and unallocated equity? In addition, to compare co-op owners with non co-op owners, wealth data sets must collect data about and disaggregate cooperative businesses and co-op business owners. How will we change government data collection and national wealth surveys so that they disaggregate by cooperative ownership? We also do not know what members do with their dividends, profits and accumulated wealth. Will co-op members answer personal questions about their investment and spending habits and preferences? Will we end up describing only asset ownership, or also asset accumulation and wealth accumulation?

Given these constraints and challenges, the following are potential indicators from cooperative corporations to help us answer the research questions:

- **Equity** - value of equity; equity redemptions/equity management; allocated, unallocated, retained and cash distributions/ratios; equity distribution schedule - minimum vestige, revolving payment system;
- **Member Accounts** - value of member accounts; annual value of dividends/patronage refunds; access to and leveraging of member accounts and equity accounts;
- **Member investments and use/spending of refunds and disbursements**; Member loans from the cooperative, and uses of loans;
- **Member’s wealth portfolio and portfolio span** (components of co-op member’s portfolios – is there a different configuration of assets?);
- **Business impact** – components of a business equity multiplier – increase equity of other businesses in the neighborhood, investment land ownership and in other neighborhood activities and businesses, support for community efforts, loan money to community members of institutions, etc.

Survey Questions to ask about individual wealth holdings of coop members, by type, percent who have some form of wealth, value of wealth.

1. Did the co-op help with access or acquisition of any of the assets, if so how? Could compare with general population in that zip code, use PUMS data – or compare with other users of the cooperative if can get that information. Lee and Kelley (2001) find that households using both a bank and a credit union, for example, have greater wealth than households using only a bank or a credit union. Wealthier households tend to use more than one financial institution (15). Those who use banks primarily, however, have greater wealth than those using credit unions predominantly. Why? But also can such a study be updated and augmented?

2. Examine accessibility – does the cooperative provide the asset or help with access to the asset; or does the co-op dividend go toward acquiring this asset? ChildSpace provides IDAs for example. Did car or house come from the co-op’s IDA program or from a credit union loan? Did the member use ownership of the co-op business as collateral for a loan to buy an asset?

Simple statistical analyses –

- Number of co-op members holding each kind of wealth;
- Value of each:
• Vehicle;
• Interest bearing account – savings, money market, Certificates of Deposit;
• Stocks and Bonds;
• Home equity;
• Business equity (non-co-op);
• Other real estate;
• Retirement account(s) (have any, present value);
• Co-op Business Equity: Market Value of cooperative share(s) from selling of the cooperative, or value of member account at retirement and/or if sell out (divest or leave the cooperative).

Tally value of each kind of asset; value divided by number of each kind; % holding each kind; Financial assets as share of total assets; Non-financial assets as a share of total assets; Co-op equity as a share of member’s total assets.

We can also try to measure and compare wealth portfolios of members before, during and after becoming a co-op member. This would be very difficult but may be possible in an interview designed to help people remember those stages.

Collection issues – would a co-op collect this data for us? Would they allow researchers to come and collect the data about their members and nonmember clients? This is separate from data about the co-op business itself.

Business level data - Aggregate information about the business:
• Value of equity;
• Equity redemptions /equity management - Allocated, unallocated, retained and cash distributions/ratios;
• Distribution schedule – minimum vestige, revolving payment system;
• Value of member accounts;
• Annual value of dividends/patronage refunds;
• Access to and leveraging of member accounts and equity accounts;
• Member investments and use/spending of refunds and disbursements;
• Member loans and uses of loans;
• Members wealth portfolio and portfolio span (components of coop member’s portfolios);
• Business impact – components of a business equity multiplier – increase equity of other businesses in the neighborhood, invest in other neighborhood activities and businesses, support community efforts, loan money to community members of institutions, etc.

Also examine non-traditional assets and resources, and their indicators:
• Leadership development
• Teamwork and social capital
• Human capital and training
“Sweat equity,” volunteer hours and “social energy.”

