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RESEARCH ARTICLE

The stakeholder-empowering philanthropy of Edward Filene

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Abstract

Credit unions currently serve over 110 million members in the United States. This is surprising, given the challenges associated with forming cooperatives. This paper explains how grants were used to overcome these challenges and create the modern credit union sector. Edward Filene, a wealthy 20th-century department store owner, provided philanthropic funding and technical expertise to early credit unions, resulting directly in the creation of 26,000 American credit unions over a 45-year period. Filene's leadership helped overcome the various social dilemmas associated with creating cooperatives, reforming institutions, and establishing an institutional framework that enables and supports cooperatives.

Keywords: Cooperatives; self-governance; collective action problems; consumer cooperatives; grants

1. Introduction

There are currently over 5,300 credit unions in the United States. These credit unions serve over 110 million members (National Credit Union Administration, 2019). Each credit union is a consumer cooperative, a democratic organization within which members not only bank, but also deliberate and vote to determine the credit union's direction. The United States is renowned for having "the most sophisticated credit union movement in the world" (McKillop and Wilson, 2011: 80).

How did the American credit union movement become so large and sophisticated? Creating even a single credit union requires overcoming significant incentive challenges. The entrepreneur who forms the credit union will not have rights to the same stream of payments that the founder of an investor-owned firm (IOF) could claim (Molk, 2014). While an owner of an IOF is a residual claimant, the founder of a credit union must share rights to the residual revenue with other members rather than reaping a share proportional to the startup capital that the founder or early investor provided. This can create difficulties in attracting investors or accessing capital markets at the startup stage. Starting a credit union may still be a rational way of spreading risk or avoiding asymmetric information problems (Hansmann, 1996: 259–260; Molk, 2014: 921). Rather than accruing primarily to the entrepreneur who founds the firm, however, the risk reductions are held by all consumer-owners. The risk reduction will only arise if enough of these stakeholders buy in and join the credit union. Taken together, this creates a package of collective action problems among these stakeholders that is difficult to overcome in an institutional environment prioritizing profit-seeking entrepreneurship.

Another challenge associated with creating the American credit union sector relates to creating enabling institutions (Cornforth and Thomas, 1990). Commerce is shaped by a society's laws, and people are more likely to form credit unions within a straightforward and supportive legal framework. Securing new public policies involves a collective action problem (Olson, 1965). An individual can often benefit from a policy without having lobbied or fought for that policy. There is therefore an incentive to free-ride on the activism of others. Today, there are laws in all 50 states and at the federal level that serve as enabling institutions for credit unions. Given the collective action challenges involved, the existence of these laws is puzzling.

There are various instances of cooperatives overcoming such collective action problems and becoming a significant portion of their industrial sectors. Electric cooperatives, which service over 40 million Americans and generate $42 billion annually, were formed through a combination of federally subsidized loans and government technical assistance through the Rural Electrification Administration (Taylor, 2019). And the Italian agriculture and grocery retail sector, comprising upwards of 60% of the total market, is a product of Catholic distributist and organized labor movements, who formed and grew the enterprise as a social movement strategy (Arcidiacono, 2018).

Philanthropy is another way to address collective action challenges (Coyne and Hall, 2013). A philanthropist's utility function may include terms for the welfare of others, and therefore she would rather give a grant to them even if she will not be compensated (Boulding *et al.*, 1972). Philanthropists may also donate because they gain a "warm glow" from the act of giving (Andreoni, 1990). In either case, philanthropists can donate to produce goods that would be underprovided if people were only focused on their own narrow self-interest.

In fact, philanthropy was crucial to developing the American credit union sector for just these reasons. Specifically, wealthy department store owner Edward Filene financed and created the Credit Union National Extension Bureau (CUNEB). CUNEB's charge? To leverage its staff to assist working people and other communities to form local credit unions, advocate for enabling public policy, and develop a support system allowing credit unions to operate in perpetuity (Engelbourg, 1976; McQuaid, 1976). Filene acted as a "leadership giver" (Andreoni, 1998, 2006), providing the seed money that allowed the credit union sector to grow. The result appears to be an unqualified, if little known, success.

One potential concern with this type of philanthropy is that the philanthropist will exercise undue power over the recipients, or over society at large. Indeed, numerous scholars have expressed concerns that philanthropy undermines democracy and consolidates power in the hands of plutocrats (Giridharadas, 2018; INCITE! 2017; Kohl-Arenas, 2015; Reich, 2013, 2018). There are good reasons, however, to believe that Filene's philanthropy overcame these problems. Rather than creating a set of non-profit organizations that Filene controlled directly, Filene's philanthropy helped create a thriving sector of consumer cooperatives, accountable to their members. Rather than being subject to Filene's dictates, credit union members have multiple ways to shape the direction of their credit union. In ordinary markets, consumers vote with their dollars through exit, but in credit unions and co-ops the consumers also exercise a voice (Hirschman, 1970), most prominently through competitive board elections. The combination of democratic participation and market feedback gives rise to a network of organizations that are directed by the members from the bottom up. Filene's philanthropic approach stands in stark contrast to top-down forms of philanthropy that are unresponsive to the desires of aid recipients.

