

## REVISITING THE ECONOMIC THEORY OF COOPERATIVES

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## DEFINITION AND CATEGORIZATION

The **owners** of a firm are persons who possess two rights:

- right to control the firm, and
- right to appropriate the firm's net earnings.

### Investor-owned firms:

- conventional, entrepreneurial firms
- shareholder-owned corporations

## DEFINITION AND CATEGORIZATION

### Supplier-owned firms:

- producer cooperatives
- employee-owned firms

### Customer-owned firms:

- consumer cooperatives

## RESEARCH QUESTIONS

1. Why **conventional, entrepreneurial firms** and **shareholder-owned corporations** seem to emerge in some sectors of the economy, while **producer and consumer cooperatives** emerge in other sectors?

- tradeoff between costs of **market contracting** and costs of **ownership**

## RESEARCH QUESTIONS

2. What factors determine the **long-run success of a cooperative**?
  - internal governance mechanisms of cooperatives
3. What factors determine the **growth or decline of the market share of cooperatives**?
  - impact of future technologies and government regulations on the costs of market contracting and the costs of ownership

## NEW INSTITUTIONAL ECONOMICS (HANSMANN [1996])

- **Agency Theoretic Approach**  
(e.g., Jensen and Meckling)

- **Transaction Cost Economics**  
(e.g., Williamson)

- **Information Economics**  
(Akerlof, Stiglitz, Spence)

## RESEARCH QUESTIONS

1. Why **producer and consumer cooperatives** emerge in some sectors of the economy?
  - **costs of market contracting** create an *incentive* for the suppliers and customers to form a cooperative
  - **costs of collective ownership** create a *disincentive* for the suppliers and customers to form a cooperative

### Costs of market contracting:

- asymmetric information, or
- presence of market power on one side of the relationship, or by
- potential for lock-in once investments have been made in a given relationship.

### Costs of ownership:

- cost of monitoring;
- cost of collective decision-making;
- cost of bearing the risk of the enterprise

### Emergence of **producer cooperatives**: Costs of market contracting are high

- **Asymmetric information.** The firm (buyer) has better information than its suppliers (sellers) concerning matters that bear importantly on transactions between them.
- The firm (buyer) has a degree of **monopsony power** in dealing with their suppliers.

### Emergence of **consumer cooperatives**: Costs of market contracting are high

- Firm (seller) has a degree of **monopoly power** in dealing with their customers (buyers).
- **Asymmetric information.** The firm (seller) has better information than its customers (buyers) concerning matters that bear importantly on transactions between them.

### Emergence of **producer and consumer cooperatives**: Costs of ownership are low relative to the costs of contracting

- ownership by suppliers in the case of farmers' producer cooperatives, or
- ownership by customers in the case of grocery wholesale cooperatives.

Cooperatives are not so common in some industries: Costs of ownership are high

- cost of collective decision-making are very high for a heterogeneous group of owners
- heterogeneity of interest among suppliers or customers
- investor-owned firms: homogeneity of interest among investors of capital

## RESEARCH QUESTIONS

2. What factors determine the **long-run success of a cooperative**?

- internal governance mechanisms of cooperatives
- homogeneity of member interests appears to be essential to the long-run success of a cooperative

## RESEARCH QUESTIONS

3. What factors determine the **growth or decline of the market share of cooperatives**?

- Antitrust enforcement
- Greater divisibility
- Product differentiation
- Contractually-induced homogeneity of interest

## IMPLICATIONS FOR TEACHING AND RESEARCH

- Neoclassical paradigm in economics: “Optimal solutions” are based on general theories and principles that are universal
- Systematic historical descriptions presented in the early books have largely disappeared from modern textbooks
- Solving problems of monopoly: regulation and cartel-busting vs. consumer ownership

## 19<sup>TH</sup> AND EARLY 20<sup>TH</sup> CENTURY INSTITUTIONALISM

- Solutions are highly dependent on the particular institutions and specifics of the setting.

## OMISSION OF COOPERATIVES IN TEXTBOOKS

A good way to start would be to:

- do more research addressing the research questions mentioned above
- integrate some of the current economics research on cooperatives into textbooks.