Altruism in the Economic Evaluation of Credit Unions: a Thought Piece

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The assumption that individuals are self-interested by nature, or even opportunistic, has been consistently applied in the economic evaluation of credit unions. However, the history of the credit union movement exemplifies these institutions as important instruments for combating misery, usury, famine and unemployment. This combined with their enviable track record in mobilising voluntary support and their co-operative philosophy of equality, equity and mutual self-help might suggest that the behavioural assumption of self-interest is inappropriate to these institutions. Or, at least, that the propensity to be unselfish (altruistic) should be incorporated into economic models of their behaviour. Against this backdrop, this article, which is designed to be thought provoking rather than definitive, considers the concept of altruism and argues that enlightened self-interest may be more usefully applied to the study of credit unions. Two examples are used to support this argument; one considers why credit unions might charge sympathetic loan rates or adopt a neutral stance in their rate setting behaviour, and the other considers why people might choose to volunteer in credit unions.

Introduction

A universal assumption of economics is that individuals are inherently selfish. Economists conceptualise self-interest seeking behaviour through the maximisation of well-defined utility functions and this forms the basis for general economic models from which predictions are derived. This article considers the application of economics to credit unions. These institutions have a distinct economic and social philosophy that emphasises the supremacy of people over money. They are not constituted to make profits and are openly committed to serving the financial service needs of disadvantaged communities and individuals, many of whom have been abandoned by mainstream banking. They also have an enviable track record in mobilising voluntary support. These and other distinguishing characteristics might suggest that the behavioural assumption of self-interest is inappropriate to credit unions. Or, at least, that the propensity to be unselfish (altruistic) should be incorporated into economic models of their behaviour. Against this backdrop, this article, which is designed to be thought provoking rather than definitive, considers the concept of **altruism** and argues that **enlightened self-interest** may be more usefully applied to the study of credit unions. Two examples are used to support this argument; one considers why credit unions might charge sympathetic loan rates or adopt a neutral stance in their rate setting behaviour, and the other considers why people might choose to volunteer in credit unions.

The credit union distinction

Credit unions are member-owned financial co-operatives that are formed to encourage thrift among their members and to pool these savings into a fund so that members can borrow from this should they need to do so. Their depositors are also their borrowers who know one another through some **common bond** and this pre-existing social connection helps circumvent problems associated with lending[1]. Credit unions are like banks in the sense that they accept deposits (or shares) and make loans. Unlike banks, however, credit unions are in business to maximise service to members rather than maximise profits. This distinction reflects the following key differences in their organisational structure:

- Credit unions are **member-owned co-operatives**, with each member (saver and borrower alike) having just one vote in control of the institution. This contrasts with banks which are normally owned and governed by outside shareholders in proportion to their equity position with little interest in the institution as users of its products or services.
- Credit union **members are connected with a common bond**. More specifically, belonging to a particular community, industrial or geographic group to some extent unites the membership of a credit union. Bank customers are not subject to membership criteria.
- Credit unions are **not constituted to make profits**. Instead, net income is distributed to their members in the form of lower loan rates, higher savings rates (through dividends), improved service quality (such as convenience or lower fees) or contributions to reserves. Banks, on the other hand, pay (or charge) fixed or variable interest rates to their customers irrespective of net income. The residual, after retaining a portion for institutional growth, is then distributed to shareholders as dividends.

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An understanding of the credit union difference should also bear in mind certain qualities rooted in their co-operative philosophy. This can be understood more clearly with reference to the following definition of a credit union given by Cecil Crews who was involved in the Michigan Credit Union League during the 1960s:

> A credit union is born out of human need,
> Grows as it serves people,
> Endures as long as it is useful and wanted,
> To some, a credit union is just good business,
> To others it is more,
> An institution through which relations
> Between its members – savers and borrowers –
> Are placed upon a human basis – service, not profit.
> It is a business with a special purpose – a business with a heart.