Social scientists have extensively studied credit unions (Fried *et al.*, 1993; McKillop and Wilson, 2011; Moody and Fite, 1984) as well as consumer cooperatives more broadly (Mikami, 2010, 2018; Molk, 2014; Sadowski, 2017). However, we focus specifically on the role of Filene's philanthropy in creating the modern American credit union sector, while also reintroducing to the conversation Filene's forgotten, noteworthy philanthropy (Engelbourg, 1976; McQuaid, 1976). This allows us to incorporate insights from the literature on philanthropy (Acs *et al.*, 2008; Andreoni, 1998, 2006; Coyne and Hall, 2013; Giridharadas, 2018; Reich, 2013, 2018).

We employ a case study methodology, which uses purposive, intentional sampling "for the likelihood that they will offer theoretical insight" (Eisenhardt and Graebner, 2007: 27); unlike traditional statistical analyses, case studies are non-random, intentionally isolating a unique subject or outlier phenomenon for study to gain new insights. The case study itself allows us to provide a thick analysis through the focused triangulation of the broad range of data collected and the incorporation of actor perspectives (Tellis, 1997). This case study employs rational choice theory, an approach often called an analytic narrative (Bates *et al.*, 1998; Gerring, 2007). By combining rational choice theory with a detailed historical case study, we hope to illuminate the process by which Filene overcame collective action challenges. It is our intention that this purposeful study of Filene's institution-building philanthropy will contribute to the ongoing dialogue around philanthropy, equity, and stakeholder empowerment.

This paper revisits and analyzes Filene's philanthropy as a model use of grants to build self-governance capacity in the face of collective action problems. Section 2 discusses the collective action problems involved in building the credit union sector, and offers a theory of how philanthropy can help overcome such dilemmas. Section 3 details a brief history of Filene's credit union-focused philanthropy, and how his approach led systemically to today's thriving credit union movement. Section 4 concludes, discussing the enduring relevance of Filene's philanthropy to contemporary debates, and directions for future research.

2. Collective action challenges and the philanthropic response

Suppose a prospective entrepreneur considers starting a business. She knows what types of goods and services she wants to sell, as well as where she wants to set up her first location. In addition to these questions about what services to offer and where, there are also important questions about which institutional and organizational form the business will take. The entrepreneur could start an IOF, which could be privately held by a select group of owners or have publicly tradeable shares on the stock market. IOFs allow owners to expect a stream of payments from their ownership shares in the business. These shares can be saleable to varying degrees, allowing the entrepreneur to profit by selling ownership rights to individuals who value those rights highly. By contrast, the co-op has constitutional rules restricting ownership and governance rights to a particular group of stakeholders, such as a firm's consumers, producers, or workers. In the case of a credit union, the consumers who bank with the credit union are members and owners. This means that the entrepreneur creating the firm cannot reliably expect the full stream of payments that results from her initial decision to found a cooperative. Instead, the profits that the firm is expected to make in the future will be shared with the member-owners, distributed based on use (referred to as patronage). While there may still be advantages to the founder of the firm, these benefits are apportioned among all members, creating a collective action problem in which each prospective member has an incentive to free-ride off the entrepreneurial efforts of other members (Molk, 2014).

A cooperative could offer the entrepreneur a disproportionate share of the profits. While this would create incentives that alleviate the collective action problem, it would have significant disadvantages. Cooperatives are useful in part because they give stakeholders such as consumers a significant stake in the firm. This helps mitigate concern that either owners or consumers may take advantage of information asymmetries (Hansmann, 1996; Molk, 2014). For instance, a borrower might be tempted to use a loan for a risky project, but if "the borrower is also an owner of the bank, her incentive to impose costs on the bank is reduced" (Molk, 2014: 921). Similarly, an investor-owned bank might be tempted to profit from the bias or ignorance of their customers, while a credit union would be less likely to do so (Bubb and Kaufman, 2013). There are other advantages to cooperatives beyond addressing information asymmetries (Molk, 2014: 920–921), such as alleviating the market power of IOFs (Molk, 2014: 913–916, 919), enhancing the quality of the consumer marketplace (Mikami, 2010: 179), promoting market stability, and training citizens in self-governance (Aligica, 2018; Taylor, 2019). Granting disproportionate shares to particular entrepreneurs would disrupt this incentive alignment, which is associated with stakeholder ownership (Cracogna *et al.*, 2013). It would undermine the perceived legitimacy of the cooperative structure for members. Moving the organization closer to an IOF – insofar as incentive mechanisms elevate the roles of key individuals over collective activity by the membership – eliminates many co-op advantages. Meanwhile, the cooperative would still face higher costs of decision-making and financing than an IOF (Mikami, 2010: 179; Molk, 2014: 926–928), further compounding the problems with such an approach to incentivizing entrepreneurship. Cooperatives are

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therefore unlikely to be formed in a manner that rewards the founding entrepreneur with a disproportionate share of ownership or residual revenues for her efforts in starting the firm.

