Successful cooperative businesses create wealth and help their members accumulate wealth. In the first three years of its existence, BIG Wash Laundromat, for example, returned dividends to the original investors equal to 185 percent of their holdings (David Montgomery, 1999). After four years they paid off one of their two bank loans, and at least one share of stock sold for six times its original value (Rita Bright, personal communication). Worker-owners of Cooperative Home Care Associates earned annual dividends between $250 and $500 on their initial investment of $1,000 during the first ten years in existence (Sigmund Shipp, 2000). A study of 15 Mutual Benefit Service Sector Cooperatives in California found that these co-ops provided higher wages for members than the national minimum wage and wages higher than entry-level jobs in retail and manufacturing for unskilled, non-English-speaking immigrants (their members). Some engaged in profit-sharing and were able to return surplus earnings to members. Six of 15 provided some form of benefits (Nancy Conover et al., 1993). Childspace develops worker-owned, child care cooperatives which provide above average salaries for the industry, with full medical coverage, child-care services for all worker-owners, and access to a career ladder. The Childspace Development Training Institute also instituted an individual development account program for worker-owners whose incomes are 200 percent or less of the federal poverty level (Christine Clamp, 2001).

The above is anecdotal evidence from one-time case studies of specific cooperatives. Most of these are also examples from majority-people-of-color-owned and majority-women-owned cooperatives. Such examples of wealth creation exist around the country for mainstream populations as well as for marginal populations, and across the globe as well. Is this typical? Are such achievements generalizable?

The original title of this paper was: “How Cooperative Ownership of Businesses and Homes Contributes to Wealth Accumulation in African American Communities: Preliminary Analysis.” This was to be an exploration into how cooperative ownership creates and builds wealth, especially for those who do not start with much wealth. I quickly found that few scholars have addressed this issue, and most of what does exist is not from official data. In fact, there is not much data or analysis at all on wealth accumulation from co-op ownership in general, let alone from predominantly African-American-owned cooperatives. In general, most cooperatives do not trade publicly or even trade much stock at all, and sometimes they do not distribute dividends. Often much of the co-op’s wealth is retained in the enterprise and not distributed. Therefore, calculating return on investment is difficult. In addition, cooperative businesses are not identified as a separate category in government statistics, and so traditional data sets are difficult or impossible to use.

Below I discuss what is known in this area. I end with questions and issues that need to be addressed if more progress is to be made on this topic.

I. Wealth and Cooperation

A cooperative is a collectively owned and operated business (National Cooperative Bank, 2001). Its general purpose is to provide service(s) to its members, at the least cost (U.S. Department of Agriculture, 1985 p. 2). Many of the basic, internationally recognized principles

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1 The more traditional mainstream cooperatives, particularly producer co-ops and agricultural value-added cooperatives, have been extremely successful (see National Cooperative Bank, 2001). More documentation of wealth creation in those sectors is needed as well.
under which cooperatives operate directly or indirectly relate to asset-building and wealth accumulation for members. The principle of one member one vote, for example, provides for democratic member control of all decisions and of distribution of the surplus. Independence and autonomy prohibit control by outside capital. Benefits are distributed in proportion to use rather than direct investment. Concern for community encourages cooperatives to contribute to the sustainable development and betterment of their communities.²

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 that are often distributed upon exit from membership; sometimes only in job security and living wages and benefits, or reduced costs of products and services. Individual cooperatives decide democratically how much of the surplus should be allocated to members and how much unallocated or retained in the business. Without getting into the tax and business requirements, usually not more than 25 percent (and often between 15 and 25 percent) of resources are designated as unallocated in cooperatives. The patronage refund is a payment (a portion of the surplus) from a cooperative to a member (patron) based on the quantity or the value of the business done with the member (see U.S. Department of Agriculture, 1985 p. 5). The refund may be made annually in cash or retained in the enterprise in a member account (or some combination) for each individual member. Members also earn dividends on the capital stock or equity that the member has initially invested in the organization.

One way to enhance an individual member’s wealth and to provide easier access to the member’s investment is through the use of a revolving payment system or minimum vestige. In the revolving system, a member may withdraw all or most of what is in that individual’s member account after a stipulated time period (e.g., one-third of the members after three years, another third after four years, etc.). Minimum vestige means that the coop retains any surplus under a certain amount, such as $20,000, 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, while also dispersing as much as possible to individual members.

The anecdotal information in the Introduction suggests that some cooperatives provide nice returns for their members, help them save, and grow so that initial shares appreciate (even if not publicly traded). Gloria Bromell-Tinubu (1998 p. 60) suggests that “theoretically cooperatives clearly have all the ingredients to make asset building on the individual and community level a reality.” Surveys 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.

