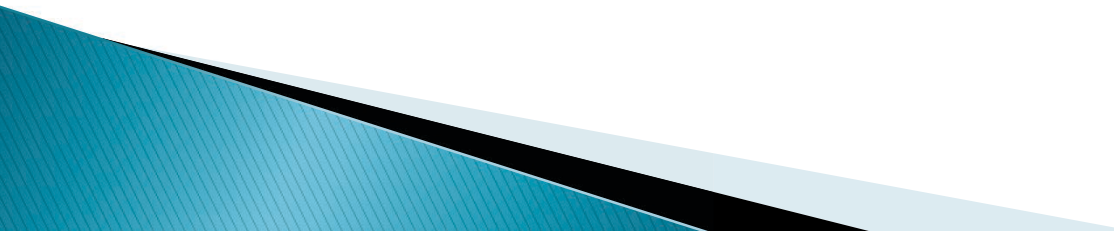


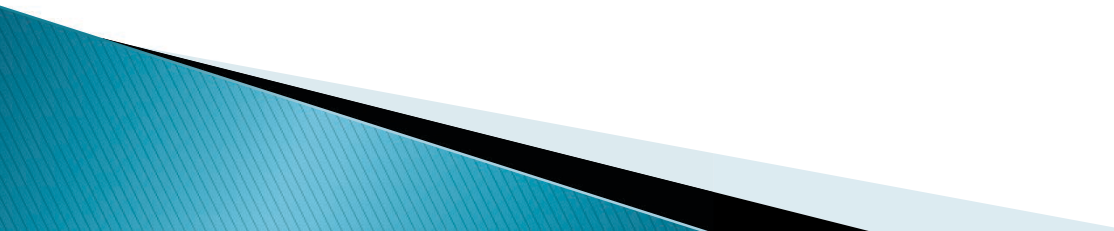
Early forms of consumer-credit in Germany

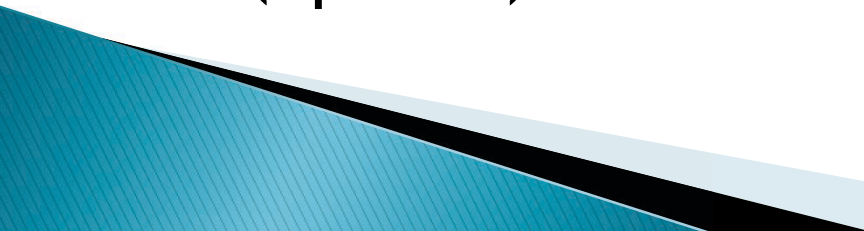
Dr. Andrea H. Schneider

GUG (Society for Business History, Germany)

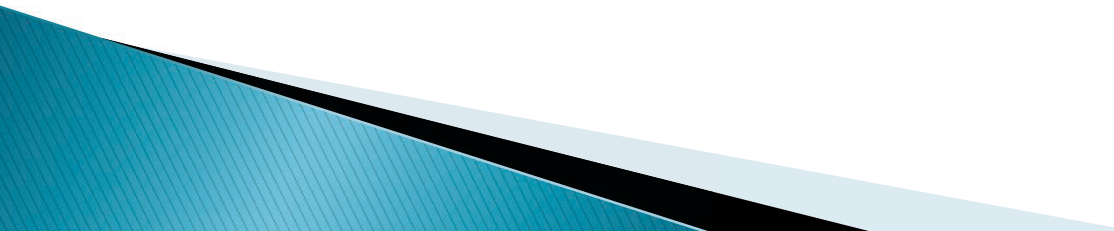
Early forms of consumer-credit in Germany
Frankfurt am Main, 18 June 2015

- I. Introduction
Definition, Banking system in Germany
 - II. Alternative modell
 - III. Installment credit
 - IV. Conclusion
- 

- ▶ Definition: today we understand consumer credit as offer to private persons by a banking institution. Installment credit in its early forms was sales-oriented (not consumer oriented), organized by producers or banks and linked to a product.
 - ▶ Paper asks for the emergence, the early forms and the development.
 - ▶ Focus basically on the 1920s to 1950s when the early form, the installment credit, was introduced by financial institutions and came to its peak.
- 

- ▶ How could people get money for consumer goods before the consumer credit was introduced in Germany for buying things?
 - 1. People could take something on credit directly at the retailer or producer (Anschreiben lassen).
 - 2. It was common to pledge goods (Verpfänden).
 - 3. At least of course you could save money (Sparen).
- 

- ▶ In the banking system of Germany that is based on three columns there was credit for other purposes.
- 1. The credit on landed property (Realkredit) was the common way especially for farmers and small rural business that was financed by the union credit banks (Genossenschaftsbanken/Raiffeisenbanken).
- 2. Businesses were covered by the big banks and private banks, but there was no option for the consumer to get credit there.
- 3. Saving banks did not offer credits to their clients (only to municipalities or small business).

