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Profits and Costs of the Development of Rural Cooperative Economic Organizations

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Abstract Through analyzing the economic profits of rural cooperative economic organizations, the following conclusions are obtained. The rural cooperative economic organizations can get the economic profits which are in accordance with the demands of market-oriented economy. The rural cooperative economic organizations can benefit from sharing the knight service provided by the government; from reducing and avoiding various kinds of risks in operation and from applying the agricultural technology and standardization production. Besides, the organizations can share the profits bought along by the standardized production of agricultural production and their members can enjoy the profits bought by socialized service system. In addition, the rural cooperative economic organizations can enjoy the profits produced by the agricultural management integration strategy. What's more, they can increase profits by reducing the transaction costs; enlarging scale and enjoying the brand advantages. The analyses of the costs of the development of rural cooperative economic organizations mainly include the organizing costs, operation costs, restriction costs and cooperation costs. We think that the slow development of rural cooperative economic organizations is caused by their high operation cost and the impediment of external environment. In the end, the countermeasures on strengthening the research on the theory, promotion, education and training of rural economic cooperative organizations and intensifying the supports on the policies of rural economic cooperative organizations are put forward.

Key words Rural cooperative economic organization, Profit and cost. Preferential policy, China

With the gradual establishment of Chinese market-oriented economy and the development of rural economy, the conflicts between the two-layer operation system of the collective unified operation based on the household contract management and the households' decentralized operation are more eminent. That is to say, the conflicts between the small scale agricultural production of individual peasants' households and the big market are increasingly obvious. The resolutions always accompany the problems. It is true to various kinds of rural cooperative economic organizations which appear with the emerging of household contract management. We analyze the profits, costs and causes of the rural cooperative organizations and provide the countermeasures on their healthy development for the government.

1 The profits of rural cooperative economic organizations

1.1 The rural cooperative economic organizations can get the profits of economic organizations which are in accordance with the market-oriented organizations The individual peasant household is always on a sticky wicket, for in the process of negotiation, it does not have the bargaining power, so it has to accept the prices negatively and the infringement of its interests negatively. Rural cooperative economic organizations are the carrier of economic organizations, which are in accordance with the demands of market-oriented organizations.

They integrate the scattered households into a benefit community, and then working as a strong whole and displaying the advantages of bulk purchasing. Thus the negative position of individual household in bargaining can be changed and the capacity of negotiating prices can be improved. At the same time, through training or hiring their own talents specialized in laws and other fields, rural cooperative economic organizations can reduce or avoid the losses caused by unfair and illegal behaviors in the process of signing contacts and executing, so as to well protect their rights. As thus, the agricultural products can get the average profits of industry and commerce in the industrial chain and the peasant households can get more profits than engaging in agricultural products by themselves alone^[1].

1.2 Rural cooperative economic organizations can benefit from sharing the high quality service provided by the government The government is a political entity, so in the process of seeking the maximum political support and maximum financial revenue, it will inevitably take the effects of each interest group on its political interests and economic interests, especially the attitudes of big power toward it into consideration. The scattered and individual peasant households are helpless and fragile in front of the government, so the independent and fair bargain with other social benefit groups is nearly impossible. However, the increasingly developed and expanded rural cooperative economic organizations will form a strong interest group, and then it is capable of competing with the other interest groups. Thus the government will be forced to take the interests of rural cooperative economic organizations and the interests of peasant households into consideration when making policies. The policies which are favorable to rural cooperative economic organizations and peasant households are bound to bring more profits. This also accounts for why the stable rural

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cooperative economic organizations with certain scale are easy to get the financial support and credits from the government.