In addition to these co-op formation problems, various transaction costs make it difficult to convert an IOF into a cooperative. Suppose that an IOF would be more productive as a cooperative. As discussed above, asymmetric information between buyers and sellers runs the risk of opportunism, and this risk could be reduced by aligning incentives and creating trust through a cooperative. In such cases, converting an IOF into a cooperative would be optimal if the transaction costs of changing the ownership structure were low. In practice, however, the transaction costs of changing the ownership structure are high. Firms often see their ownership structure change over time, typically starting with a small number of owners before eventually going public and selling shares to large numbers of people. The transaction costs in those cases are relatively low, so brokers can facilitate such transitions. By contrast, the transaction costs associated with converting an IOF into a cooperative are usually prohibitively high. Since cooperatives are a relatively unfamiliar form of organization, there are further information costs associated with convincing existing owners that their returns would be increased by transitioning a firm to a co-op. Moreover, since cooperatives require buy-in from a particular set of stakeholders, there are transaction costs associated with coordinating all members of this stakeholder class or replacing them with individuals interested in a cooperative. The consumers who purchase goods from a firm are often a diffuse group, and it can be quite costly to convince a large number of them to acquire an ownership stake in a firm. This is part of why credit unions are usually formed by people within a particular community, such as a workplace, a university, or a geographical region.

Approaches do exist to overcome transaction costs, to facilitate in the conversion of IOFs to cooperative ownership. Brokers have been successful in converting IOFs into cooperatives when the firms are approaching bankruptcy (Molk, 2014: 938). And more recently, a number of co-op associations have banded together in an attempt to serve the brokerage role (Anon., 2019). While coordinating the stakeholders is still costly, the threat of firm dissolution generates strong incentives for them to bear these transaction costs.

Creating policies and legal institutions for forming credit unions is one way to lower these transaction costs and help individuals overcome the co-op entrepreneurship challenge. However, this involves pushing the collective action problems to a different action arena (Ostrom, 2005). After all, policies do not apply only to those who worked to enact them. Prospective beneficiaries of a policy, such as future credit union members, can benefit even if they never worked to pass laws enabling cooperative formation. There is therefore an incentive to free-ride on the activist efforts of other people. These collective action problems are particularly severe for large, diffuse groups, so public policy is often made to benefit concentrated interest groups (Olson, 1965, 1982).

Philanthropy can counteract the effects of these collective action and transaction cost problems. Our analysis so far has largely focused on how individuals seeking to maximize their own returns in an exchange economy would behave. What if agents are not purely self-regarding, but instead have strongly interdependent utility functions, the sort we would associate with community affect (Taylor, 2019) or with emotions like love, hate, and fear (Boulding, 1969; Boulding *et al.*, 1972; Boulding, 1973)? In situations like this, individuals gain utility from offering grants, or uncompensated transfers, to one another. An external philanthropist could pay entrepreneurs to form cooperatives. If that philanthropist values cooperatives for their own-sake, cares about the wellbeing of future member-owners of the cooperative or receives a "warm glow" from donating (Andreoni, 1990), then offering these grants is incentive-compatible.

Even a philanthropic solution faces some problems. For projects like credit union formation or policy change to be successful, a certain threshold of support must be reached. Donations might amount to nothing if they do not surpass this threshold. Philanthropists may therefore be reluctant to donate if they are uncertain whether their efforts, along with those of other donors, will be sufficient to surpass this threshold. Andreoni (1998, 2006) finds that thresholds can be solved by "leadership givers" who donate large amounts of money at the beginning of a fundraising campaign. Edward Filene, whose philanthropy gave others the confidence to offer their funds, talents, and political support to the American credit union sector, can be understood as the leadership giver for this burgeoning movement.

While the grants economy was key to starting credit unions, once established, credit unions had to interact in the exchange economy. They therefore display a "varying admixture of market and non-market economic activity" (Boulding *et al.*, 1972: 20). They were created through grants from Edward Filene, a wealthy businessman who thought that credit unions could help his workers escape exploitative financial institutions. However, once created, credit unions became islands of democracy within a broader financial market. All firms are spaces of non-market decision-making, still subject to market pressures. Firms must provide goods and services that consumers value in order to make profits. However, their internal decisions about how to produce these goods and services occur in non-market settings due to transaction costs (Coase, 1937). Credit unions and other consumer cooperatives are unique in that consumers influence the firm's behavior not only through exchange, but also through direct participation in democratic decisions within the firm. Beyond the false dichotomy of markets and states (Boettke and Aligica, 2009; Ostrom, 1994), there is a rich patchwork of civil society, interacting with markets in important ways. Grants and philanthropy are used to overcome social dilemmas and create self-governing organizations. These organizations offer laboratories of democracy within which citizens can practice self-governance. In addition, these organizations, initially created outside the market, must create value and pass the market test in order to survive. The endurance and sustainability may make for an attractive philanthropic vehicle for the philanthropist concerned with enduring legacy.

Building these responsive islands of democratic commerce involved using philanthropy to overcome several collective action challenges. In the following section, we apply this basic theory of philanthropic responses to social dilemmas by examining the specifics of Filene's philanthropy. In doing so, we answer a key historical question: how did America's credit union sector become "the most sophisticated credit union movement in the world" (McKillop and Wilson, 2011: 80)? What follows is a case study of Edward Filene's stakeholder-empowering philanthropy.

3. Building the credit union sector: the case of Edward Filene's philanthropy

Development of a self-governing industrial system – Filene's living laboratory of public entrepreneurship

Shortly after his father's debilitation, Edward Filene dropped out of Harvard before beginning his freshman year taking the helm of the family retail enterprise in 1890. During his tenure, Filene's retail chain, originally known as "William Filene's Sons Company" and more recently as "Filene's Basement," grew into an industrial empire, becoming an exemplar of American industrialization. As his success drove him into the public spotlight, Filene began leveraging his significant wealth toward the betterment of the common man (Engelbourg, 1976; McQuaid, 1976).