- ▶ The emergence of a consumer market in Germany in the 1920s lead to the need for consumer credits.
 - ▶ US as example.
 - ▶ Establishment of the first financial institutions that offered installment credits to businesses and privat clients in 1924/26.
- 

- ▶ An alternative was leasing.
- ▶ US – Singer/installment credit and Bell/producer leasing.
- ▶ Germany – introduction of producer leasing 1899 by Frankfurt telephone company Fuld.



Early forms of consumer-credit in Germany

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Alternative modell

- ▶ Leasing spread out to nearly all branches and consumer goods.
 - ▶ Well accepted format of consumer finance.
 - ▶ The institutionalization happend only after World War II (1950s)
- ▶ Leasing stayed limited to maybe one single small market (telephones).
 - ▶ Included in the harsh critique against „Borgkauf“ (borrowed purchase)
 - ▶ Institutionalization took place ten years later than in the US (1960s)

US

Germany

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Historical background:

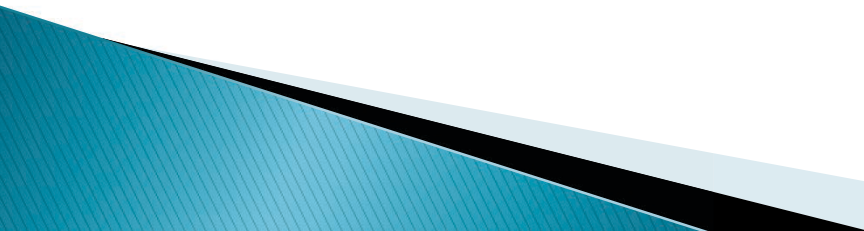
Originates in tax-system

Installment credits started by
Georges Dufayel, 1804
Cowperthwaith & Sons, 1807

First finance institution:
Mercantile Credite (Chicago),
1905

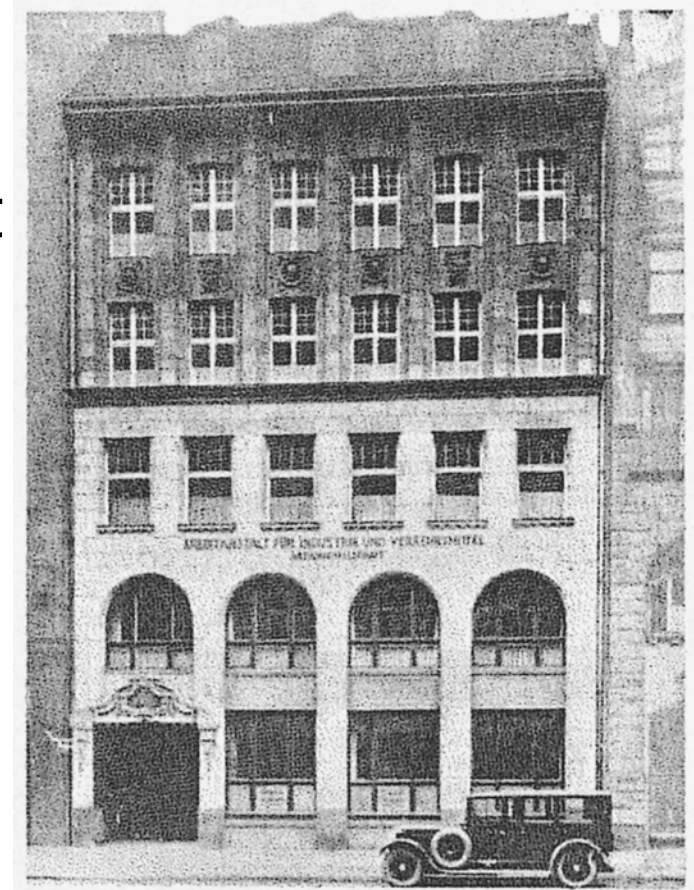


Breakthrough came with the cars

- ▶ In US approx. 17% of the cars was sold with installment credit, 1925 already 50%. By end of the 1920s in the US mostly all consumer goods good be bought with installment credits.
 - ▶ In Germany, France and Great Britain the „consumer credit revolution“ happened only ten years later.
- 

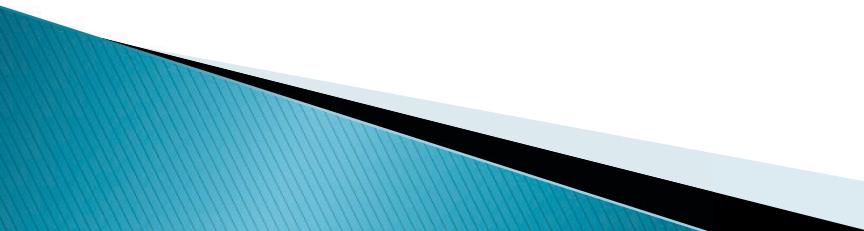
Obstacles in Germany:

- Credit insurance market denied insuring installment credit.
- Inflation made it impossible in Germany to use the model of installment credit.