The above definition implies that organisational structure is not all there is to the credit union difference. Credit unions are also a social movement, a civil movement, and a self-help movement founded on the philosophy of co-operation. Their co-operative credentials encompass a range of operating principles including open and voluntary membership, democratic control, limited (but fair) return on share capital, with any surplus equitably distributed to members, ongoing education, and co-operation among credit unions. Like all genuine co-operatives, credit union philosophy emphasises the supremacy of people over money[2]. Or, as the World Council of Credit Unions (WOCCU) have elaborated in 1984[3]:

> The Credit Union principles are founded on the philosophy of co-operation and its central values of equality, equity and mutual self-help … at the heart of these principles is the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their community.

Another distinguishing feature of credit unions is their emphasis on voluntarism, both directorially and operationally. Such voluntary support, which comes from the membership of individual credit unions, forms an integral part of delivering credit union services worldwide. In Great Britain, for instance, Jones (2005) estimates that there are over 10,000 volunteers serving 618 credit unions. And in the United States, Lopez (2001) estimates that 165,000 volunteers serve approximately 10,000 credit unions.

Most organisations are, to some degree, the product of their history and this is especially the case for credit unions whose origins as a co-operative enterprise can be traced back to the economic and social transformation that accompanied the rise of industrialisation in the nineteenth century. At this time, co-operative efforts of all kinds emerged to improve the economic position of small producers that was undermined by egoistic economism and to reinstate a sense of community spirit that was lost with industrial depersonalisation. Whilst a number of these co-operative ventures, especially the experiments of Robert Owen at New Lanark between 1800 and 1825 and the Rochdale Pioneers' formation of a co-operative store in 1844, are recognised as having shaped credit unions as distinctive mutual aid societies, the origin of the modern credit union movement owes much to co-operative pioneers in Germany who were responsible for the development of credit co-operatives over 150 years ago.

As industrialisation took off in Germany, small businesses came under economic pressure from firms operating on a larger scale which were financed by big banks. To survive, the small businesses, primarily located in urban areas and traditionally dominated by craftsmanship, had to introduce machinery into the production process. Small farmers faced similar difficulties. However, because of insufficient collateral, German farmers and urban craftsmen found it almost impossible to secure small loans at reasonable rates of interest. The commercial banks specialised in financing large projects whilst the municipal savings banks chose, instead, to specialise in the market for mortgages, securities and municipal loans In rural areas, local moneylenders satisfied the credit needs of small farmers but at exorbitantly high rates – ranging from 60 per cent to well over 100 per cent [Bonus and Schmidt (1990)]. It was in this environment that famine struck in 1846 which was followed by the failed revolutions of 1848.

Witnessing these events, Friedrich Wilhelm Raiffeisen, a Rhineland mayor and devout Lutheran, and Herman Schulze-Delitzsch, a wealthy politician and judge from Prussian Saxony, came to understand that concrete, non-political methods of aiding the poor and working classes were needed. With that in mind, Raiffeisen established a co-operative credit society in 1849 and Schulze-Delitzsch founded his first society in 1850. Both were not-for-profit, self-help efforts conducted in a democratic spirit with a policy of one-member-one-vote. They also shared the important innovation of replacing wealth capital with social capital but differed in other respects. Schulze-Delitzsch societies were secular in nature and mainly concerned with promoting the economic self-sufficiency of small businesses in urban areas. On the other hand, Raiffeisen societies operated primarily on the basis of brotherly love and Christian ethics and worked mainly with farming communities.

By 1913 there were 1,500 urban credit co-operatives in Germany with in excess of 800,000 members and approximately 17,000 rural credit co-operatives with 1.5 million members. Germany's success did not go unnoticed and credit co-operatives quickly spread to other European countries where they flourished in providing affordable credit to those shunned by other financial institutions[4]. In Italy, for instance, there was a direct transference of the ideals of Schulze-Delitzsch via Luigi Luzzatti, an Italian scholar who promoted and formed people's banks on the basis of the developments he had observed in Germany. One fundamental departure from the German model was the adoption by Luzzatti's people's banks' of limited liability. By 1909, the People's Bank of Milan was one of the largest banking institutions in Italy.