Filene took seriously the wellbeing of his staff, whom he credited with a great deal of his business success. An individual ahead of his time, Filene saw the Machine Age as a great complement to the economic progress of society (Filene, 2018). Filene implemented 40-hour work weeks, profit sharing, and paid time off, and openly encouraged organized labor activity. But he was concerned that without a broader economic strategy, everyday laborers would be left behind not due to their ineptitude, but because properly aligned institutions were not in place that might allow for the forward progress of the masses (Engelbourg, 1976; McQuaid, 1976).

Filene grew increasingly frustrated with the experiences of his department store staff being exploited by predatory bank lending practices. He had gone out of his way to make sure his staff received industry-leading wages and benefits so they might thrive in newly urbanizing city centers. Filene believed wages could only go so far as long as staff were left exposed to the extractive, exploitative whims of the loan sharks.

Filene was inspired during a global tour, where he first witnessed the British imperial experiment in proliferating consumer-owned cooperative banks. He affectionately called these cooperatives "credit unions," referencing the need for credit by the workingman, and Filene's admiration for labor unions.

Filene, anxious to grow the credit union sector, overcame the co-op entrepreneurship challenge (Molk, 2014) by distributing his own privately provided subsidy to establish new cooperatives. Remarkably, Filene did not merely create thousands of deeply designed, individually siloed credit unions. Filene left behind a national organization tasked with facilitating the creation of new credit unions, the Credit Union National Extension Bureau (CUNEB). After Filene's death in 1937, the CUNEB continued, driving state and national legislation, as well as the rapid growth of over 20,000 entirely new credit unions by the 1950s. Today, the sector continues as a complex industrial system of competing and cooperating credit unions that appear to be more powerful than ever. How did Filene enable a significant share of the consumer finance industry to become democratically owned and governed by over 110 million Americans?

Filene's four strategic pillars

Contrary to "great man" business executive narratives (Hargadon, 2003), Filene did not create the credit union movement on his own. Filene was inspired by the British government-supported Agricultural Cooperative Banks in India (Moody and Fite, 1984: 29–30), and helped establish the first state law in Massachusetts with Banking Commissioner Pierre Jay (McKillop and Wilson, 2011) in counsel with his Canadian counterparts (Moody and Fite, 1984: 31; McQuaid, 1976). A great deal of the success of Filene's CUNEB came about due to the successful – and oftentimes contentious – collaboration of the CUNEB's staff, particularly chief executive Roy Bergengren. Using the philanthropic resources provided by Filene, Bergengren worked diligently to keep CUNEB staff focused on and committed to their successful model for growing the credit union movement. In subsequent years, the continued success of the credit union sector is a credit to the numerous professionals and member board directors overseeing the daily operations.

It *can* however be said that Filene was a leadership giver who leveraged over a million dollars of his own money, knowledge, personal reputation, and scarce time toward the development of the credit union movement. To succeed, Filene and his collaborators employed a strategy with four key pillars. First, rather than just providing funds to start credit unions, they crafted a *constitutive framework* to enable others to form credit unions. Second, they successfully lobbied for *enabling legislation*, persuading state legislatures and the federal government to pass laws supporting credit union formation. Third, they used a variety of *organizational strategies* that leveraged the social capital of credit union members. Fourth, they built on Filene's reputation as a business leader to provide *legitimacy* to the burgeoning credit union sector. We will explain each of these strategic pillars in turn, highlighting how they helped overcome the collective action challenges associated with forming credit unions.

Constitutive framework

Filene's CUNEB was not planting a simple seed, but developing a complex industrial system, governed and used by millions of individuals who co-owned the enterprises. These interlocked, federated organizations have to abide by complex regulatory guidelines, while operating within a market context requiring sophisticated business acumen. In order to leverage scarce resources for rapid implementation, the CUNEB had to create a sophisticated turn-key system. A turn-key system is one in which individuals have a ready-made template for a good, rather than one in which they must incur the costs of building something made to order. The resulting good, a functional credit union, would likely not have survived and thrived as optimally in isolation, without a supporting institution and environment. The scaffolding that on-boarded these turn-key credit unions served as a force-multiplier, providing them with important skills, scale, and collective action capacities.

Filene's first successful credit union was launched within the confines of his own department store in 1908, with growth slow-moving during the proceeding decade. Around 20 additional credit unions were formed in Massachusetts, and dozens elsewhere. That is until Filene joined forces with Roy Bergrengren, the Massachusetts-based poverty lawyer whose intellect Filene deeply admired. In 1921, the CUNEB was launched, with Bergengren's team providing blueprint language for new members to incorporate their credit unions – the constitutive framework. This helped double the number of credit unions from 199 in 1921, to over 400 in 1925 (Moody and Fite, 1984).

This blueprint language helped entrepreneurs and prospective members to overcome the collective action problems associated with forming a cooperative in at least two ways. First, it lowered the costs of forming a credit union. This reduces the incentive to free-ride off the efforts of others by providing less costly effort. Second, it helped individuals coordinate with one another by creating a focal point, a shared vision of what a credit union looks like.

