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THE CREDIT UNION AND THE COOPERATIVE STORE

BY
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- RL 30. **Work of the Remedial Loan Societies, 1916-1917.** (Statistical folder) 1917.
- RL 31. **The Credit Union and the Cooperative Store.** By Arthur H. Ham.
An address delivered at the Conference of Eastern Cooperative Societies, New York, N. Y., Nov. 25, 1917. 8 p. 1917.
- No. 5. **Cooperative Credit.** A Selected Bibliography. Bulletin of Russell Sage Foundation Library, June, 1914. (5 cents.)

THE CREDIT UNION AND THE COOPERATIVE STORE

An intelligent discussion of the relation between the credit union and the cooperative store depends upon accurate knowledge of the functions and characteristics of both these types of cooperative endeavor. The cooperative store is quite generally understood; the credit union, I fear, is not. It is an innovation in this country. Its name is not fully descriptive and may be misleading. Credit union laws that have been enacted are, as a rule, verbose and complex and inevitably give the impression that the credit union is a complicated affair. In reality it is simple.

The credit union is a cooperative association of persons mutually acquainted which seeks: (1) to encourage thrift by providing a safe, convenient and attractive medium for the investment of the savings of its members; (2) to promote industry and eliminate extortion by enabling its members to borrow for productive and other beneficial purposes at a reasonable cost; (3) to train its members in business methods and self-government and bring to them a full realization of the value of cooperation.

The credit union is an adaptation of the European cooperative bank or credit society. It is just an extension of the cooperative banking principle which, starting in Germany nearly 70 years ago, has spread to practically every European and many Asiatic countries, taking on new names and some new characteristics to suit local conditions but always preserving the elements which have caused its steady growth and phenomenal success.¹

¹ During the last five years there has sprung up in this country another system of savings and loans which is said to be an adaptation of European systems of industrial banking to meet the needs of American workingmen. Even a cursory examination of the German, Italian, Russian and other European systems reveals the fact that they are invariably cooperative and that their phenomenal success has come through their characteristics of mutuality, democracy of control, equality of privileges, homogeneity of membership and ratable distribution of profits. In the so-called process of adaptation this new system—which is known as the "Morris plan of loans and investments"—has eliminated all the cooperative features of the European systems. It is a joint-stock plan. It depends upon small savers for a considerable portion

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Laws authorizing the organization of credit unions have been enacted in Massachusetts, New York, Rhode Island, North Carolina, Wisconsin, Texas, Utah and Oregon. Under these laws about 120 credit unions, rural and urban, have been organized: 60 in Massachusetts, 40 in New York, 14 in North Carolina and the remainder scattered among the states of Oregon, Rhode Island and Texas. Of the Massachusetts credit unions all except one have been formed in urban centers; of the New York credit unions 35 are urban (34 in New York city) and 6 are rural. All the North Carolina credit unions are rural. In addition to these a number of credit unions have been formed as voluntary associations in the states of Connecticut and New Jersey. In New York city alone there are scores of mutual savings and loan associations which are virtually credit unions though not incorporated under the law.

The incorporated credit unions in New York now have a membership of 10,000 with assets of nearly a half million dollars. Their bases of membership include: (1) employment in industrial, mercantile and public service corporations; federal, state and municipal departments; (2) membership in fraternal and religious organizations; (3) membership in neighborhood associations and (4) group acquaintanceship based on racial lines.

Under the law of New York—and this is typical of the credit union laws of all states—a group of persons of good character who are identified with the same factory, business, religious or fraternal association, or other organization that may be selected as the basis of membership, may join together to form a credit union. Once organized under the authority of the banking department they may add to its membership other persons with whom they are associated or acquainted. A safe and attractive medium for the investment of the saving of members is offered by the instalment share of the credit union, for at least one of which each member must subscribe. Such shares are of small par

of its working capital but its borrowers and savers have no voice in its operations nor participation in its profits. It does not confine its operations to any group and there is no association or acquaintanceship among its clients. In fact, all the important elements of success and mutual benefit found in the European systems are absent here. It is important to keep clearly in mind the distinction between democratic, cooperative banking and profit-making enterprises which, though sometimes alleged to be of a similar nature, are in reality antipodal.

value and are payable in weekly or monthly instalments. Each member is encouraged to subscribe for as many shares as he can afford. Money is also received on deposit as in a savings bank. The shares encourage regular periodic saving for distant expenditures, while deposits are savings for more imminent needs. Interest is allowed on deposits at or slightly above the savings bank rate and dividends are paid upon shares. Most credit unions that have attained full headway pay a dividend rate of from 5 to 7 or even 8% per annum.

Out of the funds so accumulated loans are made to members for productive purposes or purposes that will effect a saving or supply an urgent need. Loans are commonly made for not more than a year and are repayable in weekly or monthly instalments. Ordinarily loans are secured by the promissory note of the borrower with or without endorsements of fellow members or other security. On small loans endorsements are usually not required. The character of the borrower, appraised when he is admitted to the credit union as a member and again appraised when he becomes an applicant for a loan, determines the amount of credit extended. His financial solvency plays but a small part in the matter.

In an ordinary joint-stock company the shareholder's money is the main object considered but in a credit union the shareholder himself is of much greater importance; that is, it is an association of members and not of capital, and for that reason each member has one vote regardless of the number of shares he may hold. The one-man, one-vote principle is fundamental to democracy of control. All members share equally in privileges and ratably in profits.