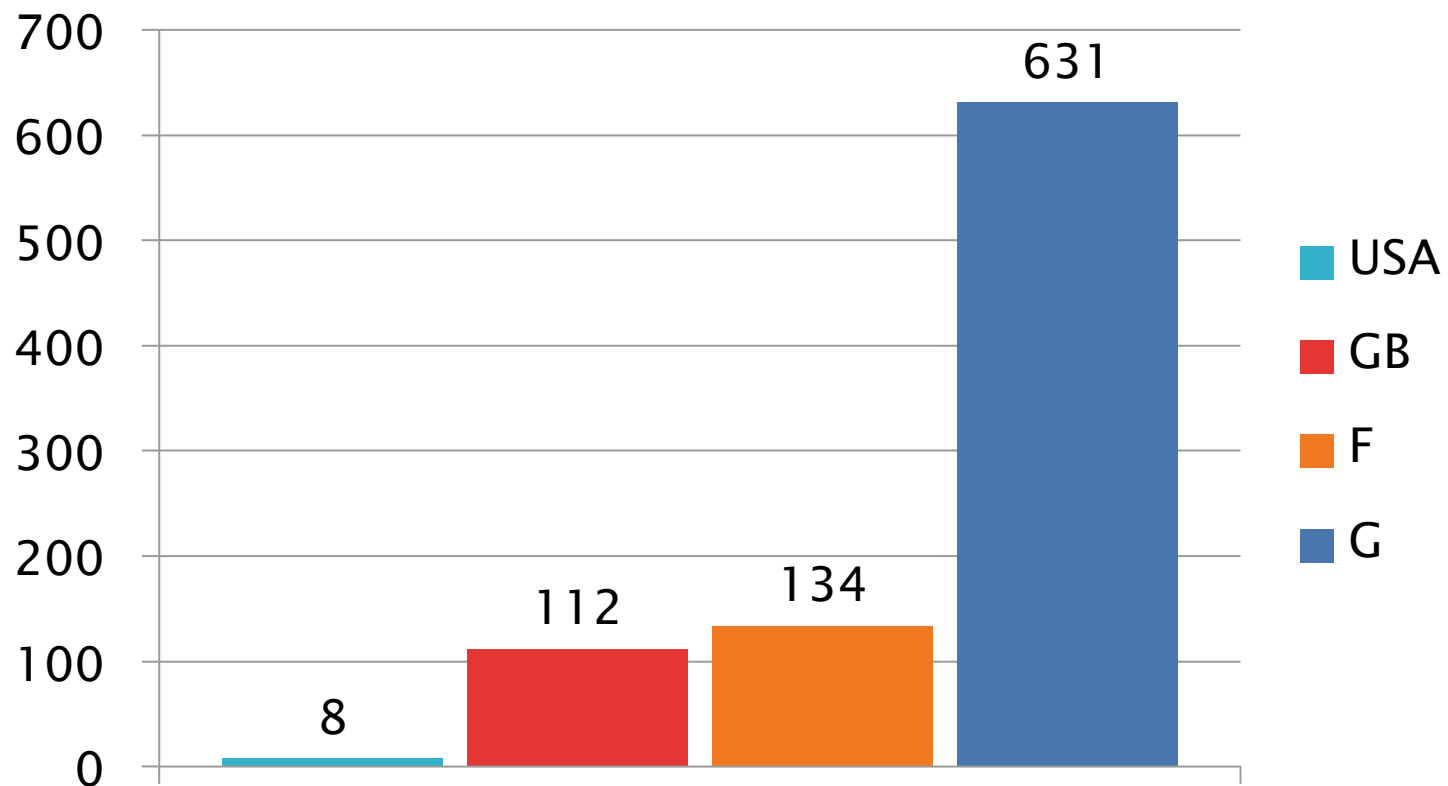


Headquarter Kreditanstalt für
Verkehrsmittel, Berlin

Breakthrough in Germany with cars, but later:

- ▶ First institute (Abzahlungsbank) was founded in 1920 but started operation not before 1926.
 - ▶ In 1924/26 a series of financial institutions for installment credit was founded in Germany.
 - ▶ Founders were producers, banks and foreign investors.
- 

Persons per cars 1923 in international comparison



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Installment credit in the 1920s

Typical consumer goods: electrodomestic household goods, pianos, cars, etc.