However, creating an overarching constitutive framework also involves collective action problems. Indeed, given the sheer numbers of people impacted by the constitutive framework, the scale of the project means that it would be challenging to coordinate multiple small funders to support its formation under uncertain conditions (Andreoni, 1998, 2006). Filene was able to overcome this problem by acting as a leadership giver.

Filene was committed to the success of the CUNEB, investing over a million dollars of his own money. Bergengren set about developing the industrial ecosystem that would support the growth and sustain the livelihood of these new credit unions. As Bergengren and Filene traveled throughout various states forming new credit unions, they tasked these new entities with joining into state Credit Union Leagues, supported by dues paid for by the member credit unions. In turn, these credit unions were then tasked with dues to the CUNEB (the precursor for the Credit Union National Association (CUNA)). By 1937, CUNA represented over 6,400 credit unions in 45 states (Little, 1937). One contemporary example of the manner in which federation is embraced has been in the growth of Co-op Financial Services (Anon., n.d.), allowing virtually all credit unions to interconnect for shared banking and ATMs at over 5,300 US locations, providing a seamless consumer service experience of one big credit union.

The CUNEB developed the constitutive industrial system where local, community-based credit unions could thrive against the backdrop of an enabling business network. Federations facilitated in information sharing to guarantee credit unions adhered to best practices and benefited from business-to-business collective action. In this manner, individuals from isolated rural communities could have access to consumer credit and sophisticated banking technologies, and a national network for elevating their voice beyond their local confines. But for these credit unions to thrive, Filene's CUNEB recognized the need of credit unions to be officially codified under government regulatory regimes. Providing a quality, competitive product to the member-owners was not sufficient to succeed in an institutional environment that protected IOFs but not credit unions.

Enabling legislation

For alternative organizational forms to thrive, they need the stability provided by legal certainty (Cox *et al.*, 2010; Ostrom, 1991). Filene was quite sensitive to this need for enabling legislation, early on, having initially worked with Massachusetts Banking Commissioner Pierre Jay and future Supreme Court Justice Louis Brandeis on drafting the first state credit union statute, the Massachusetts Credit Unions Act of 1909.

Bergengren and Filene debated within the CUNEB on the legal strategy. Bergengren sought a targeted approach in prioritizing national legislation. Filene differed on the strategy, focusing on a state-by-state campaign with an eye on creating critical mass toward a federal statute; eventually Filene and the state-by-state effort won out and took precedence. In order to craft optimal policy and apply pressure to legislators, the CUNEB embarked upon a concurrent strategy of passing models and enabling legislation state-by-state, while at the same time growing new credit unions and their state associations. This accomplished two things. First, they would learn from real world experimentation where the laws and regulations worked best, and adjust the model law accordingly (Johnson, 1948). Second, it would create the critical mass, signaling to policymakers that a demand existed,

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making a national legal standard viable. By the time the CUNEB had successfully overseen passage of the Federal Credit Union Act in 1934, the credit union movement had passed model statutes or altered laws in 31 states through a network of thousands of credit unions, organizations whose profit margins could be used to sustain large-scale mobilization (Mooney, 2004).

Filene's state-by-state strategy helped overcome collective action problems in several ways. First, starting at the state level meant working in an area where the impacted population is smaller. This meant that he could work with a group of constituents that more closely resembled a concentrated interest group and were therefore better able to overcome collective action problems. Second, coordinating activists and decision-makers within a single state is easier due to shared culture and social capital. The potential for closer social ties and greater shared values reduced the costs of resolving collective action problems. Third, beginning at the state level allowed decision-makers in other jurisdictions to observe the impacts of these policy innovations. This unleashes a process of "yardstick competition" (Besley and Case, 1995; Boettke *et al.*, 2011). Voters and politicians observe what is happening in other jurisdictions, and this shapes their decisions.

Interestingly, legislation, while helpful, was not always necessary. As credit unions came into the public consciousness, anecdotes existed of rogue credit unions arising before statutes became available. In San Diego, teachers organized their first distinct credit union outside of their corporate statutory rights in 1924. This rogue credit union influenced the advent of teachers' credit unions all over the US, many of which endure to this day (Moody and Fite, 1984). The decentralized yet coordinated nature of the movement clearly allowed for exploration and rogue entrepreneurship that was folded into the iterative development of the sector.

Organizational strategy

The way that credit unions were structured came about in part through robust contestation with key figures in the CUNEB, but also through trial and error in the field. The first state credit union statutes out of Massachusetts inspired proceeding state statutes, resulting in new credit unions that themselves introduced new organizational and systemic strategies. Filene,

> [along] with Bank Commissioner Thorndike and Stanton, drafted a set of principles for the operation of new credit unions. The eight principles were that credit unions must organize on a cooperative basis; form an association of men, not shares, limit each member's shares, and allow each member only one vote; rigidly exclude thriftless and improvident borrowing; admit to membership only honest and industrious men and women; restrict operations only to small communities and groups; make small loans, and frequent partial repayments; permit character and industry to be the main basis of credit; and require prompt payment of loans. (Moody and Fite, 1984: 51–52)

The CUNEB was able to leverage its position in the national network to collect, sort, and prioritize the organizational strategic orientation of the credit unions. We outline a few key strategies used by CUNEB to structure the credit unions that they helped to develop (but we also encourage further archival analyses of what appears to be a rich area to explore).

