

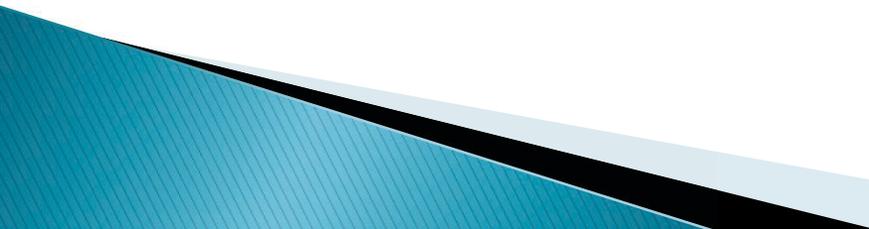
Early forms of consumer-credit in Germany

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



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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

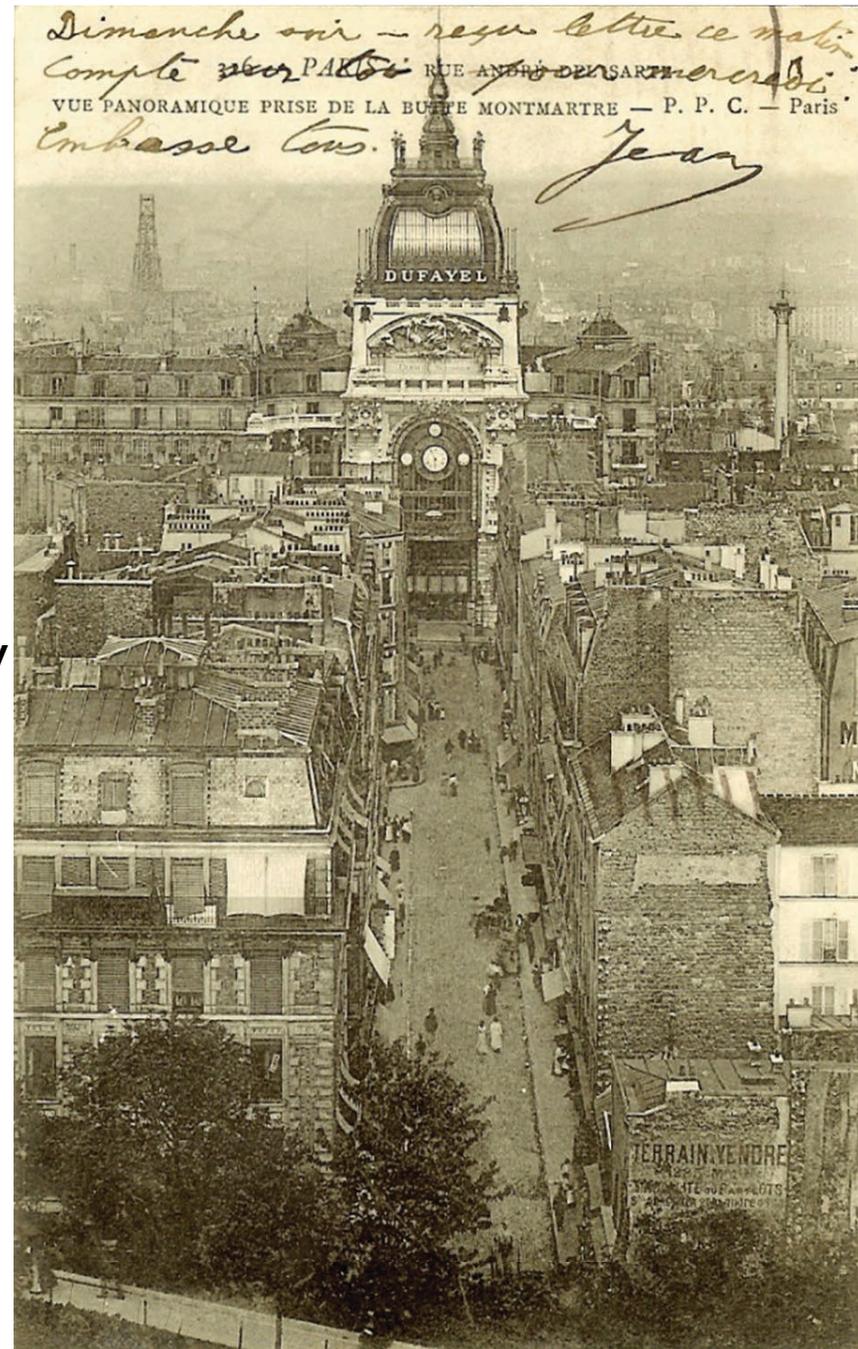
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Historical background:

