



RESEARCH
BRIEF

The Stakeholder-Empowering Philanthropy of Edward Filene



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The origin and continued success of the US credit union sector can be attributed in large part to a unique model for cooperative entrepreneurship originating from the movement strategy of Edward Filene, Roy Bergengren, and the Credit Union National Extension Bureau (CUNEB).

OVERVIEW

The story of the origin of US credit unions should reengage credit union leaders, members, and policymakers with the founding model's unique value: cooperative entrepreneurship. Bolstered by the philanthropy of Edward Filene, cooperative entrepreneurship was leveraged at the launch of the credit union system to grow the sector from 80 credit unions in 1908 to over 26,000 by 1954. Edward Filene's and Roy Bergengren's approach through the Credit Union National Extension Bureau (CUNEB) helped create and implement a model that (1) provided a blueprint for credit unions, (2) leveraged the clout of leaders in the movement to provide legitimacy, (3) developed enabling legislation, and (4) established collective organizational strategies. Today's credit union leaders would be wise to reengage with the sector's origins. One critical lesson: Apply your philanthropic efforts to seed new institutions in support of financially healthy communities.

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Today's credit union leaders would be wise to reengage with the sector's origins. One critical lesson: Apply your philanthropic efforts to seed new institutions in support of financially healthy communities.

Filene's philanthropic approach stands in stark contrast to top-down forms of philanthropy that are unresponsive to the desires of aid recipients or that dictate terms to those recipients. This institution-building philanthropy offers lessons for leaders in the credit union system and beyond as they seek deeper philanthropic impact, especially around equity and stakeholder empowerment.

The power of credit unions is found in their capacity to work collectively, and this feature was embedded by design at their very origin by philanthropist Edward Filene. Filene, an internationally renowned progressive businessman of the early 1900s, grew increasingly frustrated with the predatory behavior of loan sharks. The employees of Filene's Basement retail stores, while compensated above industry standards, struggled to access basic financial services. Those who were not outright denied loans often struggled to pay the high interest rates they were charged. Motivated by his commitment to progressive capitalism and inspired by his fieldwork observing cooperative banks in India, Filene set out to create in the United States an American cooperative financial services provider, known as the credit union. To do this at scale for optimal impact, Filene developed an approach based on **cooperative entrepreneurship**.

Beginning in 1920, Filene recruited Roy Bergengren to head up the Credit Union National Extension Bureau (CUNEB). Seeded with Filene's own money—estimated at around \$1 million (M) in the 1920s, the equivalent to \$13M to \$15M in 2019 dollars—CUNEB's responsibility was to rapidly grow locally owned and governed credit unions. To do this, Filene's resources were leveraged through a clever cooperative entrepreneurship model. CUNEB was charged with assisting 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). For his part, Filene acted as a "**leadership giver**" (Andreoni 1998, 2006), providing the seed money that allowed the credit union sector to grow. The result was an unqualified, if little known, success.

Rather than being subject to Filene's dictates, credit union members had multiple ways to shape the direction of their organization. Filene's philanthropic approach stands in stark contrast to top-down forms of philanthropy that are unresponsive to the desires of aid recipients or that dictate terms to those recipients. This institution-building philanthropy offers lessons for leaders in the credit union system and beyond as they seek deeper philanthropic impact, especially around equity and stakeholder empowerment. This history presents a model for creating new cooperative enterprises seeded by leadership giving philanthropy.