Survey's and interviews with CEOs and directors about the history of patronage refunds and distribution systems help give a picture of individual member wealth creation through ownership in cooperative businesses. If we were able to match member's wealth portfolio with their cooperative's information we could get an even better sense of how directly the investment in the co-op contributes to the member's total assets. It can also give a picture of co-op corporate wealth - what the cooperative retains for operations and reserves. Interviews with members about what they do with their patronage refunds and the value of their share in the business - how they invest it if they do- can help us understand their wealth accumulation. We also need ways to understand if and how they translate the co-op corporate wealth into individual wealth or leverage the corporate wealth. Questions about if and how they use their standing as business owners to further their own investments and asset ownership would contribute to this understanding.

Start with focus groups to target the questions and experiment with ways to phrase the questions to obtain the most precise answers. Conduct a pilot study of agricultural cooperatives and/or worker cooperatives to help test out and hone the questions and the types of information to gather.

**Suggested beginning indicators of community wealth:**

**Quantitative:**
- Patronage of and support for local small businesses, increased viability of small business ownership;
- Increased business/commercial activity;
- Access to low cost capital;
- Increased property values;
- Affordable housing;
- Multiplier effect of recirculating money.

**Qualitative:**
- Benefits from association with a profitable business – location and neighborhood effects;
- Business anchoring, economic stability;
- Increased access to and availability of goods and services;
- Land and property stewardship;
- Increased quality of life and well being;
- Increased economic and civic participation in the community (see Gordon Nembhard and Blasingame 2006);
- Increased capabilities and skills;
- Expanded opportunity for economic and human development.
Much of this information would come from a combination of collecting macro data from the cooperatives and their trade organizations (and tax records?), interviewing managers and co-op members (focus groups and individual interviews), and doing asset mapping in neighborhoods with a cooperative.

This beginning set of questions and list of types of information we need will be used to design the first pilot study of credit unions (below). After that study is completed, I will return to these questions and indicators to broaden the study to other types of cooperatives, particularly worker cooperatives and producer cooperatives.

**Step Three: Pilot Study – Wealth Accumulation through Credit Union Membership**

**Preliminary Outline:**
Asset building through Credit Union membership can be studied in several ways. The national credit union associations - Credit Union National Association (CUNA), National Credit Union Administration (NCUA), and National Federation of Community Development Credit Unions (NFCDCU) – collect extensive data on credit unions. This makes it quite feasible to begin a study of the impact of cooperatives on asset building with credit unions. Available data includes: total assets, member shares, total loans, interest payments to non-member depositors, share dividends paid to members, investment, borrowing, delinquent amounts and delinquent numbers, gross income. Examining both the assets that credit union members hold as well as ways credit union borrowers use their loans and bank accounts will provide a strong picture of how assets are built and wealth is accumulated through use/ownership of a credit union. In addition, one can study the assets of credit unions as community-based institutions, particularly community development credit unions, and how they impact their communities, support community institutions, and affect community development and economic stability. This study will also include the collection of more qualitative information obtained from focus groups and individual interviews with credit union managers and members. I will be creating the survey instrument and interview questions in the first months of the study. I am already in contact with the Director of the NFCDCU, and members of the African American Credit Union Coalition. In addition I have access to graduate students at Howard University Department of Economics and at Southern New Hampshire University School of Community Economic Development who can help collect the data and conduct interviews.

**Potential Credit Union Indicators:**
- Assets, revenues;
- Number of members;
- Jobs created - direct and indirect; # employed; benefits to employees (pension plan, health insurance, sick leave, paid vacation time, child care, etc.);
- Loans – how many, value, value/number; loans outstanding; loans made (by category);
- Purpose of loan – business, home mortgage (first time); How loan is used;
- What was used for collateral?
• How quickly paid back?
• Loan to reserves ratio;
• Savings accounts, Certificate Deposits, etc.;
• Branches – number and types;
• Other savings instruments, innovative asset-building instruments (ask credit unions what instruments are available to members and non-members for savings and investment. How many do they hold/offer?).

Community Service/ community development indicators: Income created through lending, new income from interest charged and fees charged. How does Credit Union turn this into wealth – how invest or use the money earned? Does the credit union use its income and lending differently and invest in different asset than commercial banks? Is the return adequate, and what benefits does it provide? Do and how much do credit unions contribute to their communities in terms of donations – monetary and in-kind? How much and in what ways do credit unions support other community organizations and institutions? In what ways, if any, do credit unions relate to and support religious and civic organizations, community development corporations, educational institutions, and health and child care associations, etc. in their communities? What examples are there of credit union activities in support of their surrounding community? What kind and how many financial education and home ownership programs do credit unions sponsor? Do credit unions sponsor or initiate other kinds of education and/or training programs, particular around asset ownership? Do credit unions handle foreign remittances and/or operate special accounts for immigrant or migrant worker members?