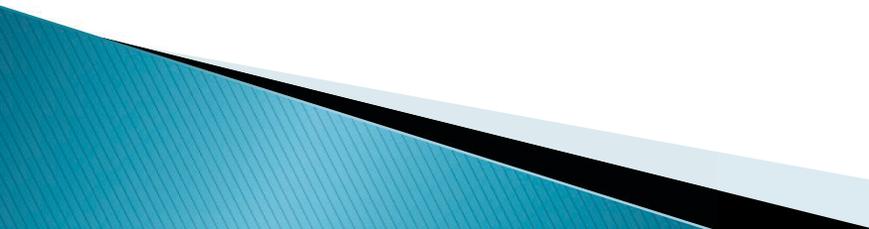
Originates in tax-system

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

First finance institution:
Mercantile Credite (Chicago),
1905



Breakthrough came with the cars

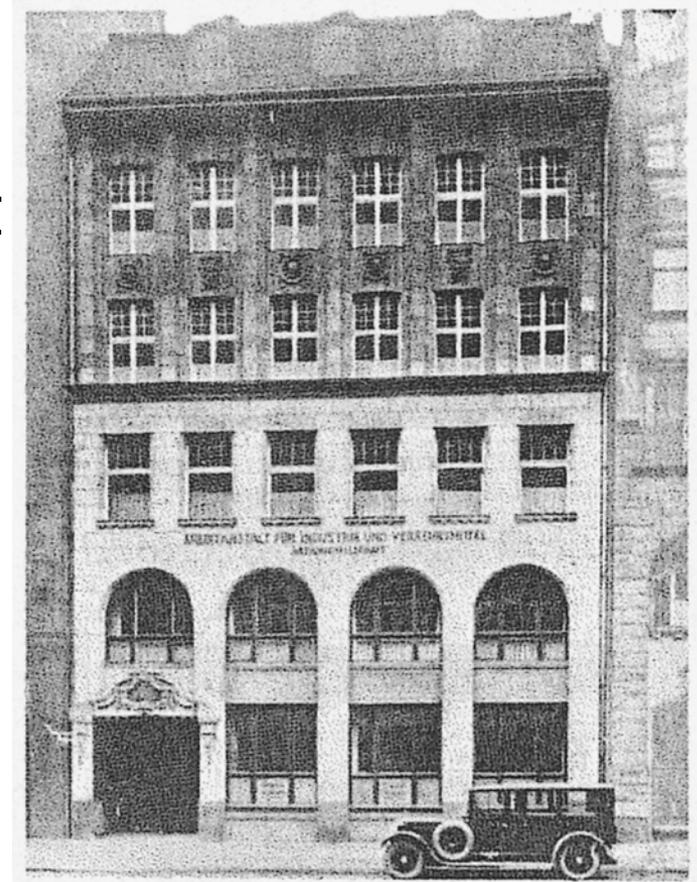
- ▶ In US approx. 17% of the cars was sold with installment credit, 1925 already 50%. By end of the 1920s in the US mostly all consumer goods good be bought with installment credits.
 - ▶ In Germany, France and Great Britain the „consumer credit revolution“ happened only ten years later.
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Installment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

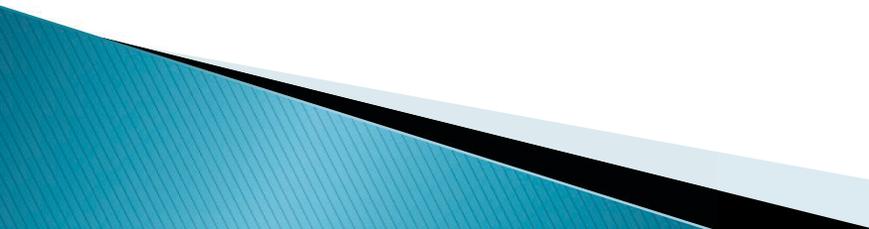
Obstacles in Germany:

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

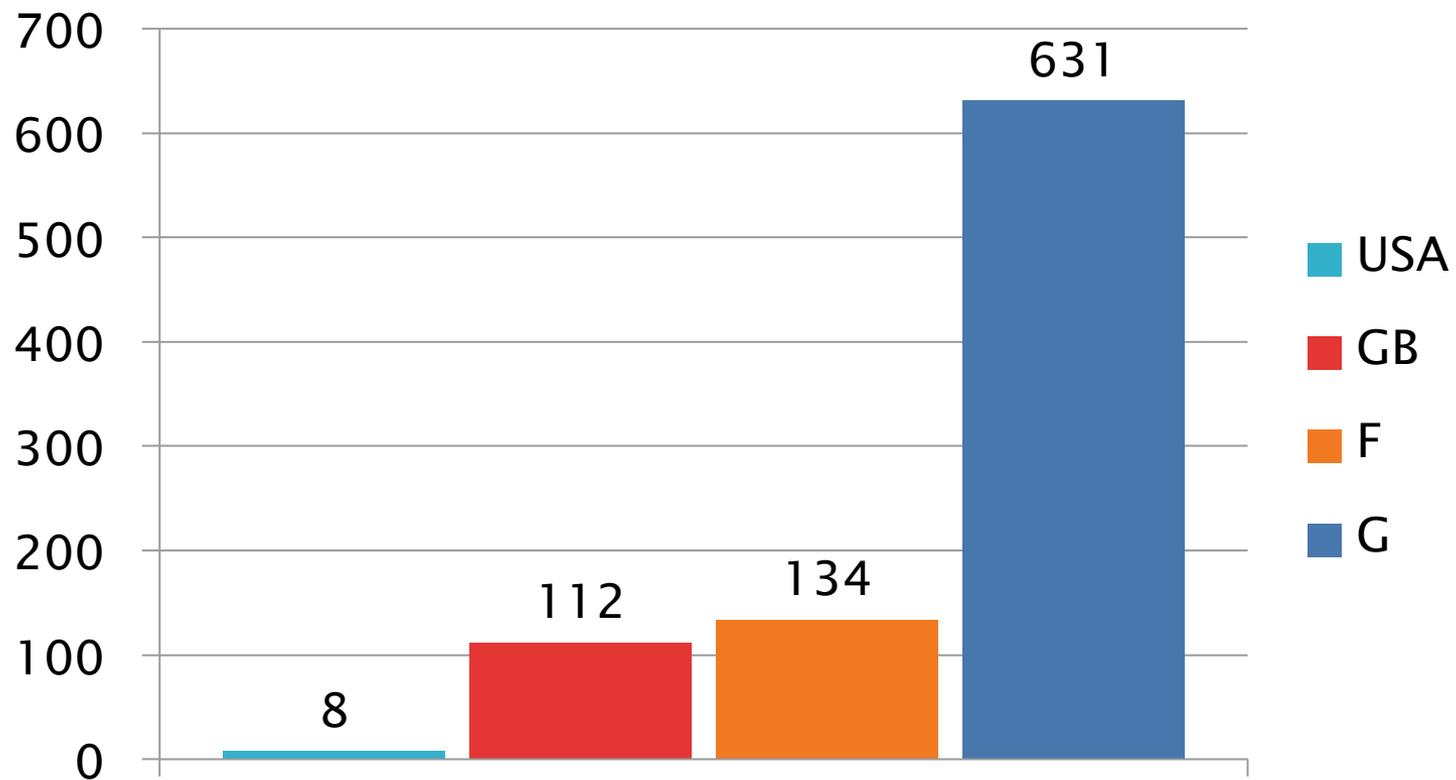


Headquarter Kreditanstalt für
Verkehrsmittel, Berlin

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.
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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.

