



## **Research on the Economic Impact of Cooperatives**

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### **Project Purpose**

The cooperative ownership model is used in a wide variety of contexts in the United States, ranging from the production and distribution of energy to delivery of home health care services for the elderly. Although cooperative businesses have been responsible for many market innovations and corrections of market imperfections, little is known about their impact as an economic sector. Until this project, no comprehensive set of national-level statistics had been compiled about U.S. cooperative businesses, their importance to the U.S. economy, or their impact on the lives and businesses of American citizens.

This report describes and quantifies the magnitude of economic activity accounted for by U.S. cooperative businesses. It describes the legal and economic characteristics that were used to define cooperative firms; methods used to measure cooperative activity across all sectors of the US economy; and approaches developed to collect appropriate data. Finally, it provides a census of cooperatives, summarizes the extent of their activity by economic sector, and measures their impact on aggregate income and employment.

### **Project Partners**

The project was funded by the U.S. Department of Agriculture (USDA) with matching support from the National Cooperative Business Association and its members, and the State of Wisconsin's Department of Agriculture, Trade, and Consumer Protection. In-kind support was provided by the University of Wisconsin Center for Cooperatives (UWCC) and the Departments of Agricultural and Applied Economics and Consumer Science at the University of Wisconsin–Madison.

### **Data Collection**

To estimate the impact of cooperatives, conducting a census of U.S. cooperatives was necessary. Cooperatives were located through lists maintained by trade associations, the USDA, and academic colleagues; through web searches; and through Guidestar, a searchable database of nonprofit organizations. In all, our search identified 29,284 cooperatives in the U.S. economy. Surveys using standardized survey instruments and a uniform sampling methodology were then conducted to collect key business indicators from individual cooperatives. The surveys targeted firms in commercial sales and marketing, social and public services, financial services, and utilities. We surveyed 16,151 cooperatives.

## Methodology

When businesses use capital, labor, and other inputs to create and sell a product or service, they create economic activity. The direct impact of this activity for the cooperatives in this study is measured by examining the revenue generated by selling output; income paid to owners and workers (wages, benefits, patronage refunds, and dividends); and number of jobs.

The study uses input-output analysis to examine how these direct economic impacts ripple through the economy to generate additional indirect and induced impacts. Conceptually, *indirect impacts* measure the ripple effect that results from connections with other businesses; *induced impacts* measure spending by the cooperative's labor force and its owners with the wages and dividends (or "patronage refunds") they earn. The study uses IMPLAN, an input-output modeling system, to measure these secondary impacts.

We conservatively estimate economic impacts in our analysis. At every turn, we have taken steps to ensure that, we *underestimate* the aggregate wage, employment, revenue, and income impacts of cooperative business. For example, we used wages and benefit as a proxy for input expenditure, rather than revenue. This is apparent in our impact estimates where induced impacts are always larger than indirect impacts. We have applied this rule uniformly across each of the 17 economic sectors in our study, fully recognizing that we may sometimes underestimate indirect economic impacts. This approach is particularly likely to underestimate the full economic impact of lenders in our Financial Services sector. Banks lend to consumers and businesses that in turn invest in various projects ranging from home repair to the launch of an entirely new business. In principle, some portion of the value of these projects could be attributed to banks in assessing their economic impact. We do not attempt to do this, as that method would require significant additional data collection and a methodological approach for separating the impact of banks per se from the projects they fund.