This pilot study has a one year time line:
• First 3 months - sort through the existing data and categorize it while drafting the survey instrument and interview questions.
• 4-6 months - work with graduate students to analyze the quantitative existing data, identify credit unions and organizations to approach for focus group interviews and one-on-one interviews, and test the interview questions.
• 7-9 months - conduct focus groups, one-on-one interviews and selectively administer the pilot survey.
• 10-12 months will be data analysis, and reporting on the preliminary findings. A final report will be written after that summarizing the findings and recommending a more detailed study of credit unions and asset building, as well as indicating how to reproduce such a study in other cooperative sectors such as worker cooperatives, and producer cooperatives.

Challenges: More thinking is needed about how this information and growth in these credit union assets translate into individual wealth, and how it adds to communal and community wealth. The interest or dividends on share accounts, the increase in the assets of the organization, and the dollars provided by loans all have the potential of increasing individual member wealth. How and if these contribute to wealth accumulation are of question. Part of the answer revolves
around how much increased income these provide and what members do with the income. Here we need more information – hopefully from the interviews, but we may need to think of other methods for gathering such information. Partly the issue is about how much increased equity and return on investment members gain, and what leverage that gives. Again, we probably know a little about this, but need to know more, especially about how members leverage their equity and investment. Also, the answer in part depends on how much being a part of a successful economic enterprise contributes to other aspects of life as well as to individual and community economic stability and wealth accumulation. This pilot study will help us to hone in on the most effective ways to ask some of these questions, as well as the most important questions and indicators to use. It will be an important step in teasing out the various ways that cooperatives help build assets and wealth.

Concluding Remarks

Cooperative collective corporate wealth is the wealth that is created through the joint efforts of the members and is retained by the cooperative entity or enterprise, owned and operated democratically. Distinguishing between individual member wealth and such corporate wealth is one of the most important and difficult questions to address if we want to understand wealth accumulation from cooperative ownership. How do cooperatives decide about allocations of resources and the surplus between the individual and the co-op corporation? What mechanisms do they use to make the decisions and to process the distributions? If members individually are allocated only a part of the whole value, as a collective they have additional wealth. Some would say this limits their wealth building capabilities, but if we recognize the strength and potential of the total corporate wealth under each member’s control, member-owners may actually be wealthier, even if the specific assets or increased value do not count (are not listed or measured in) their individual portfolio. Worker owners and producer owners usually have individual accounts held for them in the business and so access to that information can contribute to identifying wealth accumulation for individual members. Corporate accounting information also helps give us a picture of the worth of the business - equity and total assets owned, liabilities, etc. How to tease out ways in which the corporate wealth also benefits members will require us to think about if or how the sum is greater than the parts - if there is some accumulated benefit or just a distributional benefit.

Many of the basic, internationally recognized principles of cooperatives directly or indirectly relate to democratic asset building and wealth accumulation for members. These principles contribute to a cooperatives potential to create and sustain collective assets with multiple benefits. At the same time creating profit is not a major goal of most cooperatives, and in some cases the co-op’s purpose is limited equity (to keep the product or service affordable as in the case of limited equity housing cooperatives). Therefore, while the wealth building potential through cooperative ownership is great, there are also many challenges to accessing and measuring its occurrence.
Because we have not yet sorted out the benefit of the whole value of the business’s wealth versus the per member average, we also have a poor understanding and acknowledgment of community wealth from cooperative ownership. There are at present no formal ways to measure particularly the communal and community wealth generated - although from a business assessment we can gauge the health of a cooperative enterprise and its surrounding community; and the corporate sustainability and social responsibility ratings begin to measure communal and community benefits. We still have no good language for this and no hard indicators for measuring such wealth or wealth potential. This concept paper and proposed research have attempted to identify the issues and provide definitions so that we can systematically address these challenges and devise ways to measure potential and actual cooperatives wealth building.

