Original Research Article

Is it a matter of returning funds based on transaction volume or does it conform to the fundamental principles of cooperatives?

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Abstract: Farmer specialized cooperatives, as special economic organizations boosting agricultural and rural development, differ from others in surplus distribution—Principally return according to transaction volume. In China, cooperatives are complex, diverse, and have variable property structures. As capital contribution often outweighs transaction contribution, a locally suited surplus distribution method is needed. Considering risks and returns, the current democratic method combines share-based and transaction-volume-based distribution. Due to member heterogeneity, share-based distribution dominates, with transaction-volume addition reflecting rationality and bylaw normativity. Whether to reconsider this principle and explore a local, farmer-protective method merits study. Reviewing the development and importance of domestic cooperative surplus distribution, this paper finds China's system imperfect and requiring further legal regulation.
Keywords: farmer cooperatives; surplus distribution; return according to transaction volume

1. Introduction

Cooperative history traces to the 1844 Rochdale Pioneers, a consumer cooperative with simple share and labor structures, using return according to transaction volume to fairly assess member contributions. This principle became a global benchmark for cooperative normality. China adopted it as a key defining feature, yet most Chinese cooperatives are production-oriented, differing greatly from consumer ones in capital and labor input. As agricultural production evolves, sticking to original resource supply and income distribution has become an institutional obstacle. Meanwhile, cooperative expansion has introduced large shareholders who encroach on ordinary members' interests, and share-based dividends increasingly replace transaction-volume returns. Thus, whether to continue this method demands examination.

Consumer cooperatives apply return according to transaction volume due to simple structures enabling fair evaluation (Yuan Peng, 2023; Zhang Guopeng, 2018). Charles Howarth proposed this principle, emphasizing free transaction choice and surplus return (Yuan Peng, 2023). The ICA reaffirmed Rochdale principles in 1937, revised them in 1966, and in 1995 standardized treatment of expanded investment (Yuan Peng, 2023; Xu Xuchu, 2003). In China, production-oriented cooperatives show large capital and transaction contribution differences. Ying Ruiyao (2016) and Qu Chengle (2019) note share-based distribution dominates, while transaction-volume return proportion is low. Zhang Guopeng (2018) suggests a market-plus-additional-price mechanism to supplement it. Xu Xuchu (2003) argues cooperatives' essence lies in surplus return by patronage and limited capital remuneration. Yuan Peng (2023) points out member heterogeneity and unequal risk bearing hinder implementation. This study examines whether return according to transaction volume still achieves its goals in Chinese practice and how to optimize distribution locally.

2. Development trajectory of the principle of return according to transaction volume

The development of this surplus distribution method essentially reflects cooperative distribution evolution, which can be divided into several stages.

2.1. The howarth principle of surplus distribution

Charles Howarth, a founding member of the Rochdale Society, first proposed return according to transaction volume, the earliest cooperative distribution principle. He held that members should freely choose whether to transact with the cooperative; not doing so did not justify expulsion. This humane provision was more acceptable than compulsory purchase, later summarized as the transaction-volume principle. Earlier, Lyon textile workers had used similar methods, but Howarth's influence was greater (Ma Zhixiong et al., 2012). Under his proposition, the Rochdale Society stipulated that surplus distribution to members be proportional to each member's purchases, regardless of capital contributed. This method encouraged patronage and was termed the Howarth system by French economist Charles Gide.

2.2. The rochdale distribution principle reaffirmed in 1937

In 1895, the ICA adopted Rochdale principles as basic guidelines. The sixth principle concerned surplus distribution by patronage. Disputes persisted, so in 1937 the ICA Paris congress reaffirmed Rochdale principles, including two distribution items: surplus proportional to transaction volume (purchases, deliveries, or labor) and limited interest on capital—Paying dividends at a restricted rate or none, making cooperatives unions of persons not capital (Tang Zongkun, 2012). These principles distinguished cooperatives from other organizations and became a milestone.