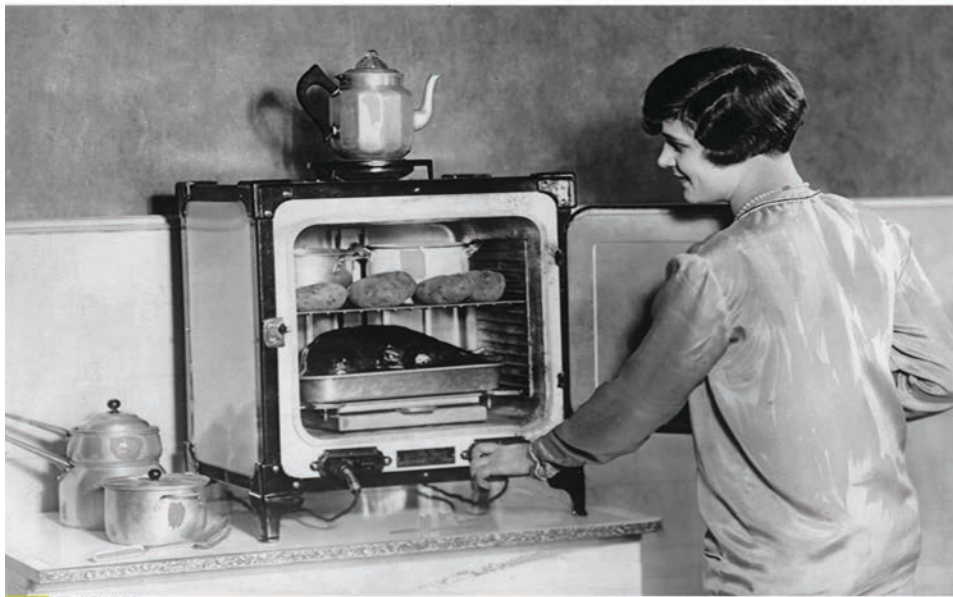
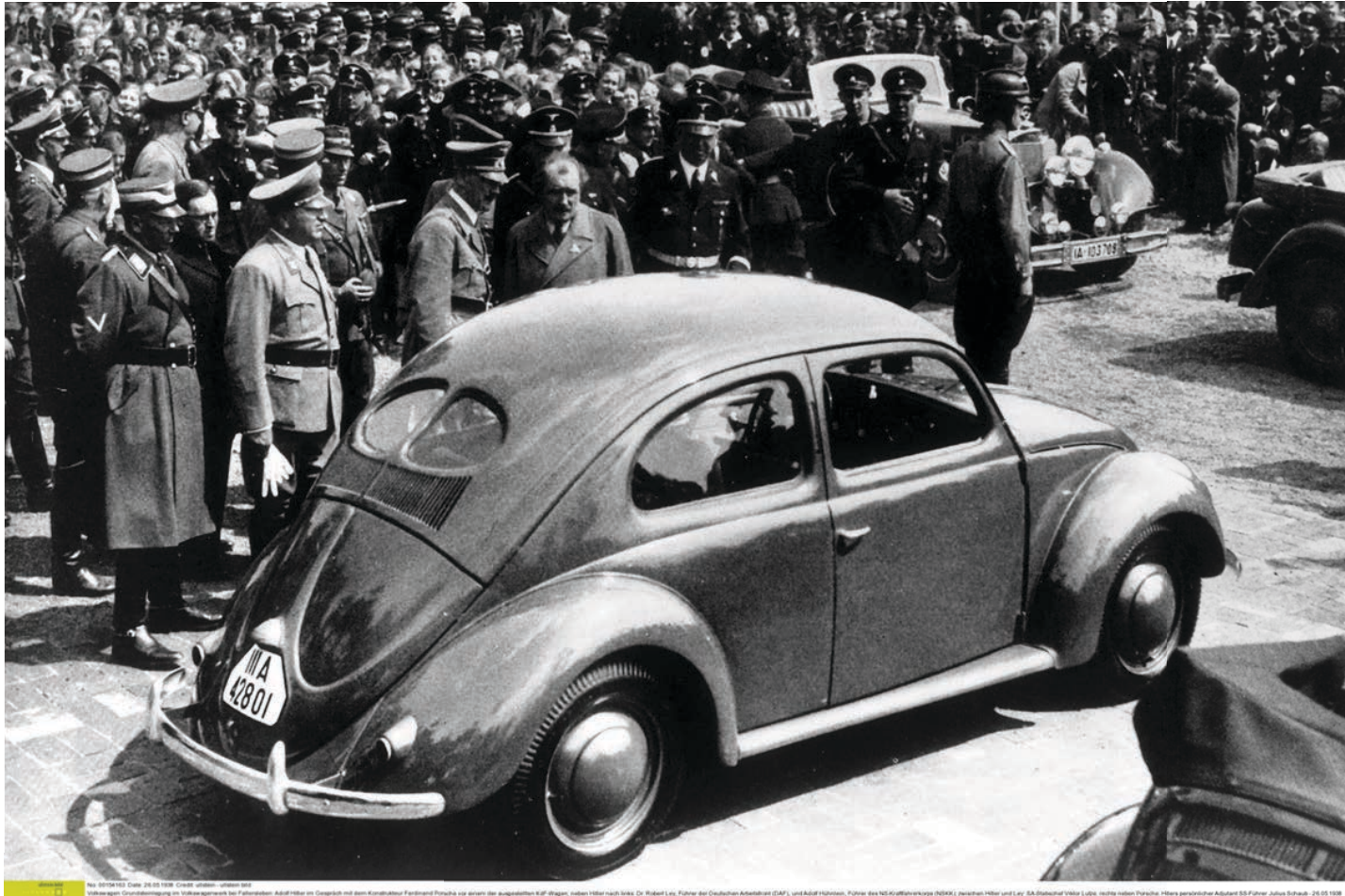