Investigations into wealth creation and accumulation through cooperative ownership fall under two broad categories: 1) collecting and accessing data – i.e., finding where data exists and how useful it is and figuring out ways to create data through surveys and interviews; access to cooperative business accounting and files; and changing data collection methods in official and government sources. 2) Analyzing data to reflect the proposed definitions of wealth, exploring the variety of dimensions that the data provide insight into, and making choices about how to calculate individual wealth separately from group wealth.

In this concept paper I have proposed that we examine individual wealth holdings from cooperative ownership and of members of cooperatives, cooperative collective corporate wealth of the cooperative business itself, and community wealth from association with or because of efforts from cooperative enterprises. I believe that we can show asset building and wealth accumulation in each of these three categories. Next steps are to refine these co-op wealth indicators and ways to gather and analyze the pertinent data; and to conduct a couple of pilot studies beginning with asset building through credit union membership.

Research innovations utilized and proposed in this study are:

- Expanded notion of wealth from a cooperative perspective: what is co-op or collective corporate wealth versus individual wealth; including a notion of community wealth (neighborhood effects of locational capital and democratized capital).
- Distinctions and clarifications between concepts to better understand what we are investigating.
- Potential identification of a wealth multiplier.
- Understanding of the barriers to wealth creation and accumulation through cooperative ownership (within and without the cooperative).
- Exploration into what economic structures lend themselves to individual and community wealth creation, asset building, retention of assets, portfolio span, and ultimately wealth accumulation among cooperative members, low income people and communities of color.

This research is importance to our understanding of wealth building, and asset development through community-based economic development. This research is crucial to the further
development of the fields of cooperative economics and community economic development, and our understanding of the impacts of cooperatives on communities, as well as the unique contributions of cooperative businesses to economic development and the alleviation of poverty (an area the United Nations is currently pursuing). I am confident that such an analysis of cooperative corporate wealth will also contribute to expanding the notions of wealth, wealth accumulation and asset building in general. These are areas that need much more attention and that are of increasing importance in our society.
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Notes:

1. Tax laws also help determine how much is distributed to members and how much retained by the organization. These tax laws vary across states in the U.S. and internationally.

2 During our Discussion Session in Madison in September 2008, several of the co-op advisors/observers agreed that a pilot study of credit unions is an important early step and will be a significant contribution. In addition, the current financial crisis provides an important context within which to study the strengths and impacts of credit unions, particularly as alternatives to
sub prime lending, and as stable, community-based institutions.

3 The only existing study of this nature is the Filene Institute study of credit union accounts versus commercial bank accounts, Lee and Kelley 2001.

4 The International Co-operative Alliance “Statement of the Co-operative Identity” lists the seven cooperative principles: voluntary and open membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among co-operatives; and concern for community. These are internationally recognized principles accepted by all cooperatives. See www.ica.coop “Principles and Values”; and NCBA 1998: 16.

5 Two studies about the extent to which Employee Stock Ownership Plans (ESOPs) transfer wealth to employees are beginning to answer some of these questions for ESOP companies (i.e., worker ownership of stock), and particularly in regard to retirement savings. According to Scharf (2001), a study of ESOP firms in Washington state in 1998 finds that not only are wages higher in those ESOP companies, but also the ESOP firms “provide their employees significantly higher retirement wealth than similar non-ESOP firms” (2). For example, the average ESOP participant’s account value was worth $24,260 (in 1995) and the average value of all retirement benefits in ESOP companies in Washington state was $32,213, compared with the average value of $12,735 in the comparison companies. Thus employee -owners had more retirement assets without "sacrificing their wages" (4). Similarly a smaller Massachusetts study conducted in 2000 finds that per participant wealth held for ESOP employees was $39,895 (in 1999) (3). An impressive 12% of Massachusetts ESOPs have average participant accounts worth over $100,000 (3). The vast majority of these ESOPs in both cases use the ESOP ownership as a supplemental pension which explains the higher value. This is one way to show that broader ownership increases assets at least for retirement. Scharf also notes that much more research is needed in this area.

6 The author’s calculations from statistics in Chesnick, 2000.


8 Calculated by the author from statistics reported in NCB, 2001 and 2008.

9 These calculations were also done by the author, using data in Table 1 of NCB 2008.