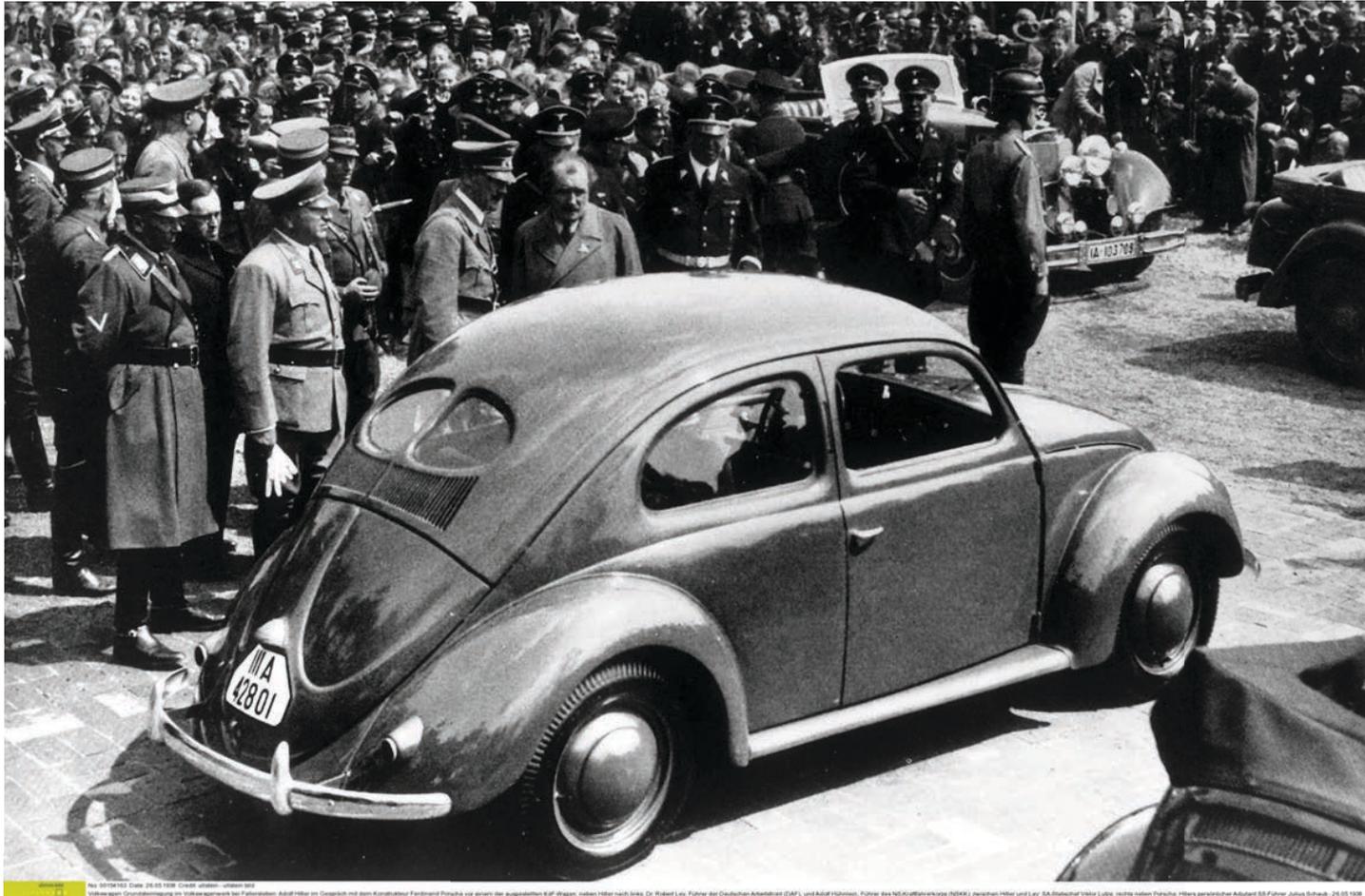


Abb. 26

Elektrischer Bratofen



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



NS 30/1942 (2) Seite 26.05.1938. Größe: 1000x1000. [Ansehen](#) [Herunterladen](#)
Volkswagen Grundsteinlegung im Volkswagenwerk bei Fallanden. Adolf Hitler im Gespräch mit dem Konstrukteur Ferdinand Porsche (ca. unten) die ausgebildeten KMP-Wagen, unten Hitler nach links: Dr. Robert Ley, Führer der Deutschen Arbeitsfront (DAF), und Adolf Hühnsel, Führer des NS-Kraftfahrwerks (NSKK). Zwischen Hitler und Ley: SA-Stabschef Walter Lohde. Rechts neben Porsche: Hitlers persönlicher Adjutant SS-Führer Julius Schaub. 26.05.1938

- ▶ 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 ...