From these European origins, credit co-operatives emerged in North America at the turn of the twentieth century in response to problems of usury and abuse by moneylenders who charged extortionate rates for credit. Alphonse Desjardins became acutely aware of these problems as a parliamentary reporter in the Quebec province of Canada and following correspondence with Luigi Luzzatti he organised the first caisse populaire (people's bank) in his hometown of Levis in 1903. This was called 'La Caisse Populaire de Levi' and mirrored the Italian model by limiting the liability of members. Loans were granted on the basis of character as opposed to security, and for emergency and productive purposes only. This formed the basis for the caisse populaire movement which was closely associated with French-Canadian Nationalists and with the Catholic Church. Unlike its European counterparts, no distinction was made between organisations serving rural versus urban environments.

Desjardins founded the first credit co-operative in the United States in 1909. This was based in New Hampshire, Massachusetts in a small Franco-American parish and became legally recognised as a 'credit union' under bespoke state legislation[5]. Credit unions quickly became an integral part of the financial services landscape in the United States and have since become a significant global phenomenon, with much of this growth concentrated in the last thirty five years or so. This is currently reflected in the existence of over 43,000 credit unions across 91 countries, having more than 136 million members and over $825 billion in total assets[6]. In developed economies, such as the United States, Canada, Australia and Ireland, credit unions today play an important role in serving low income, immigrant markets and substitute for rural branch networks lost through consolidation of the banking system. And in the developing world, which includes many countries from Latin America and Africa, credit unions have emerged as important providers of financial and educational services to poor people and to those otherwise excluded from such services, including women and communities of conflict and civil unrest. In some regions, including Eastern Europe, Vietnam and Uzbekistan, credit unions have also paved the way for economic and political democratisation.

The treatment of credit unions in economics

With a few notable exceptions, credit unions attracted little research interest from the economics profession until the early 1970s. Initially, such research was either descriptive in nature or was empirically oriented towards issues that paralleled the type of work provided on other financial institutions. On the latter note, for example, Cargill (1977) surveyed the early empirically-based literature and reported how it "indicate[s] quite clearly that credit unions are more similar to, than different from, the large financial institutions" (ibid, p160). A theoretical formulation that recognised the credit union's unique institutional and motivational features was evidently lacking. One such feature is that credit unions have a subsidiary character, meaning they have no profit motive of their own, but instead exist solely to promote the economic and social goals of their members as customers rather than as owners. Another distinguishing feature is their pure co-operative nature. As a 'pure co-operative', both suppliers of funds (savers) and users of funds (borrowers) own the credit union and hence its membership interacts on both sides of the (financial intermediation) market, which contrasts with other co-operatives where the membership interacts on only one side of the market. Recognising these characteristics, first identified by Croteau (1963), Ryland Taylor and Donald Smith (and colleagues) significantly enhanced the economic understanding of the credit union through development of abstract economic models during the 1970s and 1980s. These models placed a strong emphasis on how credit unions manage to reach an equilibrium in the distribution of benefits between their borrowing and saving members, and how exogenous factors such as regulatory constraints, or the presence of distortions such as taxation, disrupt this equilibrium. A recurrent theme, which became the subject of many empirical investigations, was the potential for conflict to emerge between borrowers and savers, and between current and future members of the credit union. The economists in question did not themselves reject the notion that mutual self-help might prevail over self-interest, however, they were bound by the tools of their profession which only allowed for selfishness in human nature. For example, Taylor (1971, p1) was careful to emphasise that "[a]lthough many economic incentives are involved in belonging to a Credit Union … it also captures the altruistic motives of people".