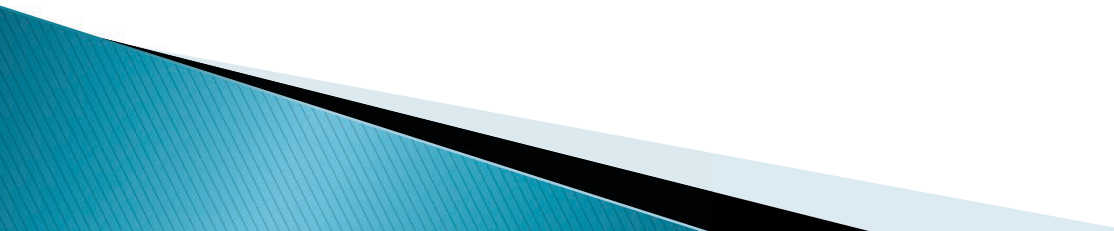
Abb. 26

Elektrischer Bratofen



Whith the NS-system the consumer market diminished and consequently the meaning of the installment credit declined.

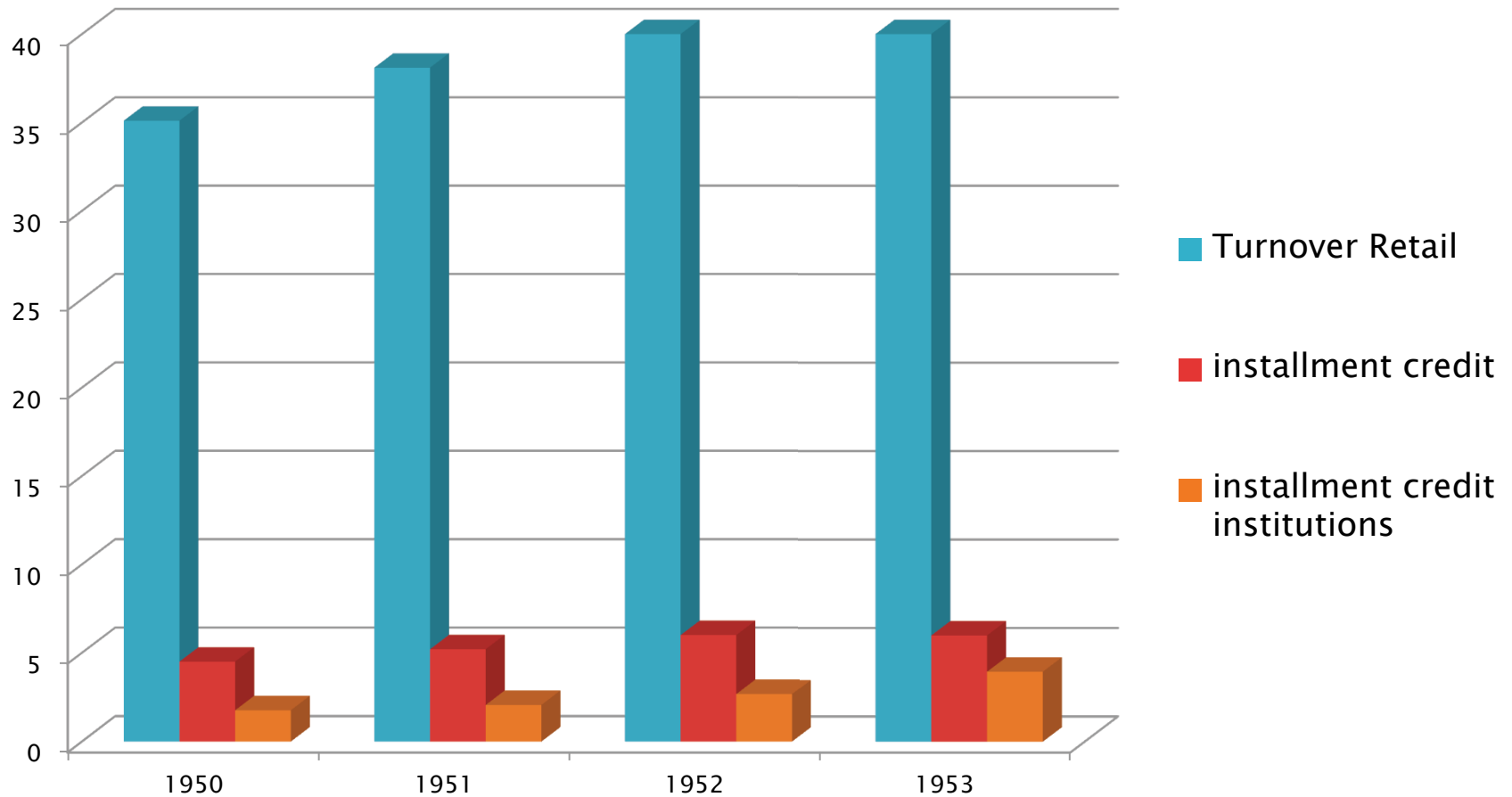


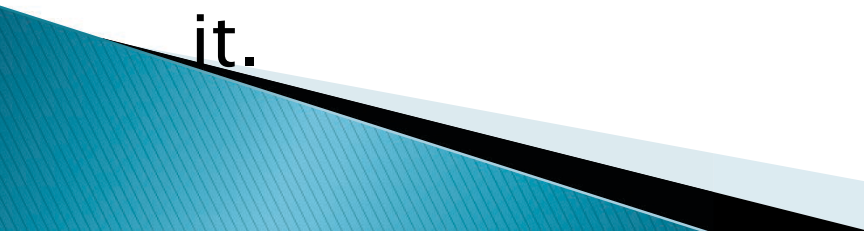
- ▶ Ongoing discussions and criticism against installment credit in Germany.
 - ▶ In the 1920s driven by saving banks etc. Argument was the debts and bankruptcy of the client.
 - ▶ Negative image: „Borrowed purchase“ or „credit for the poor“ etc.
- 

Campaign of famous retailer C&A against installment credit, 1953, titled „Ratenschreck“ (installment credit scare) and a furniture producer who was in favour of installment credit ...