The CUNEB was fortunate enough to be developing a business within an industry that could use a strategic turn-key startup model. The turn-key model was possible due to the relatively standardized contours of the consumer finance industry. For example, what one credit union provides in services in Maine is going to be relatively similar in the case of a community bank in Oregon, making common understanding, replication and aggregation a less complicated pursuit. The turn-key standardization reduced overhead and startup time (a scarce resource for working people), and the use of federated models overcame localized knowledge and political asymmetries. As the CUNEB dialed in the model, development was very straightforward. A local credit union startup could draft bylaws, pass them, and begin business within days, a feat that seems virtually impossible in today's financial regulatory environment.

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The federated framework did two things. First, it enhanced the turn-key model by allowing new credit union startups to plug into a network, providing economic power and political clout through associations and credit union service organizations. Second, these new startups were then tasked with paying back into the system, creating ever greater capacity for CUNEB (later CUNA) to grow more credit unions. Let us call this the business-to-business co-op startup subsidy (in Molk's terms, brokerage). The business-to-business strategy bonded credit unions to the associations and the associations to the credit unions, enhancing reciprocity mechanisms, trust, and the capability to operate at scale.

Many credit unions were founded on the idea of bounded membership or as the industry refers to it, *field of membership*. The concept, according to Giles (1951),[1] was to create essential solidarity through a common bond of shared identity:

> The purpose of limiting membership is to create a little community in which people know each other well enough so that they can lend money to each other on character without paid investigators, collections agents, and the usual paraphernalia of the small loan business. Democratic control of the credit union is safeguarded by the fact that each member has only one vote, thus avoiding domination by a few large investors. This, too, helps make it intimate.
>
> There are credit unions in large industrial plants with thousands of members and equally large credit unions serving municipal employees in big cities. Here the intimacy of the membership does not amount to much. Office space is rented, real estate taxes are paid, and paid employees may number several score. Still the credit union is able to charge the same low interest rates, pay reasonable dividends on saving, and provide insurance on loans and shares, simply because despite its size the credit union is motivated by the desire to serve its members rather than make a profit from them. The directors and officers continue to serve as volunteers out of the public spirit. Among the elected officers only the treasurer's work is paid.

Rules regarding the field of membership are instances of boundary rules, which Ostrom (1990) saw as crucial to sustainably governing common enterprises. Such rules are more generally helpful for overcoming collective action problems.

Procuring capital is frequently seen as a barrier for co-op development.[2] Filene was committed to financing the operation of the CUNEB, on the presumption that it promoted self-reliance. But self-reliance was not overly complicated for the CUNEB and the credit union startups insofar as the CUNEB had an advantage over other forms of cooperative entrepreneurship: the service and product of their startups is capital. Procurement of capital was a *de facto* aspect of the business itself, and funding came from the member credit unions. And because the members held with them a common bond, their homogenized interests facilitated trust and reciprocity, decreasing governance costs. The members of, say, Navy Federal Credit Union (NFCU) all worked together. And then they invested in the credit union together, putting skin in the game so that individuals had personal collateral, incentivizing their participation in and monitoring of their credit union. And since NFCU members all worked together within the United States armed forces, their work and credit union environments cultivated trust through proximity and interaction, diminishing the likelihood that self-seeking behavior in the credit union would occur, out of concern that an individual's standing in the workplace would be harmed.

A common thread cutting throughout all of these strategies is the creation of and investment into social capital (Chamlee-Wright and Storr, 2011; Craig and Goodman, 2019; Lin, 2001; Loury, 1977; Ostrom and Walker, 2003). Social capital was key. Filene, known for his thrift, frustrated

[1]Thank you, Matthew Cropp, for drawing our attention to this quote. See http://cuhistory.blogspot.com/2013/06/1951-quote-on-purpose-of-credit-union.html (accessed September 19, 2019).

[2]See https://www.ica.coop/sites/default/files/media_items/ICA%20Blueprint%20-%20Final%20version%20issued%207%20Feb%2013.pdf (accessed 2 October 2019).

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Bergengren's numerous requests for greater amounts of financing for field staff on a number of occasions. This pushed Bergengren to consider ways to build more personnel capacity through volunteers and staffing provided by the newly created credit unions. The growth of social capital among both the members and the credit unions within their associations was and remains essential for the trust-building and reciprocity that allows for information flows and shared services maintaining credit union competitiveness. As individuals and organizations are able to exhibit reciprocal behavior and credible commitment, they are capable of reducing social friction for collective action (Mooney, 2004), further enhancing the capacity of the credit union system to act together to the benefit of the member-owners. In one example of ingenuity, Bergengren leaned heavily on the newly burgeoning credit union sector for an "expansion month," in which existing credit unions would help new credit union startups. "Expansion month" successfully started hundreds of additional credit unions, creating a new crop of credit union entrepreneurs (Moody and Fite, 1984: 114–115). Taken together, these features reduced monitoring costs by providing accessible information, and products are provided based on member needs, reducing the likelihood of a public service paradox (Boettke and Aligica, 2009).