**WHAT DOES
THE RESEARCH
SHOW?**

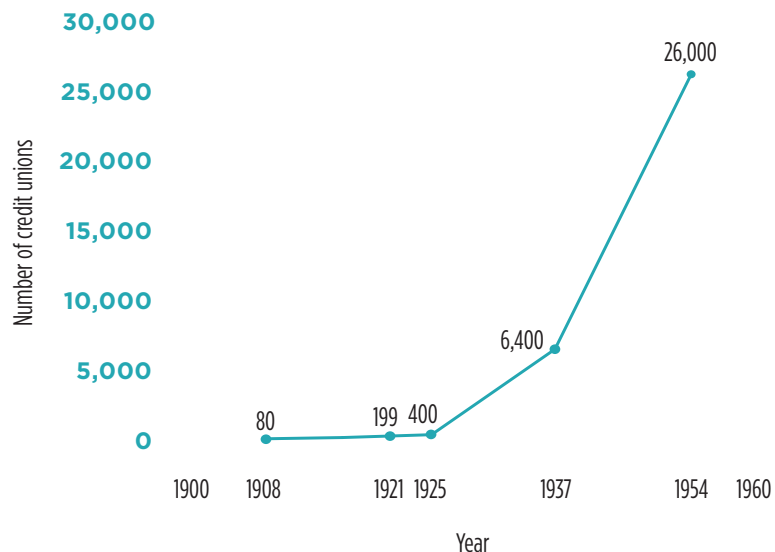
The story and implications of Edward Filene’s philanthropy are detailed in our article “[The Stakeholder-Empowering Philanthropy of Edward Filene](#)” (Taylor and Goodman 2019) and summarized below.

Prompted by Filene and led by Bergengren, CUNEB adopted four strategic pillars for advancing the credit union system by developing a self-governing system based on cooperative entrepreneurship. 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 system. To succeed, Filene and his collaborators employed a strategy with four key pillars. First, rather than simply providing funds to start credit unions, they crafted a constitutive **blueprint framework** to allow various stakeholders to form their own credit unions. Second, they built on Filene’s reputation as a business leader to provide **legitimacy** to the burgeoning credit union sector. Third, they successfully lobbied for **enabling legislation**, persuading state legislatures and the federal government to pass laws supporting credit union formation. Fourth, they used a **collective organizational strategy** that leveraged the social capital of credit union members to continue advancing their model and goals. We explain each of these strategic pillars in turn, highlighting how they helped overcome the start-up challenges associated with forming credit unions.

1. A Blueprint Framework

For Filene and Bergengren, it was not enough to simply engage in the tedious development of one credit union at a time. Instead, their framework orientation was designed so that stakeholders would be empowered to form and grow credit unions within a short amount of time.

FIGURE 1
THE DRAMATIC GROWTH OF CREDIT UNIONS FACILITATED BY
FILENE AND HIS COLLABORATORS



Turnkey standardization reduced overhead and start-up time (a scarce resource for working people), and the use of federated models overcame localized knowledge and political asymmetries. CUNEB's development model was very straightforward. A local credit union start-up could draft bylaws, pass them, and begin business within days.

The blueprint also contained the means to facilitate rapid establishment and further growth. In addition to the turnkey model for stakeholders to launch a new credit union, it contained:

- An obligation by the credit union to join state leagues and the national association (today, known as the Credit Union National Association or CUNA).
- An expectation that the credit union would assist other credit unions in forming and launching.

Clout, competency, financial commitment, and verifiable progress lent important credibility to the credit union model. The utilization of Filene's legitimacy catalyzed people to action and opened space for cooperative entrepreneurship to arise.

2. Legitimacy

The meteoric growth of credit unions was no doubt assisted by Filene's celebrity. Filene was an influential progressive businessman, having helped establish the US Chamber of Commerce and the Century Foundation. Filene used his celebrity to help create a public perception of legitimacy, which was bolstered through the remarkable mobilization and institutional design strategy of Bergengren through CUNEB.

Clout, competency, financial commitment, and verifiable progress lent important credibility to the credit union model. The utilization of Filene's legitimacy catalyzed people to action and opened space for cooperative entrepreneurship to arise. Bergengren also made use of Filene's celebrity to apply pressure to policymakers.

3. Enabling Legislation

Like all businesses, the credit union model needed a supportive public policy framework.