2.3. The cooperative surplus distribution principle revised in 1966

From the 1940s, economic crises increased government intervention, the cooperative center shifted from Europe to Asia, and types expanded to industry, credit, and agriculture. The old principles could not adapt. Thus the 1966 ICA congress revised Rochdale principles into six items. Revisions on surplus distribution included: Reserve funds for business development and member services; surplus distribution by transaction volume; and strictly limited interest on share capital. The reservesurplus ratio was democratically decided. Compared to 1937, this added reserve extraction, emphasizing cooperative development and member service responsibility.

2.4. The cooperative surplus distribution principle restated in 1995

Since the 1970s, market competition intensified and monopoly capital emerged. Cooperatives had to stress efficiency and profitability, relying more on borrowed capital as scale grew. Issues like transactionvolume return, nontradable shares, ambiguous public property rights, and freeriding reduced member investment motivation. The 1995 ICA centenary congress adopted the Statement on Cooperative Identity, which for the first time addressed returns on expanded investment—Suggesting share dividends. This allowed more capital inflow and ensured capital value returns within cooperatives.

2.5. The surplus distribution principle implemented after 2006

In the new century, China enacted the Farmers' Specialized Cooperatives Law in 2006, providing surplus distribution: Reserve extraction; mainly return according to transaction volume; and limited capital—Supplemented by sharebased proportional return. Thus the domestic principle is return by transaction volume with limited capital remuneration, with transactionvolume as dominant. Literature review shows patterns: Emphasizing transaction volume including labor and other contributions; sharebased distribution representing capital interests, while transactionvolume represents internal counterparts' interests and internalizes surplus; and continuous emphasis on limiting capital interest, with growing consensus on expanded investment dividends.

3. Purposes of return according to transaction volume

3.1. Weakening the role of capital in distribution

Cooperatives start with member heterogeneity; core members often maintain largeshareholder status and favor sharebased distribution, potentially infringing ordinary members' interests and reducing participation. Return according to transaction volume can reduce capital's influence if ordinary members have large transaction volume, high participation, small shareholding, and clear bylaw provisions. It ensures reasonable returns based on transaction contribution, weakening capital advantages (Ying Ruiyao, 2016; Qu Chengle, 2019; Xu Xuchu, 2003). Its effectiveness depends on ordinary members' transaction ability, bylaw enforceability, and heterogeneity level. Under these conditions, it effectively limits capital's dominant role.

3.2. Promoting transactions between members and the cooperative

Cooperatives serve as a window between farmers and markets, encouraging member transactions. Return according to transaction volume motivates ordinary members to participate, increase returns, and strengthen attachment (Yuan Peng, 2023; Qu Chengle, 2019). It also encourages active involvement in governance and decisionmaking, improving overall efficiency. Prerequisites include members' transaction ability, surplus return ratio incentives, and system fairness and transparency. When satisfied, it truly boosts transaction behavior and cooperative transaction levels.

3.3. Strengthening the cooperative's capacity to bear risk

Agriculture is highrisk and lowreturn. Through transactionvolume return, cooperatives can transfer internal risk and protect ordinary members. Combined with bylaws and surplus retention, they can return part of surplus while retaining funds for expansion or risk response, strengthening interest ties (Yuan Peng, 2023; Qu Chengle, 2019). It also encourages members to focus on production management and risk control, enhancing stability. A reasonable return mechanism mobilizes longterm input and maintains cooperation during market fluctuations. Conditions include a reasonable retention mechanism, authentic measurable transaction volumes, and clear bylaw constraints on capitallabor returns. Under these, it improves overall riskbearing and sustainable development.

4. Problems brought about by return according to transaction volume

4.1. The contradiction between ownership and distribution rights

Return according to transaction volume assumes members have cooperative ownership, but ordinary members usually do not. Distinguishing core and ordinary members is necessary. Resource contributions (land, capital, human resources) differ (Xu Xuchu, 2003; Ying Ruiyao, 2016). In land, ordinary members' small and nontransferable scale limits their proportion. In capital, urbanrural gaps and financial constraints limit their contribution. In human resources, they lack management skills (Qu Chengle, 2019).