Legitimacy

Creating the modern credit union sector required building legitimacy in the eyes of the public. Individuals' beliefs about credit unions shaped whether they would be willing to become members, form credit unions, or vote or campaign for policies that enabled credit unions. Beliefs about how others perceive credit unions were particularly relevant at stages involving collective action. One robust finding in the literature on collective action problems is that "Those who believe others will cooperate in social dilemmas are more likely to cooperate themselves" (Ostrom, 2000: 140). It follows that individuals would be more likely to contribute to collective action to build credit unions if they believed that others see the project as legitimate and desirable. Filene used his celebrity to help create a public perception of legitimacy and bolstered this through the remarkable mobilization and institutional design strategy of Bergengren through CUNEB. Clout, competency, credible commitment, and verifiable progress lent important credibility.

Early in the inception of the credit union sector, Filene leaned heavily on his political and business connections to provide access and to some degree political cover. Filene harnessed his networks through major organizations that he cofounded, namely the Century Foundation and the Chamber of Commerce, to advance the concept. He was praised by prominent progressive political figures such as Presidents Theodore Roosevelt and Franklin Delano Roosevelt. Filene's stature as a senior statesman by the end of his life even garnered accolades from a modern-day foe of the credit union sector, the American Banking Association (Moody and Fite, 1984).[3] Filene used his reputation and position to drive favorable public policy, capture the media's imagination, and speak to numerous Americans in the interest of advancing the credit union sector.

Filene found in Roy Bergengren a fellow public entrepreneur who would work to establish the credit union sector. Bergengren, whose autobiography is called *Crusade: The Fight for Economic Democracy in North American*, lent additional legitimacy to the movement through his unwavering commitment and credibility. Not only was Bergengren able to weather the notoriously difficult Filene – well known for his ability to churn through personal assistants – but he was also able to work around Filene's unpredictable financial commitments.

Theirs was no easy partnership. Bergengren's and Filene's debates are well documented. The day after Filene's passing, Bergengren was quoted as saying, "Filene seemed to take a delight in making our lives utterly miserable almost every time we came in personal contact with him" (Engelbourg, 1976: 115). Often, Bergengren pleaded with Filene for more resources; typically, Filene, ideologically dedicated to thrift, would respond unapologetically, providing Bergengren and CUNEB with a fraction of the request.

[3]Today, the American Banking Association has dedicated a significant portion of its advocacy work to undermining credit unions. See https://www.aba.com/Advocacy/Issues/Pages/Issues_CreditUnion.aspx (accessed September 19, 2019).

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Bergengren demonstrated his intense commitment to the movement strategy and fidelity to the co-op business model. Filene sought to tap into the New Deal, to finance the advancement of credit unions. Bergengren, to the detriment of his own self-interest, contested the very idea of a self-help movement being connected, dependent, upon the largesse of the state. To Bergengren, "it meant destroying the vital principle of the whole movement by converting a community enterprise into an agency of the government. To teach people how to help themselves was more important by far in times of depression than at any other time" (Johnson, 1948). Filene ultimately relented to Bergengren.

CUNEB would eventually focus on publicity and organization (Moody and Fite, 1984: 106). Bergengren would find a number of ways to leverage Filene's celebrity through multiple public media channels. Bergengren and Filene embarked on a long-running cross-country campaign meeting with laborers, civic leaders, and political luminaries in an effort to advance enabling legislation and catalyze credit union development. According to Moody and Fite:

> Bergengren fully realized that most legislatures would not pass credit union laws unless someone carried on an effective educational effort. … People throughout the country must come share his enthusiasm and vision of what credit unions could be for the masses, and see that laws got enacted in their own states. (1984: 84)

Filene, known to be an off-putting personality to those closest to him, was stunned to see that CUNEB had built the anticipation of the crowds when he campaigned with Bergengren. The events were major civic events, likened to church revivals.

After Filene's passing in 1937, Bergengren went on to see the credit union movement reach 26,000 total organizations at its peak. He served as the first director of CUNA, was consulted on a number of international credit union policy matters – having informed Nova Scotia's credit union laws – and led the development of an international arm of the credit union movement, the World Council of Credit Unions. Reflecting upon their mutual achievements, their vision, and drive, Bergengren said:

> [W]e got away with something great because we did not know any better. We beat the dragons of our time because we did not know what terrible monsters they were. Our experience will have value only as it encourages a new crop of dragon slayers within the Credit Union movement. (Bergengren, 1952)

Filene's grants, not just of money but of his reputation, enabled Bergengren to engage in public entrepreneurship. Filene said to Bergengren "You think I am dogmatic and I think I am too" (Engelbourg, 1976: 115). Together, these dogmatic public entrepreneurs created new cooperatives, overcoming the barriers to co-op entrepreneurship and demonstrating that a strategic application of philanthropy can have significant socio-economic impacts over a long duration of time.

4. Conclusion

This case study adds yet another example to the large literature on the diverse ways in which creative human beings resolve social dilemmas and engage in collective action (Chong, 1991; Ostrom, 1990, 2000, 2005; Shughart and Thomas, 2014; Skarbek, 2016). Creating individual cooperatives requires overcoming serious collective action problems; building a nationwide network of cooperatives is even more daunting. However, Edward Filene was able to act as a leadership giver and work with collaborators like Bergengren to implement strategies that cleverly overcame these collective action challenges.