1.3 Rural cooperative economic organizations can benefit from reducing or avoiding various kinds of operation risks

The conflicts between small and scattered peasant economy and the big market become acute with the development of market economy, the individual peasant households are hard to bear the natural and market risks. They often enter or withdraw the market blindly, which may cause great economic losses. But the rural cooperative economic organizations organize the peasant households and display the mutual advantages, so as to reduce the blindness and market risks. Natural disasters and the emergencies caused by the natural disasters are always the insurmountable obstacles of agricultural economy. While in essence, the rural cooperative economic organizations are the mutual help among their members, so when confronting with natural disasters, the organizations can resume production as soon as possible through the internal cooperation and reduce the losses caused by the disasters, so the member of the organizations can benefit more than individual peasant households.

1.4 The rural cooperative economic organizations can benefit from the agricultural technology and standardized production

The standardization of agricultural production and technology content in agricultural products are the vital components of the competitiveness of agricultural products. However, the individual peasant household can not attain the standardization. Besides, the application of new technology accompanies certain risks and the effects of the technology are restricted by the competence of the promoter and the user. Rural cooperative economic organizations are the carriers for carrying out agricultural technology and standardized production. The organizations organize the scattered peasant households to conduct unified production, operation and standard, quality criteria, agricultural material supply and intensify the operation process, which are helpful to realizing the application of agricultural machinery and the standardization of agricultural products. In addition, through the long-term cooperation with the relevant experts and technical staff, the organizations can solve the difficulties of producing and reserving, effectively improve the width and depth of technological promotion, avoid the failure of the application of technologies and develop the new technologies' maximum potential of increasing the number of products and the quality of products. In such a manner, the risks of applying new technologies of the members can be reduced and more profits in terms of the number of agricultural products and quality can be obtained.

1.5 The rural cooperative economic organizations can share the profits from the standardized production of agricultural products

The rural cooperative economic organizations are the carriers of agricultural standardization. They integrate numerous small scale productions; break through the peasant economy; implement specialized division and through the enterprises and specialized markets to form a certain area to develop new advantaged products. The specialized produc-

tion and regional economic advantages provide interests for rural cooperative economic organizations. For one thing, it will simplify the labor and greatly improve the qualification of labor, so as to improve the work efficiency; for another thing, the specialized division divides the whole process of production into many single production process and the operation of each process is not only simple but fixed, which is convenient for using machine and even organizing the automatic flow production line. Thus the productivity effect of production means can be greatly improved and the profits will be increased too. Rural cooperative organizations can change the scatter and idle state of production means without expanding the land through specialized division. By integrating the production means reasonably, the organizations can improve the production capability and get more profits than single households.

1.6 The members can share the profits brought by the socialized service system of rural cooperative economic organizations

Rural cooperative organizations are the carriers of the socialized service system and they provide the service before production, in production and after production in terms of supply, marketing, processing, information, technology, materials, and talents and so on for their members. The rural cooperative economic organizations have greatly made up the shortage of rural collective economy and individual economy, and met the demands of division in the process of industrial production. The socialized services are provided from the supply of production means of germ chit, fertilizer and pesticides to fertilizing and watering and to preventing of plant diseases and insect pests ; from the harvest to transportation and selling. The relations between the peasant households and cooperative organizations are not the relations of external market but the cooperative relations formed without the aim of profits, and the peasant household only needs to pay for the costs of the services. Besides, the unified purchasing and marketing is helpful for intensifying the trade management, which can not only provide possibility for preventing the vicious competition but also establish stable relations of production and marketing. The production of peasant households is not an independent process but a socialized process, so it will naturally enjoy the profits brought by socialized services.

1.7 Rural cooperative economic organizations can enjoy the profits brought by integrated agricultural management

Rural cooperative economic operation is the carrier of integrated agricultural management. The essence of industrial agricultural operation is integrating the process of agricultural production and through the market to stimulate the pillar industries; through the pillar industries to stimulate the peasant households. In addition, through the processing and proliferating of the unification from the longitudinal direction to prolong the agricultural industrial chain or prolong the agricultural chain to the external fields of agriculture and enlarge the external scale of agriculture. The unified purchasing and marketing has internalized the exchange among the peasant households and other market subjects and prolonged the unitary agricultural planting to the fields of production, processing, transportation, logistics

and services. Thus the organizations can enjoy the profits from the fields of production, processing and logistics.