*Ratenangst
ist
tot*

bei solidem
**KUBAH
MÖBEL
KREDIT**

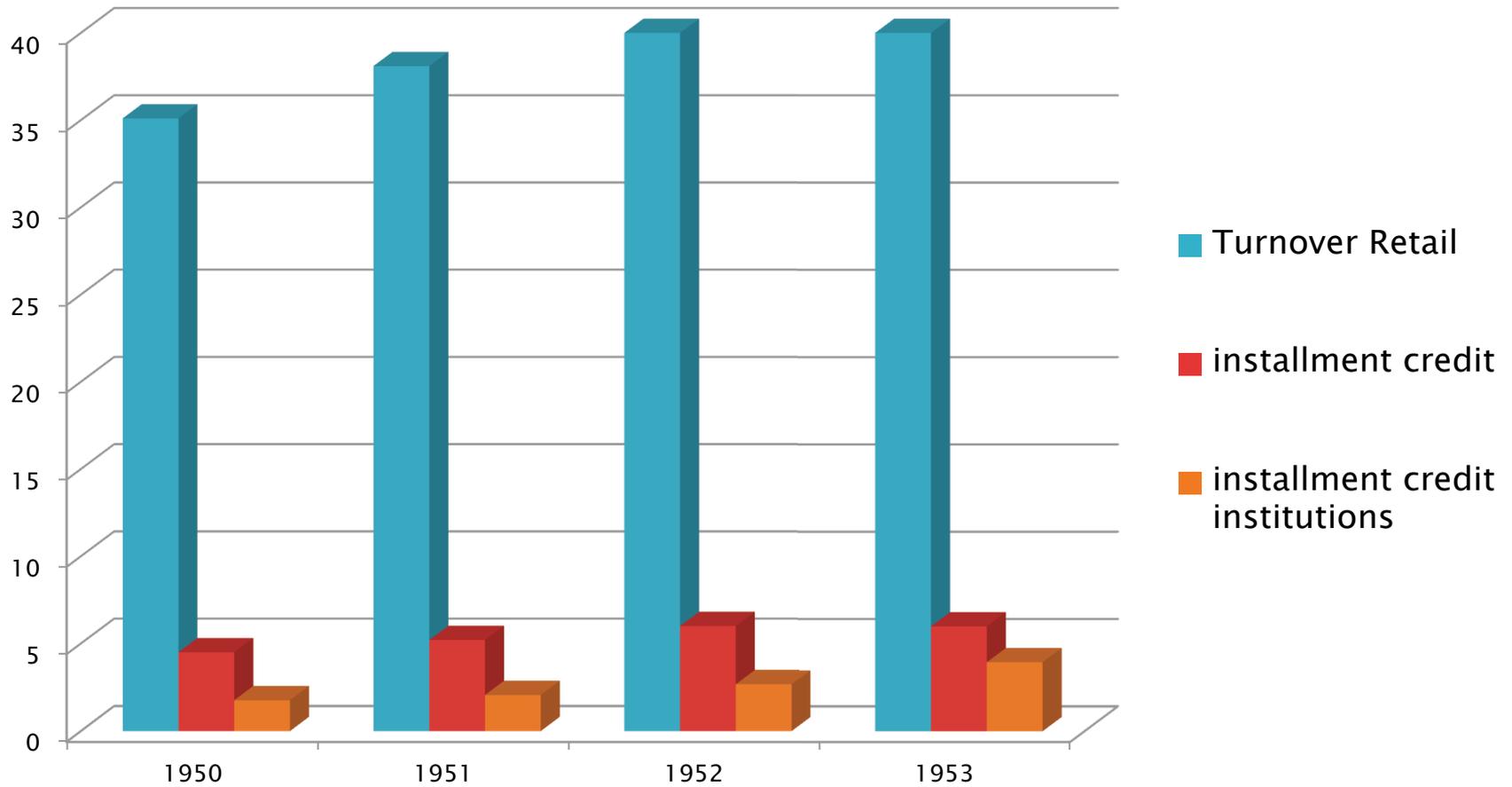
Wer schöne, gediegene KUBAH-Möbel und Teppiche,
seinen Verhältnissen entsprechend, auf Kredit kauft,
genießt das Leben doppelt ohne Ratenangst.