However, it is important to note the limits of our analysis. After all, "inference is an imperfect process … [and] uncertainty is a central aspect of all research and all knowledge about the world" (King *et al.*, 1994: 8–9). While we offer evidence that Filene's philanthropy helped to overcome the collective

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action problems associated with forming credit unions, we do not examine all alternative hypotheses, show that other factors did not play a crucial role, or disentangle the role of different factors or the magnitudes of their impacts. Instead, we present suggestive historical evidence and interpret it through the lens of economic theory. As is often the case with case study research, this is useful for illuminating a causal mechanism, but not for testing for the presence or magnitude of a causal effect (Gerring, 2007: 43–48). The rise of the American credit union sector had multiple causes. Future researchers should carefully examine other factors that contributed to its rise, as well as how these interacted with Filene's philanthropy. While we are confident that Filene and his collaborators played a role in overcoming the collective action challenges of forming cooperatives, the rise of the credit union sector raises important questions for future empirical and theoretical research.

In addition to contributing to our understanding of how people solve collective action problems, studying Filene's giving offers an illustrative example that can inform contemporary debates about philanthropy. The function of the grant is bound in the notion of a gift intended to better the well-being of another. However, recent critics have been skeptical of this, and instead see grants being leveraged as mechanisms to curry goodwill to the advantage of the grantor. In this criticism, the recipient receives little, while the grantor's sacrifice is anything but, looking instead like a self-dealing alternative investment vehicle (INCITE! 2017; Kohl-Arenas, 2015; Giridharadas, 2018; Reich, 2013, 2018). The "building up of integrative structures and communities" (Boulding, 1973) is a bug, not a feature.

Filene's philanthropic approach makes explicit the mission of institution building and community development. The Filene approach supported Boulding's "integrative structures," provided key support for the grant recipients (member-owners of credit unions), and used Filene's socio-political capital to secure the necessary legal regimes for credit unions to operate. Importantly, Filene overcame the public entrepreneur problem by seed-funding Roy Bergengren and CUNEB. And Bergengren further addressed the dependency challenge – a social movement being reliant upon the largesse of a singular aging and idiosyncratic philanthropist – by furthering the market-based credit union business support system.

Remarkably, Filene's pioneering form of philanthropy remains overlooked to this day. The institution-building and "leadership giver" approach of Edward Filene helped advance self-governing institutions that are in many ways significantly more accountable to their members and beneficiaries – and enduring – than other philanthropic projects.

Democracy is vulnerable "when people conceive of their relationships as being grounded on principles of command and control" (V. Ostrom, 1991: 4). Accordingly, philanthropic strategies that rely on command and control are likely to promote dependency and undermine capacities for self-governance. If philanthropy based on command and control predominates, philanthropists are likely to imitate this hierarchical approach. This process is exacerbated by frequent partnerships between non-profit organizations and the state, enjoining their mutual excesses to the detriment of aid recipients (INCITE! 2017). Filene was fortunate enough to have under his employ a public entrepreneur who guarded him against his own inclinations, adding value and resilience to the enterprise.

To preserve self-governing democratic institutions, civil society, and coordination, there is a need for innovation and growth in this arena. What is old is new again in that Filene presents a valuable vision for philanthropy. Beyond the state and the market, self-governance has an elevated importance as we witness the failure of democratic states (Achen and Bartels, 2017) stumbling toward rational ignorance, rational irrationality, and demagoguery (Brennan, 2016; Caplan, 2007; Somin, 2013). Voluntary associations can avoid these pitfalls by combining democracy with price mechanisms, ownership and governance rights, and more generally exit rights and skin in the game. Indeed, the US credit union sector remains so robust that during the recent period of the financial crisis, the sector grew in terms of market share, assets, and membership (Chatterji *et al.*, 2015; Pilcher, 2012); these philanthropically supported voluntary associations continue to endure.

That said, we do not want to leave the impression that the Filene legacy credit unions and other such consumer co-ops, once started, are problem free. The horizon problem (Cook, 2018; Furubotn and Pejovich, 1970) is one that many cooperatives face. Fundamentally, the horizon problem is a

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property rights issue. When members leave the credit union, they cannot sell or retain their shares of the firm. This creates a conflict between members that plan to leave soon and those who have a longer time horizon in the organization. Within an IOF, investors have an incentive to care about the long-run profits of the firm. Even if the investor plans to divest soon, they will be able to sell their shares at a higher price if the buyer expects the firm to do well in the future. The long-run performance of the organization is therefore priced into the shares of all investors, aligning incentives between long-term and short-term investors. In a cooperative, by contrast, this does not happen. Because those with a short time horizon cannot sell their shares to buyers with a longer time horizon, they instead have incentives to encourage payouts to current stakeholders that deplete the firm's long-run assets. It is not clear whether Filene was aware of these problems, or what early credit unions did to address them. Further research could examine how credit unions have dealt with the horizon problem.

The philanthropic approach of Edward Filene provides concrete strategies for self-sustaining institutions, decoupled from the dominant modes of philanthropy and the default to centralized decision-making. The proliferation of community-based institutions such as co-ops promises not only to empower communities, but also to create a strong check on larger social systems, such as government and the market power of monopolistic enterprises. In this manner, philanthropy can live up to its promise to truly embolden civil society. Philanthropists can change the contemporary narrative, invest in institution building, and advance the next iteration of the Filene approach to philanthropy.

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