The economic research discussed briefly above was couched in neoclassical theory. This approach has a number of weaknesses when applied to the study of organisations. For example, it fails to capture organisational complexities such as decision making processes; it does not recognise conflicting objectives and motivations, especially between owners and managers; and it assumes that firm behaviour is invariant to organisational form. Because of these neoclassical inadequacies (which reflect an assumption of zero transaction costs), the formal treatment of credit unions has more recently become popular within the new institutional economics framework, which includes agency theory, property rights theory, transaction cost economics and incomplete contracts theory. This theoretical paradigm strictly adheres to methodological individualism whereby human actors are generally presumed opportunistic. As Milgrom and Roberts (1992, p42) have pointed out, this motivational assumption "[has] bite … [because it] regards people as amorally motivated by narrow self-interest". In contrast to simple self-interest seeking, assumed in neoclassical theory, opportunism rules out the notion that human behaviour is perfectly constrained by rules and permits individuals to engage in lying, cheating, or even stealing. This behavioural assumption has been criticised by many, probably due to its negative connotations [see for example, Cartier (1994)]. Typically it is defended for not assuming all individuals behave opportunistically, only that it is impossible to determine *ex ante* who will behave this way and who will not. A related defence, used by Olsen (1965) in justifying the behavioural assumption of self-interest in relation to co-operatives, is that such organisations are constituted to serve the interests of the collective group, and not other groups, therefore it would be very surprising for them "to attract members who were completely selfless" (ibid, p64).

This disregard for ethical values consistently observed in the economics literature, however defended, has met with distaste among many. In efforts to redress the balance some economists (and sociologists) have introduced altruism as a behavioural assumption. In the discussion that follows we do not dispute that unselfishness is normal in nature, or, at any rate, in the natural man; only that its usefulness in economic theory, with specific application to credit unions, is perhaps limited and that an enlightened self-interest view is more productive as it helps to bring a sharper analytical focus to bear on problems that are otherwise too easily attributable to pure altruism, and in the process, serves as a better predictive tool.

Altruism versus enlightened self-interest

The term 'altruism' was first coined by the French positivist philosopher Auguste Comte in the early nineteenth century and is conventionally defined in what may be considered its 'purest' form as **selfless concern for the well-being of others**. As a humanitarian expression of human motivation, it is tempting to invoke altruistic tendencies in the context of credit unions because they operate according to co-operative principles derived from idealistic socialist roots, have an express purpose of serving disenfranchised members of society, and have an enviable track record in mobilising voluntary support. However, as neoclassical theory presumes self-interested behaviour, it has been criticised for ignoring the *credit union difference*.

Indeed, some neoclassical theorists have openly acknowledged this weakness, with the following extract from Croteau (1963, p3) especially relevant:

> Credit Unions seek to protect the weak, to save them from the extractions of usurers. They emphasize voluntary action, the democratic dream, the development of latent abilities found in the common man. These explicit values are not amenable to economic analysis, but they cannot be ignored by anyone who would understand the credit union.

New institutional economics, with its emphasis on opportunism, faces even greater criticism for ignoring altruistic tendencies and the good nature of people involved in co-operative enterprise. Recognising this, Williamson (1985, p64) has argued that 'high-minded' organisations such as co-operatives, where the trust and good intentions of the membership are often advocated as the norm, are susceptible to infiltration by "agents who do not possess those qualities"[7]. This argument help to rationalise the need for protective institutional arrangements designed to prevent various manifestations of opportunistic behaviour, but it cannot, for instance, easily explain why credit unions might charge seemingly sympathetic loan rates[8]. This point was raised by Peterson (1981) in his critique of the traditional literature which *formally* regarded credit union members as entirely self-interested. Peterson subsequently argued that due regard for altruistic motives could help explain why "… credit union[s] attract or retain deposits when [alternative] interest rates are high … [For instance], savers may be willing to sacrifice some yield to support an institution that is equitable or charitable"[9].