1.8 Rural cooperative economic organizations can increase profits by saving transaction costs The transaction costs arise from obtaining market information, negotiating and keeping the contract. The small scale transaction costs of single peasant household are high, two reasons can account for this. In the first place, with the development of market, the production activities have changed into social activities and the information cost has become an important component of transaction cost. The peasant households need to collect the information from various aspects, such as production means, agricultural productions, technologies, quality and prices. The peasant households need to seek the supplier of production factors and the consumers of the products and acquire the information related to their behaviors, which all need to pay the costs. As a result of the scattered housing and inconvenient transportation and communication, the peasant households need to pay high costs of transportation, communication, time and energy in order to get complete and true information. In the second place, with the gradual establishment of credit economy, the economic relations among peasant households and the external markets are more and more normal and legal. The process of bargaining, drafting of the contract, discussion, the determination on delivery process and the way, the supervision on the execution of contract and the discussion on claims and compensation all need the cost. The scattered peasant households lack the powerful organizations, legal awareness and legal knowledge, so they are in the disadvantaged position in the deal negotiation. What's worse, their interests are often being violated though they have paid high cost.

Comparing with the individual peasant households, the rural cooperative economic organizations can decrease the transaction cost. In the first place, the times of transactions of rural cooperative economic organizations are far less than that of the single transaction, which greatly decrease the transaction cost. In the second place, the rural cooperative economic organizations seek the potential supplier and demand with its advantage of bulk purchasing, so the cost of prices and quality information will decrease. In the third place, the advantages of bulk purchasing and organization will improve the ability of negotiation and use the law to protect their own interests so as to reduce the losses caused by unfair contract and violation of contract.

1.9 Rural cooperative economic organizations can get scale profits Rural cooperative economic organizations help peasant households to get the scale profit through the scale economy of horizontal integration and added value of vertical integration. Through specialized cooperation, the organizations conduct specialized cooperation to unit the power of single peasant so as to get the cooperative productivity. The scale economy can improve the service efficiency of production factors. The inseparability of some production factors requires the certain scale of production so as to improve service efficiency. The rural cooperative economic organizations integrate the single peasant households into large scale, which not only enri-

ches the form and content of scale economy, but also improves the service efficiency of production factors. Furthermore, the profits bought by the specialization can be obtained. The scale economy is capable of fully making use of the byproducts and wastes of production. Under the conditions of small scale economy of single peasant household, the byproducts and wastes produced during the process of production can only be regarded as the cost. However, under the conditions of scale economy, the byproducts and wastes can be used or handled economically so as to increase profits.

1.10 Rural cooperative economic organizations can enjoy the profits added by the brand advantage of agricultural products The individual peasant household can not form the brand advantages, as well as overcome the dangers caused by the behaviors of abuse the brand and bad faith in marketing. However, rural cooperative economic organizations have easy access to getting the unified trademark under the conditions of unified supply and marketing, unified technology and production standards, so the brand advantage is easy to form the brand effect. The establishment of brand effect is not only conducive to sell the products and occupy the market, but also to resist the attacks from the competitor, to keep competitiveness and to provide the rights to increase the prices, so as to get more profits.

2 The costs of the development of rural cooperative economic organizations

Any design, establishment and operation of system must pay certain price that is the cost. As long as the potential profits of the new economic organizations are more than the costs paid for the profits, the new economic organizations could be appeared. That is true to rural cooperative economic organizations, their establishment also need to pay the prices^[2].

2.1 The costs of establishment The establishment costs are produce in the process of seeking cooperation, which cover the designing, consulting information, contacting personnel, signing contract, making rules, establishing system and applying for approval and the costs on renting offices, buying office equipments, institutions. Influenced by the self-sufficient natural economy, the small peasant economy awareness, which is characterized by close, conservative and inactive are rooted among the peasants. The establishment of household responsibility system forces the peasants to form the habits of decentralized operation. Besides, plus the weak awareness of cooperation of peasants, scattered housing and inconvenient transportation, the establishment costs of rural cooperative economic organizations are relatively high.