II. Co-op Corporate Wealth

Successful cooperative corporations have increasing assets and return surplus to their members. While the data about how much individual members gain from their co-op is difficult to find, some cooperatives do provide basic statistics about their revenues and assets. The more than 900 electric cooperatives in the United States, for example, have assets worth $70 billion (National Cooperative Bank, 2000). The National Cooperative Bank analyzes the top 100 cooperative companies annually. The majority of the Co-op 100 companies are agricultural, but they include finance, franchise, grocery, hardware and lumber, healthcare, media, recreation, food-distribution, and utility cooperatives. Together these companies hold $214.48 billion in assets. According to the National Cooperative Bank (2001), “America’s top 100 cooperatives generated over $130 billion in revenues in 2000, a five percent increase from the 1999 top 100 cooperatives” (which was an increase from the previous year). Total assets of these companies ranged from a high of $24.25 billion to a low of $25 million per co-op in

² Formal cooperatives operate according to the seven principles delineated by the International Cooperative Alliance (ICA) (see National Cooperative Business Association [NCBA], 1998 p. 16; Bruce Thordarson, 1999; also see the NCBA web site: {www.ncba.org/coop/primer.cfm}).
The average value of the assets of the Co-op 100 in 2000 was almost $2.2 billion. The total asset value of farmer-owned coops in the United States in 1998 increased by 10 percent, to a record high of $27 billion, even though revenues were lower (David Chesnick, 2000). Total investments of these cooperatives in other cooperatives and other businesses increased by 21 percent in 1998 ($3.5 billion). “Members-payable” accounts, “representing cash patronage refunds, dividends and revolving equity that have been declared but not yet paid” (Chesnick, 2000 p. 4), provide some sense of the funds members have tied up in these coops. In 1998, these liabilities increased 29 percent to $1.3 billion. Total member equity increased 10 percent to a record high of $9.9 billion (p. 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. Not only are these co-ops healthy, but also a majority of the assets actually belong to individual members.

III. Housing Wealth

Homeownership is one of the traditional ways to accumulate wealth. Cooperative housing allows people who might not normally have access to homeownership the chance to become home owners or reduces the cost of homeownership. The Cooperative Housing Coalition (2000 p. 11) 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.”

Ernie Eden (1988) estimates that the resale value of a $50 co-op membership in a limited equity housing co-op is about $7,500 in 40 years. In addition, investing the $200 per month saved over renting at 5 percent for 30 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 co-op 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.

IV. Credit Union Wealth

Jinkook Lee and William Kelly (2001 p. 15) find from the Survey of Consumer Finances 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. (This is one area where government statistics do disaggregate for a cooperative, in the case of credit unions.)

To gain an understanding of credit union growth and wealth, I use information from the Credit Union National Association to look at total assets, member shares, outstanding loans, and average member dividends, for all credit unions throughout the United States. Total credit union assets, member shares, and total loans increased from 1996 to 2000. The average dividend paid to members averaged about $125 over the period, with a high of almost $200 in 1997 and ending 2000 with $125.
Community Development Credit Unions also increased their assets, member shares, and total loans over this period. These are credit unions dedicated to serving low-income communities and community economic-development projects. The total assets of these credit unions increased by about $1,000,000 over the past five years. Average dividend paid to members of community development credit unions fluctuated from between $60 to a high of $90 in 2000.

In terms of African-American credit unions, the 17–20 (depending on the year) credit unions that are members of the Federation of Southern Cooperatives (FSC) grew in all areas (assets, shares, loans outstanding and memberships) between 1997 and 2000. They grew at a rate of about 10 percent between 1999 and 2000 (FSC, 2000). These are credit unions whose members have low and moderate incomes. FSC member credit unions collectively made 63,710 loans since organization, providing a total of $72,337,291 in credit to members. Assets per member steadily increased from 1997 to 1999, then decreased slightly in 2000 (FSC, 1998, 1999, 2000). From 1997 to 2000, assets per member of all the FSC credit unions increased by $513.13.$^5$

V. Conclusion

Investigations into wealth creation and accumulation through cooperative ownership depend on two broad areas: data collection and access to appropriate data; and the identification and interpretation of cooperative wealth creation, distinguishing between concepts and redefining terms. More work is needed in both areas. Finding data and creating new data will require developing surveys, conducting interviews, increasing access to co-op corporate records and files, and changing the way official and government sources collect data to disaggregate co-op ownership. Definitions of wealth must be clarified and broadened, and distinctions made between different forms of wealth. The range of dimensions involved in wealth accumulation must be understood. More research is needed about how to measure wealth created through cooperatives and how to document wealth creation and accumulation through cooperative ownership.

I conclude by delineating issues that arise when approaching this topic:

(i) To understand wealth accumulation for African-American communities one must first explore cooperative wealth creation in general.

(ii) An appropriate definition of wealth (i.e., what is co-op or collective wealth versus individual wealth?), including distinctions between income generation and wealth accumulation, is necessary to clarify what is under investigation.

(iii) 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. If wealth creation is not the primary goal of a cooperative enterprise, how do members “legitimately” accumulate it and benefit from it?

(iv) Mechanisms and tools for collecting relevant data from cooperatives and measuring wealth, both individual and collective, must be created and refined. In addition, cooperatives need to be disaggregated from “Other Businesses,” and cooperative earnings disaggregated from other earnings, in government statistics.

(v) What economic structures lend themselves to community wealth creation, asset building, and retention of assets and wealth? Are some kinds of ownership structures and organizational structures better than others at giving participants/members genuine decision-making opportunities and actual ownership and wealth accumulation? What structures make those opportunities real, and what supports are necessary to reinforce and strengthen those structures and outcomes?

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