Ownership is reflected in core members' control and residual claims. Due to greater capital and resources, core members have more control and surplus rights (Zhang Guopeng, 2018; Yuan Peng, 2023). They hold large capital, manage decisions, and claim surplus priority. Ordinary members rely mainly on transactionvolume returns and pay little attention to ownership. Thus, this principle may fail to fully protect ordinary members. Without fair management and bylaw constraints, they may be marginalized. Implementation must combine with internal ownership structure, rationally design income mechanisms, balance core members' control and ordinary members' income rights, reduce inequality, and ensure fairness and sustainability (Xu Xuchu, 2003; Yuan Peng, 2023; Ying Ruiyao, 2016).

4.2. Increased transaction costs

Return according to transaction volume raises transaction costs between cooperatives and farmers. Coase introduced transaction costs, arguing that economic organizations integrate individuals to reduce information asymmetry and market costs (Xu Xuchu, 2003). Cooperatives concentrate resources and organize members to improve returns and lower individual costs. However, the incentive effect may increase internal transaction frequency and complexity, requiring more management and coordination resources (Ying Ruiyao, 2016; Qu Chengle, 2019). As frequency and membership rise, management, procurement, and technical support costs grow, raising overall transaction costs (Yuan Peng, 2023). Thus, while improving participation and fairness, it brings extra costs that must be weighed in institutional design.

5. Abandonment or reform of the principle of return according to transaction volume in foreign cooperatives

Although still regarded as a core system, foreign cooperatives have adjusted and innovated according to market environments, member structures, and financing needs. Newgeneration cooperatives in North America and the EU, while retaining transactionvolume return, have introduced tradable shares, additional prices, or profit sharing to improve financing and adapt to heterogeneity (Xu Xuchu, 2003; Zhang Guopeng, 2018; Qu Chengle, 2019). These reforms maintain fair distribution and member incentives while enhancing risk response and operating efficiency. They also explore combining membership restrictions, flexible surplus distribution, and longterm investment returns to meet diverse demands. Through such innovations, they protect small shareholders and boost core members' enthusiasm. Although reform methods vary, the common goal balances income relations between core and ordinary members, ensuring cooperatives realize institutional goals in complex markets (Yuan Peng, 2023; Ying Ruiyao, 2016).

6. Improvement of China's cooperative distribution system

6.1. Strengthening the fairness and incentive effects of return according to transaction volume

Ensure ordinary members share in valueadded returns, improving participation and belonging, while reasonably arranging core members' and large shareholders' incomes, balancing labor and capital input (Zhang Jian, 2020; Li Zhanshuo, 2022). Establish a distribution transparency mechanism, regularly disclose rules and results, and improve credibility and recognition (Li Zhongbin, 2021). Set up supervision and complaint channels to ensure fairness. Flexibly adjust return ratios based on annual operations and surplus levels, making the system stable yet adaptive, strengthening longterm input motivation.

6.2. Improving a diversified surplus return mechanism

On the basis of transactionvolume return, combine share dividends, secondary rebates, and equal distribution, guaranteeing returns to labor and transactions while considering reasonable capital returns. This encourages core member investment and small farmers' participation in green production, improving performance (Zhu Peng, 2025; Li Zhongbin, 2021). Link surplus return to annual operating indicators and member performance to form dynamic incentives and enhance organizational vitality. Design personalized return schemes based on different member types—e.g., extra rewards for high technical input or active participation in green production and community welfare—To fully mobilize all members' enthusiasm and creativity (Zhu Peng, 2025; Li Zhongbin, 2021).

6.3. Strengthening legal, policy, and regulatory safeguards

Clarify surplus distribution proportions, return methods, membership qualifications, and additional rights requirements; standardize internal governance; prevent insider control; protect disadvantaged members; and realize benefit and risk sharing. Establish a supervision and evaluation system to regularly review surplus distribution, public accumulation use, green production rewards, etc., and ensure implementation through policy guidance and legal constraints. Through training and guidance, improve members' awareness of laws and distribution rules, enabling active participation in management and supervision, strengthening cooperative governance (Li Zhanshuo, 2022; Zhang Jian, 2020; Zhu Peng, 2025). These measures balance fairness and efficiency, enhance member initiative and overall performance, and promote sustainable development of China's farmer specialized cooperatives (Zhang Jian, 2020; Li Zhanshuo, 2022; Li Zhongbin, 2021; Zhu Peng, 2025).

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