2.2 Operation costs Operation costs are the expenses paid for keeping the normal operation and maintaining the good cooperative efficiency of rural cooperative economic organizations. For example, the costs on daily work (office consumption, personnel costs, information fee), and information fees among the organizations and members (meetings, exchange of market information, technical training and marketing, distribution). In China, the operation costs are high inevitably for the scattered rural residences, sparse population, backward ru-

ral transportation and net accessibility, small scale operation and sparsely distributed lands.

2.3 Restriction costs In order to maintain the effective operation of rural cooperative economic organizations, keep the good cooperative efficiency and supervise the behaviors of their members, the organizations need pay certain costs. However, it is difficult to require the peasant household to produce and operate according to the unified standard and production procedure. In addition, some peasant households only care about the immediate interests and do not cherish the brand and faith, they low the standard, reduce the production procedures or do not complete the tasks in the required time, which lift the restriction costs of rural cooperative organizations.

2.4 Cooperation costs Rural cooperative economic organizations are the public products, so they are non-exclusive. But the phenomenon of "free rider", who takes the advantage of the organizations, is very serious. The more the "free rider", the more the members of the organizations and the higher the cooperation costs will be. For the whole quality of peasants is low; the awareness of small peasant economy is dense; the awareness of market, organization and time are weak, and the labor force is huge. So it is difficult to organize an effective cooperative organization under the prerequisite of voluntary cooperation in such a group. Besides, the peasant households will naturally bring the diversified long-term conflicts among family, different regions and relatives into the cooperative organizations, of course, the cooperation costs will be high. When the cooperative economic organizations face the relatively favorable social and economic environment and operate well, there will be a lot of "free rider", or vice versa. Various reasons can account for the high costs of rural cooperative economic organizations from their establishment to effective operation. Hence, the overburdened cost is one of the main reasons that has a bad effect on the establishment, operation, expansion and development of rural cooperative organizations.

3 Countermeasures and suggestions

Two aspects can account for the appearance and development of rural cooperative economic organizations. The first one is the benefits of rural cooperative economic organizations are larger than the aggregate benefits of the individual peasant households. The second one is that the exchange cost of rural cooperative economic organizations is lower than the aggregate exchange cost of individual peasant households. That can explain why the first rural cooperative economic organizations are nearly born with the appearance of household production responsibility system. However, the slow development of rural cooperative economic organizations is caused by their high operational cost and the hindrance from the external environment, therefore, the government should start from the following efforts to push forward the development of rural cooperative economic organizations.

3.1 The government should pay great efforts to the theoretical research and the promotion of rural cooperative economic organizations Based on the promotion of *Rural*

Cooperative Economic Organizations Law, the government should expound the meaning, target and functions of rural cooperative economic organizations and clear up the differences of collective economic organizations and rural cooperative economic organizations, so as to provide the sound theoretical and ideological bases for the development of rural cooperative economic organizations. The theoretical research should be based on Chinese reality, the research of the fundamental theories of cooperative economy and foreign successful experiences and policies, so as to find the best way for Chinese peasants and government officials concerning agriculture to understand the theories. Besides, the government should promote the features, operational system, established procedures and operational methods of rural cooperative economic organizations through the media. In addition, the government should train the technical, management and marketing personnel through schools and training institutions. For one thing, the government should start from the specialized technical services and provide the peasants with the knowledge on rural cooperative economic organization, the fundamental knowledge on corporate governance structure, the establishment and stipulation of developmental plan of rural cooperative economic organization, so as to improve the leading capability, management capability and marketing capability of the leaders of rural cooperative economic organizations. For another thing, the government should let the peasants know what is cooperative economic organization and its superiority, its differences to the collective economy and what benefits can it bring to peasants, for the purpose of lifting peasants' sense of participation, sense of cooperation and cohesion, and reducing the establishment cost, operation cost and cooperation cost of rural cooperative economic organizations^[3].