In a joint-stock bank the shareholders and constituents are mostly different people, a condition which keeps distinct the interests of the buyers and sellers of credit. In a credit union the interests of borrowers and lenders are identical. The very members who pay interest on loans are receiving dividends on their shares. This community of interest enables the credit union to loan with safety upon character alone, for the moral responsibility of repayment is great when a man knows that by violating his obligations he not only withholds the money of a fellow worker or associate but invites social ostracism. The mutual responsi-

bility of members and their self-interest causes such supervision over loans as to make the possibility of loss remote.

The active management of the credit union is delegated by the general meeting of the members to a board of directors, a credit committee and a supervisory committee, the members of which serve without pay. The directors have the general management of the affairs of the union. They act upon applications for membership, determine the rate of interest upon loans and deposits and declare dividends. The credit committee has charge of the granting of loans to members and fixes the terms of repayment. The supervisory committee audits the books and accounts and oversees the acts of the directors, officers and credit committee.

The credit union effectively encourages saving. There is thrift in borrowing as well as in saving and through the credit union a member may borrow without other security than his own character and at more favorable interest rates than he can obtain elsewhere. A credit union loan enables a member to buy for cash necessary commodities on which he has been accustomed to pay an unconscionable profit by buying on the instalment plan. A loan made in an emergency relieves the member of the necessity of paying ruinous interest rates to loan sharks. Such loans may prove helpful and beneficial in numerous ways. Members may form themselves into a cooperative buying club and finance its operations through the credit union.

The law permits to credit unions a reasonable amount of borrowing from outside sources of capital, and in practice it has been found that the collective liability and character of members joined together in this manner is sufficient to establish a reasonable amount of banking credit for a credit union on favorable terms. Thus a link is established by the credit union between the individual's need for credit and those who have money to lend. Cooperation brings credit facilities within the reach of those who individually could not obtain them. Capacity for united action and ability to join in sympathetic association are the solution of the difficulties of those who labor under credit handicaps and disadvantages.

The credit union and the cooperative store have much in common. Both seek to encourage saving and eliminate usury—the credit union to encourage the accumulation of savings and

to eliminate the usury of interest on loans; the cooperative store to encourage saving on purchases through collective buying and thus eliminate the usury of food. Both to be successful must preserve the essentials of cooperation; namely, democracy of control (one man, one vote), equality of privileges, ratable distribution of profits, confidence, loyalty and mutual helpfulness.

The difficulties that lie in the path of the development of the two systems are much the same: inherent lack of thrift; lack of homogeneity; mobility of population; strong individualism, etc. These and other obstacles, real and apparent, are cited by friends and foes of the cooperative movement as difficulties that lie in the way.

We are told that cooperation in credit or in purchasing cannot succeed in this country. It is doubtless true that cooperation will not work, but as someone has said, "It can be worked"; i. e., cooperative activities can and will succeed if those engaged in them will recognize the necessity for and will practice mutual helpfulness as distinguished from the selfish desire of profit. In spite of the high rate of mortality among the cooperative stores in the past and the fact that a few credit unions have not succeeded we know that success comes to both if the essentials of cooperation are adhered to.

The credit union and the cooperative store not only have a common purpose, depend upon common essentials and encounter common obstacles but the development of one naturally suggests the other. There is no apparent reason why these two movements should not go hand in hand and the combination of the two be utilized for their mutual benefit. Funds accumulated by credit unions from the savings of members are first of all to be employed in productive or otherwise beneficial loans to members. Funds not called for in this manner are deposited in banks or invested in safe securities. If such surplus funds were utilized to develop the cooperative buying club or the cooperative store a double saving and benefit for the credit union member would ensue. We already have some successful beginnings in this direction. The cooperative store returns a periodic dividend to its members based on the amount of their purchases. If members were encouraged to invest that dividend in shares of the credit union the result would be not only the building up of a

savings account and the establishment of emergency credit for the member, but such funds would be available for loans by the credit union to the cooperative store or buying club as a means of extending its beneficial activities or for the development of other cooperative undertakings.

The ability of an English cooperator to keep up his payments on a building and loan association share out of the dividends on his purchases from the cooperative store has suggested the thought that the cooperator may "eat his way into his own home." For those in a humbler sphere or those who have not been thrifty and do not yet aspire to owning their own homes a combination of the credit union and the cooperative store offers an opportunity for one to eat his way into the establishment of a savings account as a protection against the proverbial rainy day and a basis for emergency credit.

Credit is the basis of all commercial and industrial activities. The cooperative store has to be financed. How can it better be financed than by a cooperative bank or credit union? The development of the cooperative store suggests a cooperative wholesale society with a larger financing problem. Can it not expect the most sympathetic and liberal treatment from a central credit union bank? One has only to consult the remarkable growth of the Russian central cooperative bank in Moscow and its intimate relation to the development of the cooperative movement in that country for an answer to that question. Realizing the basic importance of credit in the economic system Sir Horace Plunkett has been quoted as saying that if he had to do over again his work in the development of cooperation in Ireland he would begin with the cooperative bank or credit union.

Cooperative credit is the simplest form of cooperation. It is easiest to put in practice and naturally leads to and makes possible other cooperative activities. Does not the combination of cooperative credit and cooperative purchasing suggest the ultimate development of the cooperative community wherein the inhabitants of a rural or even an urban community, utilizing the school-house perhaps as a community center, unite for the purpose of carrying on various cooperative enterprises for their mutual benefit with the credit union as the basic unit in the whole structure?