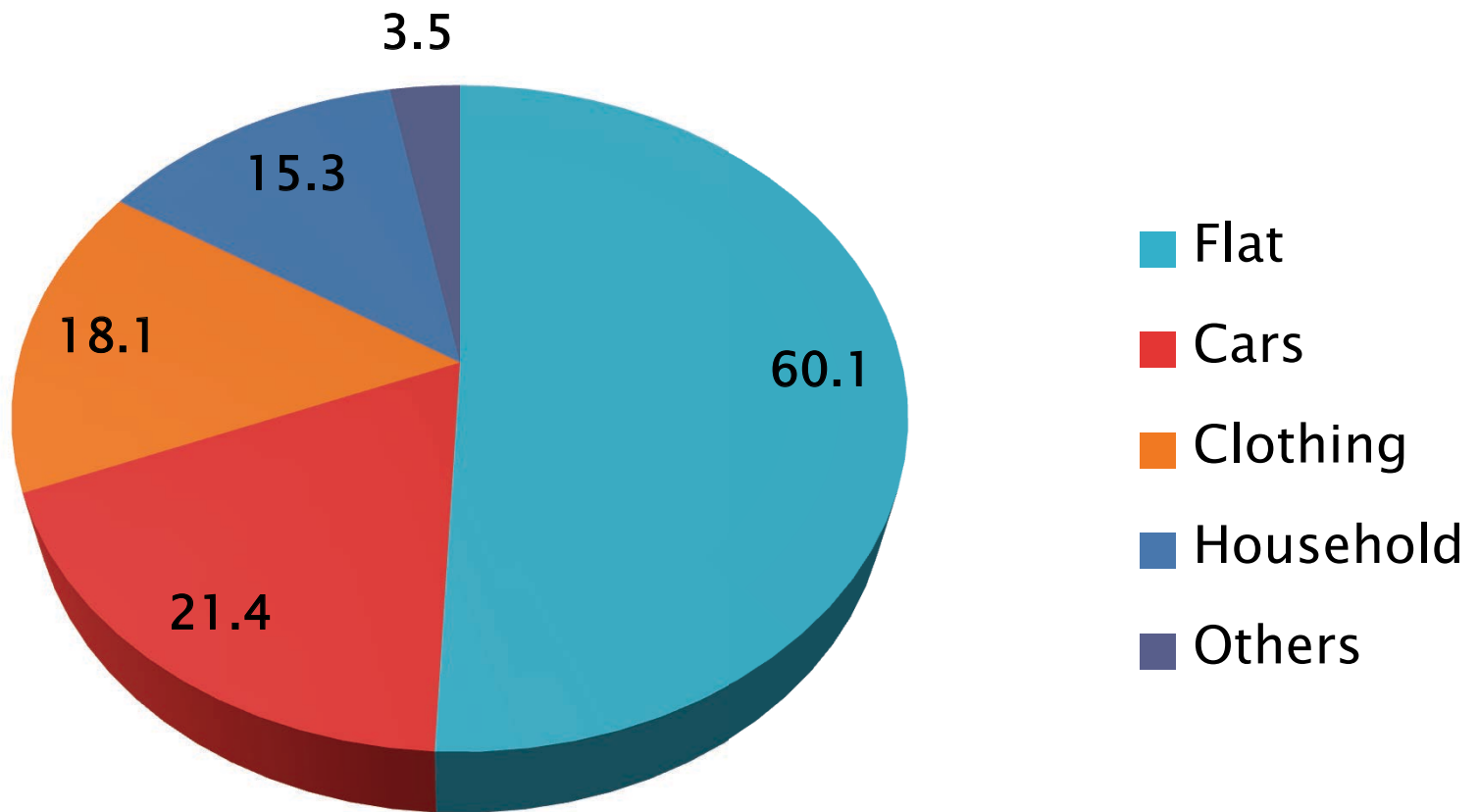


Retail in Mio. D-Mark

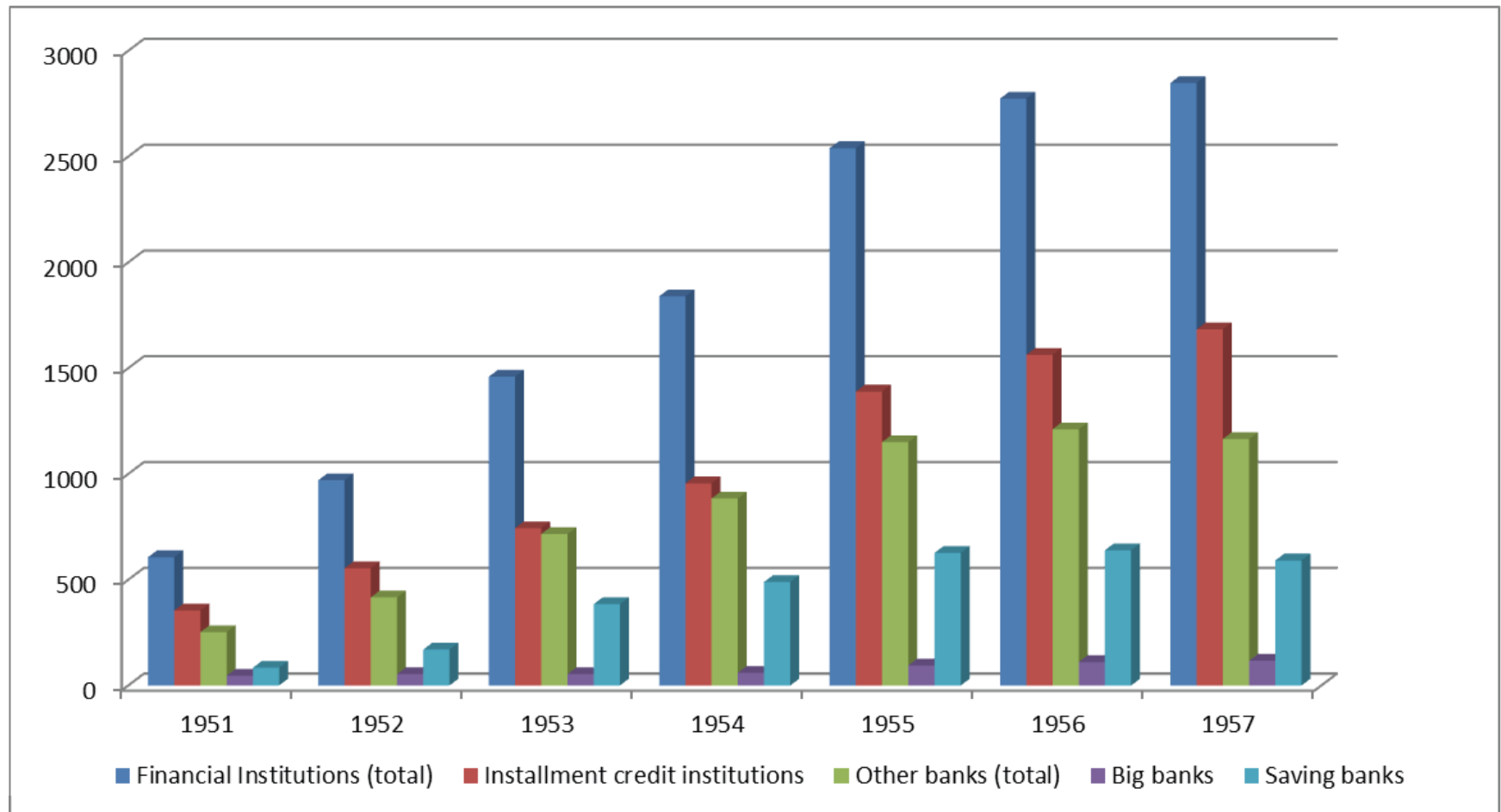


- ▶ 1955 33% of the German population purchased consumer goods with installment credits. But 2/3 of Germans have been against installment credits, and even 17% of consumers using installment credits were against it.
 - ▶ By end of the 1950s Germans consumed more than they saved.
 - ▶ Saving banks introduced consumer credit then in 1952 even though they still opposed it.
- 

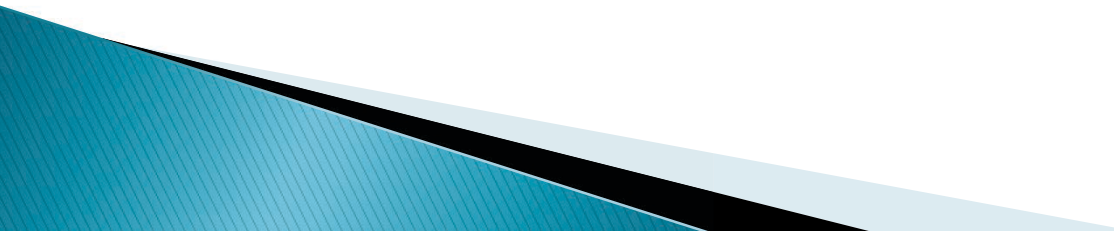
Goods purchased with installment credit in the 1950s in %



Credit volume according to banks in Mio. D-Mark



Development market share installment credit institutions:

- ▶ Remember: big banks still did NOT offer consumer credit for private clients.
 - ▶ 1962 peak 242 banks in Germany (1968 196 of 10.222 banks).
 - ▶ Volume of installment credits had risen from 246 million D-Mark in 1948 to 3.7 billion D-Mark in 1962. This meant 68% of the total volume.
- 

Change:

- ▶ 1962 big banks introduces purchase credit.
- ▶ Growing incomes reduced the need for consumer credits in the 1960s

- ▶ From 1968 21 bill. D-Mark the volume grew 150% to 50 bill. in 1974.
- ▶ With the crises in the mid 1970s stagnation.
- ▶ Then new competition: leasing.
- ▶ In the 1990s structural change. More competition in non-banking sector.
- ▶ New competitor: credit cards.
- ▶ Nonetheless: today 500 billion Euro are handed out in form of installment credits (this equals the double household of Germany).

- ▶ Close linkage between emerging consumer market and early consumer credit.
- ▶ The alternative of saving was in specific times not adequate for the consumer.
- ▶ Driving forces of installment credit was the producer and retailer.
- ▶ Banks are not in the lead. Change in the 1960s.
- ▶ Installment credit was and is still relevant.
- ▶ The success in the beginning can clearly be traced-back to the lack of alternatives since clients used the credit though they disliked the idea. And the layback of consumption caused by the Wars.
- ▶ High impact of image and mentality.