3.2 The government should strengthen the policy support on rural cooperative economic organizations The hub of the support from the government on the rural cooperative economic organizations is the preferential policies. The government should enact the industrial policies according to the local development level. By using the wise industrial policies to guide, encourage and support the peasants to establish the diversified rural cooperative economic organizations. Moreover, the financial support is also very important. The government should coordinate the credit and finance to lift the development of rural cooperative economic organizations. The government should arrange certain finance to support the training on peasants and provide subsidies for the organizations to purchase equipments, technological standard and recertification. At the same time, the government should strengthen the support of credit and solve the financial problems of rural cooperative organizations through interest subsidy, credit policy and some other ways. Financial institutions and rural cooperative economic organizations should help the cooperative economic organizations to set the economic documents; launch the activities on keeping one's word; provide the credit support for the rural cooperative economic organizations and their members, and simplify the procedures of credit. What's more, the application

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intervention of government on the rural finance generates soft budget constraint, resulting capital bankruptcy. After the legalization of rural finance, government should center on affording services to the standardized development of financial organizations and allow the liberal development of finance in legal reach. Once restricting investment directly or indirectly, the intervention like the one on the cooperatives would appear again. In order to reduce the inappropriate intervention on the rural finance, the government must not share the stocks of rural financial organizations no matter directly or indirectly, especially true in small amount of loans. Forbid any governments or government officials take part in the stocks of rural finance in forms of laws and regulations, cannot attend the management of rural finance as the shareholders or cooperation directly or indirectly to keep the authentic features.

3.4 Mechanisms of quality improvement

3.4.1 Fostering the rural credit culture. Through reshaping the rural culture, accelerate the development of cultural psychology and customs and reconstruct the values and credit of peasants, affording cultural background to the quality improvement, the development of rural economy and the deepening of rural finance; perfect rural education systems, ensuring that all rural children are able to accept normal education at primary and junior stages according to the policy of universal access to nine-year compulsory education, sweeping away the young illiteracy; while improving the quality of rural education, peasants' training course should be done as well, highlighting the scientific and comprehensive qualities; strengthening the legal education and organizing the law universalization staffs to make peasants know the dangers of illegal fund raising and lifting.

3.4.2 Improving the quality of regulators. The scattered families and town industries are the main objectives of rural financial organizations, which decide the features of the business, such as small scale, high management cost and high risks. The regulators should know clearly the differences and specialty of the regulated objectives. The management of rural finance requires not only the regulators to have a good knowledge of regulating policies and chapters, but also know the general operation rules of rural finance. Therefore, in order to improve the quality of regulators, 3 points should be taken into consideration. The first is to study. Through regular training and tests may keep

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and determination of the development items of the organizations should be given priority to. Furthermore, the government should provide the preferential policies of taxation. The economic benefits of rural cooperative economic organizations are low, in the initial stage in particular, so the government should reduce or eliminate the taxes in a certain period. The income tax of the income gotten from technological services in the whole process of production and labor services should be eliminated; the value-added tax of selling agricultural products produced by the organizations should be cancelled, and the business tax of the agricultural production and operation will be can-

regulators know clearly about regulatory policies and foster the regulator's ability of using laws appropriately. The second is cautious regulations. Distract some to take part in rural financial regulations specially which may upgrade the identifying ability of regulations on objectives. The third is to follow the rural financial activities. Because the rural finance is in the process of policy alteration, the management is in a negative state, the regulators should know the dynamisms of financial activities at any time to realize the synchronization regulations, preventing the happening of disadvantageous situation that dealing with after problem manifestation and happening.

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celled, which are helpful for the lasting, stable and sustainable development of rural cooperative economic organizations.

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