Altruistic tendencies have since been introduced by some economists as an explanatory factor of credit union behaviour. Bundt et al (1989) were among the first to do this with the conjecture that 'fraternalistic altruism' within associational credit unions could influence their membership orientation and reduce their labour costs through voluntarism[10]. More recently, Amess and Howcroft (2001) have used altruistic-like motives in a more sophisticated manner to explain the behavioural patterns underlying the membership of credit unions. According to their theory, which was heavily influenced by Lyons and Mehta (1997), people join credit unions for two distinct reasons which need not be mutually exclusive[11]. First, there are those who join for purely pragmatic reasons – ie because they cannot access (affordable) financial services elsewhere, hence typically including the poor and disenfranchised. And second, people join because they are socially oriented and hence "believe in the ethos of credit unions and the spirit in which they operate" (ibid, p61)[12].

These and similar contributions may help explain why credit unions charge sympathetic loan rates or adopt a neutral stance in their rate setting behaviour. However, they cannot distinguish (on an a priori basis) between people who are purely self-interested from those who are altruistic (or socially oriented)[13]. At the same time, they fail to identify what factors might induce or change altruistic tendencies. As a predictive tool, therefore, these models are rather limited. Instead of introducing altruism as an explanatory factor of credit union behaviour it is arguably more useful to adopt an 'enlightened self-interest' view. This alternative approach, which can be couched in new institutionalism, is less problematic from a conceptual perspective and more powerful as a predictive tool.

It is widely acknowledged, even among its advocates[14], that altruism is conceptually problematic. Along these lines, Hirshleifer (1988, p178) has pointed out that its true meaning is a constant source of confusion and debate in the literature because it "has psychological connotations that are often irrelevant or misleading". In particular, Hirshleifer has argued that the term itself invariably leads to "semantic confusion" – for example, if the well being of individual A is important to individual B, then does this not constitute self-interest as opposed to altruism? On that basis, Hirshleifer (1988), and later Hirshleifer (2001), concluded that the term 'altruism' should be replaced with 'helping' and that a theory of helping should be based upon the premise of 'enlightened self-interest' or that individuals only help others when they receive something (pecuniary or non-pecuniary) in return[15]. This interpretation of self-interest, as opposed to the old conception of economic man, does not entirely rule out altruistic behaviour[16]. In other words, people undoubtedly care for others but ultimately have their own preferences. As an example of this, Jensen (1994) wrote that even Mother Teresa would be unlikely to devote her time and energy to satisfy the arbitrary goals of an employer because her main priority is to help the poor of Calcutta; hence she is self-interested albeit altruistic[17].

Sympathetic loan rates

When applied to credit unions, enlightened self interest can help explain some phenomena that have been previously attributed to some form of pure altruism. For example, rather than appealing to altruistic tendencies to rationalise why credit unions might charge sympathetic loan rates or adopt a neutral stance in their rate setting behaviour, an enlightened self-interest view would suggest they possibly operate in a similar manner to mutual insurance companies where the primary goal is to stabilise (rather than maximise) household income. The idea is that those in a wealthy state voluntarily submit themselves to taxation in the form of reduced dividends knowing that a change in circumstances may place them in a less wealthy position where they will need to borrow at a subsidised rate and hence recoup their tax contributions[18].

An important prerequisite for this incentive-structure to work is that members have a long-term commitment to the credit union. A number of factors including, common bond requirements, customer immobility, high switching costs, and weakly competitive (deposit and loan) markets help to bolster such loyalty. When these loyalty-inducing factors become eroded, as they do with weakening common bonds, competitively neutral regulation, and (technological and financial) innovation, then credit unions are vulnerable to so called 'cherry-picking' where individuals utilise subsidised services only[19]. This may have detrimental consequences in the form of adverse selection which would see credit unions attracting expensive customers turned away by banks. As Davis (1997, p324) has explained, "[t]his could result in a possible downgrading of the average quality of customer business and ultimately of services to all members, in turn prompting exit by more 'valuable' customers".