## Results

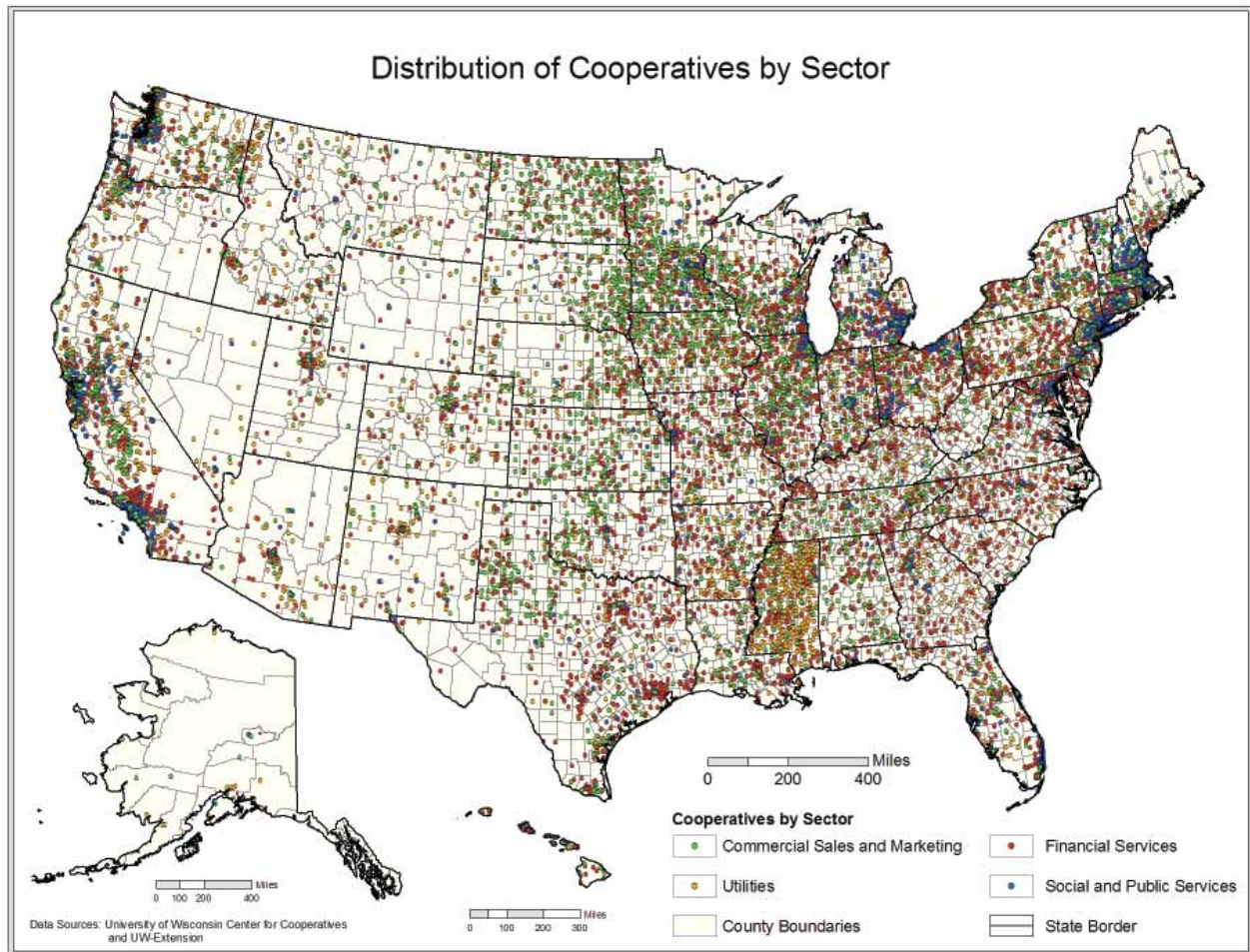
**Figure 1** visually displays the distribution of cooperative business activity across the United States, and across four aggregate economic sectors: Commercial Sales and Marketing, Social and Public Services, Financial Services, and Utilities. Nearly 30,000 U.S. cooperatives operate at 73,000 places of business throughout the U.S. These cooperatives own >\$3T in assets, and generate >\$500B in revenue and >\$25B in wages.

These and other data are used to estimate the indirect and induced impact of cooperative business activity, summarized in **Table 1**. The study estimates that cooperatives account for nearly \$654B in revenue, >2M jobs, \$75B in wages and benefits paid, and a total of \$133.5B in value-added income.

Cooperative firms are organized and behave differently from other forms of business organizations. Assessment of economic impact solely in terms of the magnitude of business activity provides an incomplete perspective on the total impact of cooperatives. To initiate study on these more complex impacts, we prepared a series of eight discussion papers. They address methodological and empirical approaches for exploring deeper issues on the economic and social significance of cooperatives, and, in part, will form the basis for subsequent phases of this research project.

For further information on these specific research papers, and for a full reporting our research activities and results, please visit our website devoted to the project: <http://reic.uwcc.wisc.edu>.

**Figure 1:** Distribution of U.S. Cooperatives



**Table 1:** Economic Impact of U.S. Cooperatives: Aggregate Impacts by Sector <sup>1</sup>

Sector	Revenue (\$M)	Income (\$M)	Wages (\$M)	Employment (No. of jobs)	Firms	Estab.
Commercial Sales and Marketing	201,207	37,737	13,810	422,505	3,463	5,695
Social and Public Services	7,525	2,213	1,690	424,505	11,311	11,311
Financial Services	394,363	100,661	51,176	1,133,353	9,964	50,330
Utilities	49,808	13,392	8,292	162,873	4,546	5,657
<b>Total</b>	<b>652,903</b>	<b>154,002</b>	<b>74,969</b>	<b>2,143,236</b>	<b>29,284</b>	<b>72,993</b>

<sup>1</sup> Analysis does not include housing cooperatives.