CUNEB leveraged the growing public support and economic clout of the credit union system—which soon came to include a series of nationally visible federations—to advance supportive legislation. At first, Filene and Bergengren were content with securing state-level statutes. Over time, CUNEB leveraged growing sociopolitical clout to finally pass the Credit Union Act of 1934, allowing for federally chartered credit unions. The influence of this political strategy can be seen in the collective advocacy efforts of credit unions today.

4. Collective Organizational Strategy

CUNEB did not simply start the system. It rationalized a collective organizational strategy, serving as a conduit for business, policy, and systems strategy.

The federated framework did two things. First, it enhanced the turnkey model by allowing new credit union start-ups to plug into a network, providing economic power and political clout through associations and credit union service organizations. Second, these new start-ups were tasked with paying back into the system, creating ever-greater capacity for CUNEB (later CUNA) to grow more credit unions. The business-to-business strategy bonded credit unions to the associations and the associations to the credit unions, enhancing reciprocity mechanisms, trust, and the capacity to operate at scale.

Alone, individual credit unions are left vulnerable to big commercial banks and other competitors. But by working through the leagues and national association, individual credit unions were—able to act collectively as a flock of Davids, taking on the banking Goliaths.

Long after Filene has passed, credit unions remain able to overcome barriers by leveraging co-ops of co-ops, such as credit union service organizations (CUSOs). These CUSOs allow small credit unions to thrive, providing not just business lending but also back-end services, shared branch banking, investment services, compliance support, lobbying, and more.

WHAT ARE THE CREDIT UNION IMPLICATIONS?

The story of Edward Filene’s and Roy Bergengren’s cooperative entrepreneurship model sparked by Filene’s stakeholder-empowering philanthropy offers an illustrative example that can inform contemporary debates about philanthropy. Remarkably, Filene’s pioneering form of philanthropy remains overlooked to this day. His institution-building and “leadership giver” approach helped advance self-governing institutions that are significantly more accountable to their members and beneficiaries—and significantly more enduring—than other philanthropic projects. To preserve self-governing democratic institutions, civil society, and cooperative coordination, there is a need for innovation and growth in this arena. Filene presents a valuable vision for what philanthropy could accomplish today.

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Cooperative financial services are not simply a business; such services are also a political enterprise requiring mobilization and collective action. In coming together around shared purpose and needs, credit unions of all sizes can provide services that punch well above their weight. The origin story of the credit union sector is in many ways as relevant in today’s era as it was then. Filene reminds us that by (a) working with other credit unions, (b) developing new capacities through the credit union business network, and (c) leveraging and projecting the collective economic and member power of the sector, all credit unions can continue

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The origin story of credit unions was based on a wildly successful model for philanthropy that facilitated cooperative entrepreneurship. What might this approach accomplish if credit unions applied it today? The power of granting, complemented with a blueprint for self-governance, can transform our communities.

to innovate cooperative approaches to improving financial services and financial well-being.

The philanthropic approach of Edward Filene provides concrete strategies for creating self-sustaining institutions decoupled from dominant modes of philanthropy that default to centralized, top-down decision-making. The proliferation of community-based institutions such as cooperatives promises not only to empower communities but also to create a strong check on larger social systems, whether government or monopolistic commercial enterprises. In this manner, philanthropy can live up to its promise to reinvigorate and embolden civil society. Philanthropists can revive the Filene approach, invest in institution building using cooperative entrepreneurship, and change the contemporary narrative of a civil society in decline.

The origin story of credit unions was based on a wildly successful model for philanthropy that facilitated cooperative entrepreneurship. What might this approach accomplish if credit unions applied it today? The power of granting, complemented with a blueprint for self-governance, can transform our communities. The history of credit union growth in the United States is not only about grassroots people coming together in the spirit of self-reliance, it is also about the power of philanthropy to catalyze grassroots work into durable cooperatives that can change lives.

filene.org/495


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