The above example illustrates how enlightened self-interest can provide an alternative to altruism in explaining why credit unions might charge sympathetic loan rates or adopt a neutral stance in their rate setting behaviour. An important advantage of the enlightened self-interest view is that it can be used as a predictive tool. And whilst lacking normative appeal, it runs less risk of being conveniently invoked whenever a particular phenomenon is difficult to explain. One such phenomenon especially pertinent to credit unions is voluntarism.

Voluntarism

As noted earlier, credit unions have an enviable track record in mobilising voluntary support, yet little is know about how they achieve this. In the economics literature the study of voluntarism is in its infancy[20]. Essentially, economists have drawn much of their wisdom on this topic from the fundamental theorem of demand which predicts that the lower the cost of a good or service the more it will be demanded. Along these lines, for instance, Barzel (1997, p132) has suggested that an economic understanding of charitable donations can be made operational by simply assuming "… that charity is a commodity that provides utility to some individuals, and then to apply to it the law of demand: The lower its unit cost, or the higher the unit benefit, the more units will be consumed". Similar logic is echoed in the credit union literature where for example Lopez and Schwartz (1992), Rick (1998), and Lopez (2001) have all emphasised the difficulty of attracting and retaining (effective) voluntary directors in the United States given the growing demands placed upon them by raised standards of regulatory compliance.

However, the fundamental weakness (or omission) of this approach is that it primarily emphasises the cost of volunteering without explaining why this activity might be viewed as a *good* to some individuals[21]. This is not a straightforward question to answer, at least with any rigour. Typically it is suggested that credit unions receive voluntary support because of their benevolent nature which helps create a feeling among volunteers that they are working for the common good [see for example Davis (1997) and Mishkin and Eakins (2003)][22]. This line of reasoning has some appeal, but unless it is further developed it could be interpreted that people volunteer because they are *purely altruistic*.

As argued earlier, explanations based on pure altruism have limited predictive value and are conceptually problematic. In addition, the observation that directors sometimes resent managers being paid a competitive wage, or that managers are employed from the original group of volunteers despite them being inadequately qualified for the job, could be interpreted as evidence that volunteer officers and directors place their interests before those of the members [see Sibbald et al (2002) and Donnelly (2002)]. Therefore assuming, somewhat controversially perhaps, that volunteers have 'enlightened self-interests' and therefore receive *something* in return for their donated services, the pertinent question then becomes what is their reciprocal payoff for volunteering? A cursory examination of the empirical psychology literature, as reviewed by Snyder (2001, p16310), would suggest that voluntarism serves a diversity of potential functions including "the expression of personal values, the quest for understanding, the desire for enhanced esteem, the strengthening of social relationships, the building of community ties, and the search for career advancement"[23].

Of these, the social and community-related factors would seem especially pertinent to community-based credit unions which operate within a relatively small catchment area[24]. Given this presumption, it can be then inferred that those who have most to gain from this type of reward would be most likely to volunteer. This might include well-respected members of the local community, such as doctors, teachers, local officials and the clergy, whose occupational welfare depends on credibly signalling their trustworthiness and good intent to other members of the community. An important aspect of this incentive structure is that it should also benefit the credit union, at least during its formative years, since those involved in running and controlling the institution have a lot to lose if they behave inappropriately (or even incompetently)[25]. This in turn provides the credit union with a certain degree of credibility which is important for encouraging members to save as well as borrow, and for attracting people from a wider social spectrum of society.

There is at least some anecdotal evidence consistent with these arguments. For example, it is well recognised that effective leadership within individual credit unions (and at the movement level) frequently comes from those of a quasi middle-class pedigree [see Sibbald et al (2002) and Donnelly (2002)]. And when support from such classes is lacking this can seriously impede the growth and development of credit unions. Along these lines, Guinnane (1994) has argued that the poor development of Irish credit co-operatives at the turn of the twentieth century can be partially attributed to a lack of support from the Catholic Church. Similarly, Donnelly (2002) has pointed out that many credit unions in England and Wales suffered credibility problems because they were led by the immigrant communities of Ireland and the West Indies. An 'enlightened self-interest' view of voluntarism also highlights a potentially important drawback of external funding.

Based on the logic outlined above, it would seem that significant injections of external funding may create the wrong incentives for volunteering. Essentially, this is because a credit union that is funded like a charity will naturally attract volunteers who see it as a charitable organisation. This is not necessarily a good thing because decision-making influenced by highly ideological beliefs tends to prioritise helping the poor rather than running a viable financial institution based on sound business principles. A number of authors including Westley and Shaffer (1999), Christen (2000) and Richardson (2000), have alluded to this problem in the context of Latin America, especially during the 1950s, 1960s and 1970s. There, credit unions received substantial injections of financial and technical aid from various international development agencies and were primarily run by professional development workers, Christian missionaries and Peace Corp workers. These volunteers had the best of intentions and were socially committed, but because of this, failed to understand that credit unions should be run as financial institutions and not charities if they are to become an effective and self-sustainable source of local financial intermediation.[26]

Conclusion

In conclusion, therefore, it is our opinion that seemingly altruistic behaviour should be interpreted as enlightened self-interest, as recommended by Hirshleifer (1988, 2001). This helps to clarify that self-interest does not imply individuals are solely motivated by monetary gain. In addition, it helps to bring a sharper analytical focus to bear on problems that are otherwise too easily attributed to pure altruism, and in the process, serves as a better predictive tool. Wolfe (1998) has argued that economic theory should accommodate the propensity for people to act altruistically in the interests of developing models "… as complex as the reality we want to represent" (ibid, p43). 'Enlightened self-interest' does not fully satisfy this criterion; however, all assumptions endeavour to simplify the real world in order to explain observed phenomena in a systematic fashion so that predictions and policy recommendations can be made. If economic models and theories attempted to explain everything, their value would diminish to mere tautology. Consistent with applied price theorists of the Chicago

Business School we believe that economic theory should primarily aim to make predictions. In evaluating the strength of a model (or theory) on this basis, behavioural assumptions can be simply thought of as a means to an end. We have adopted an enlightened self-interest view to explain why credit unions might rationally charge sympathetic loans rates without having to invoke purely altruistic motives. At the same time, this approach can be used to generate deeper insights about voluntarism within credit unions, including why this activity might be viewed as a good to some individuals, and as a consequence, who would be most likely to volunteer on the board of a community-based credit union. Another prediction made was that substantial injections of external funding may induce undesirable incentives to volunteer.

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Notes

1 The four main problems associated with lending are as follows: (i) borrowers differ in their likelihood of defaulting and it is expensive to determine this risk in advance for each borrower – this is known as the adverse selection problem; (ii) it is difficult and expensive to ensure borrowers take actions which increase the likelihood that they will be able to repay their debt – this is known as the hidden action or moral hazard problem; (iii) it is difficult to verify whether borrowers failed to repay their loan because of an inability to do so or because of an unwillingness to do so – this is known as the costly state verification problem; and (iv) it is difficult to compel borrowers to repay their debt if they are reluctant to do so – this is known as the enforcement problem.
2 This philosophy has its roots deeply embedded in the work of Robert Owen who is today known as the 'father of co-operation' or 'the father of British socialism' [See Bolger (1977) and Pejovich (1998) respectively].
3 WOCCU is the leading trade association and development agency for credit unions worldwide.

4 Interestingly, they failed to make much headway in Britain where co-operative principles originated.
5 The term 'credit union' can be traced back to 1876 when Herbert Tuttle first referred to the Schulze-Delitzsch credit co-operatives as credit unions. The term used in an official context finds its origin in the Massachusetts credit union law, enacted in 1909. The law introduced the term 'credit union' to describe what were essentially 'co-operative banks', because this name was applied in Massachusetts to describe what were known in other regions of the United States as 'building and loan associations'.
6 These figures were compiled by the World Council of Credit Unions and are correct as of 31 December 2004.
7 Croteau (1963), Olsen (1965), and Keating and Keating (1989) have all used similar reasoning to justify the neoclassical assumption of self-interest.
8 Bonus (1986), Bonus and Schmidt (1990), Nilsson (1996) and Cook et al (2001) discuss in detail the protective institutional safeguards that cooperative and mutual organisations have adopted.
9 Peterson made this critique in light of empirical evidence provided by Navratil (1981) who found that though credit union share accounts are sensitive to yield and alternative asset portfolios, they demonstrate a willingness to forgo some potential revenues in order to provide low cost consumer credit.
10 Smith et al (1981) did not explicitly appeal to altruism; however, such motives were implied by his reference to the co-operative ethos of fairness and equality within credit unions that would prevent them from discriminating against a particular class of member.
11 Lyons and Mehta (1997) introduced the concepts of 'self-interested trust' (SIT) and 'socially-oriented trust' (SOT). The first of these refers to the pragmatic tendency for individuals to only offer trust in contractual relations if it serves their self-interest in light of reputational concerns. The second type of trust comes from socially constructed norms. This prevents people from stealing not for fear of punishment, but because it is embedded in their minds (through norms and social conventions) that stealing is wrong. Incidentally, these ideas can actually be found in the earlier work of Margolis (1982).
12 Crow et al (1993, p61) seemingly share this reasoning: "A credit union is a complicated balance between co-operative communitarian values and individual self-interest. Doubtless, within both community and employee-based unions different members are motivated by a mixture of these values to greater and lesser degrees".
13 Obviously aware of this problem, Rasmusen (1988) was careful to emphasise that his 'Uninformed Depositor Model' did not depend on the managers of mutual banks being altruistic as it would be very difficult for depositors to determine this to be true or not.
14 Wolfe (1998) strongly favours the use of altruism in economics but attributes its scarcity to formidable conceptual difficulties.
15 Simon (1991) coined the term 'enlightened selfishness' to describe human nature in an organisational setting whereby an employee contributes to the success of an organisation but expects to be adequately compensated in return.
16 According to Jensen and Meckling (1997, p10), the old economic conception of self-interest was that of an individual assumed to be "a short-run money maximiser who does not care for others, art, morality, love, respect or honesty".
17 Along similar lines, Rasmusen (1988, p408) has pointed out in relation to mutual banks that "[a]n altruistic manager devoted to buying the best high-yield, high-risk securities is worse than a risk-averse scoundrel".
18 This idea can be traced back to Rawls (1971) who made pioneering contributions to the field of environmental economics. Modern applications to credit union decision-making can be found in the work of Smith et al (1981) and McGregor and McKillop (2002).
19 Credit unions, by design, rely on deposits (shares) as a source of loanable funds. Given this design, credit unions would not be viable if all members joined simply to take out a cheap loan.
20 According to Snyder (2001), the same is true within the psychology literature. The under-researched nature of this topic is unfortunate because it could help inform the nature and motivation for the type of helping where there is no press of circumstances and frequently no kinship relationship between the helper and those being helped. This in turn could prove useful in identifying factors important for enhancing the recruitment, placement and retention of volunteers. Ultimately, research along these lines could even help improve the satisfaction, effectiveness and longevity of service of volunteers.
21 A notable exception is the study of Jones (2005) which explored the motivation for volunteering in relation to British credit unions.
22 Hansmann (1996) has made a similar argument in the context of charities and not-for-profits.
23 These potential payoffs have been found across a wide diversity of helping activities and are hence non-unique to credit unions.
24 This is more difficult to argue in the context of occupational credit unions, however, since their volunteers are frequently given time off to see to credit union business they are implicitly paid.
25 The importance of non-legal sanctions, such as loss of reputation or social exclusion from neighbours and peers, is increasingly recognised in the economics literature [see for example, Varian (1990), Hoff and Stiglitz (1990), and Panther (2000)].
26 External funding can also undermine the self-help ethos of credit unions and tarnish their image as banks for the poor with potentially demoralising consequences for volunteers.