Halt, das gehört mir!

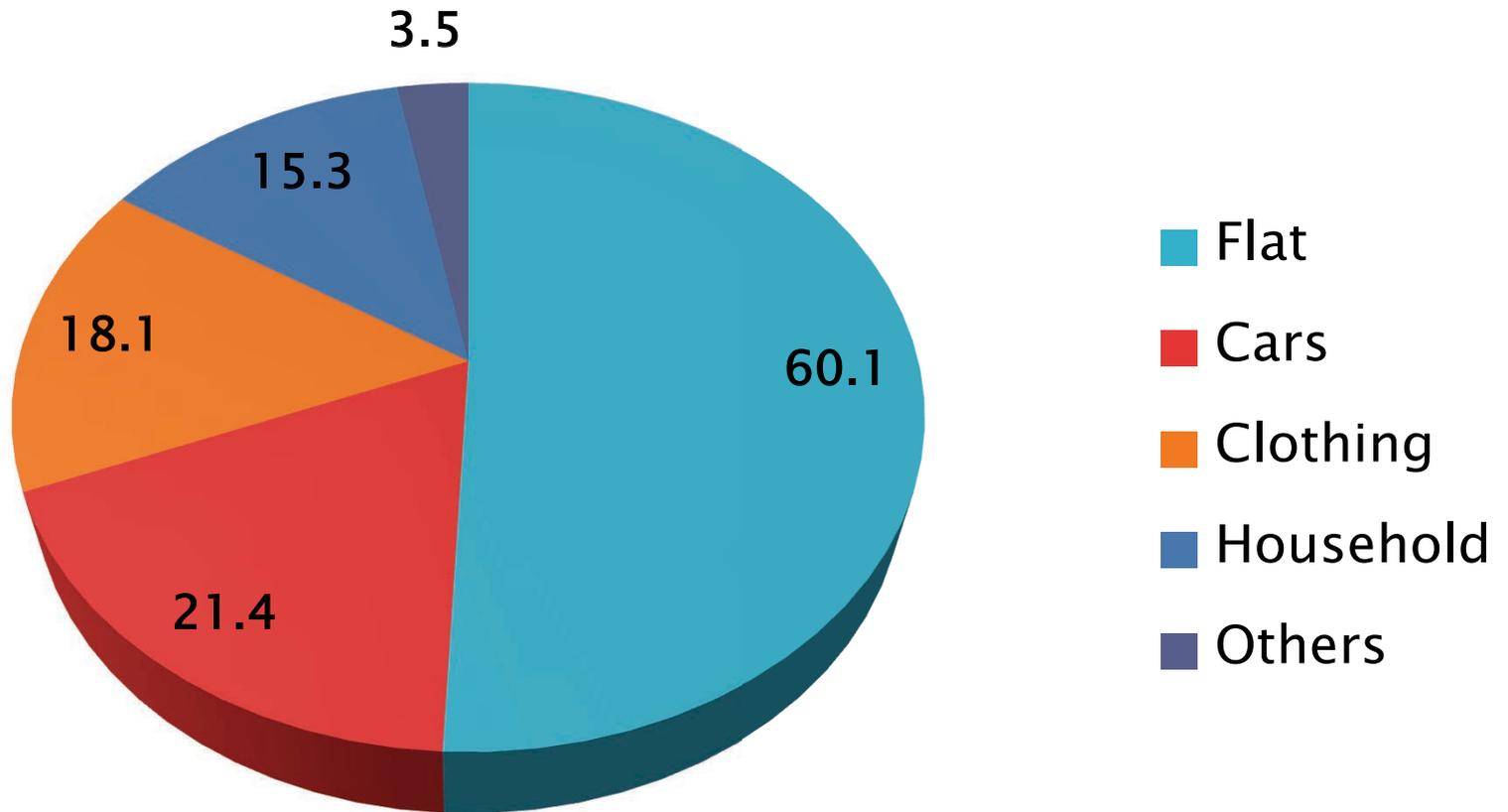
Wer Kleidung vorzeitig auf Teilzahlung kauft, kauft Sorgen mit ein,
denn ... Raten müssen pünktlich gezahlt werden.

Retail in Mio. D-Mark

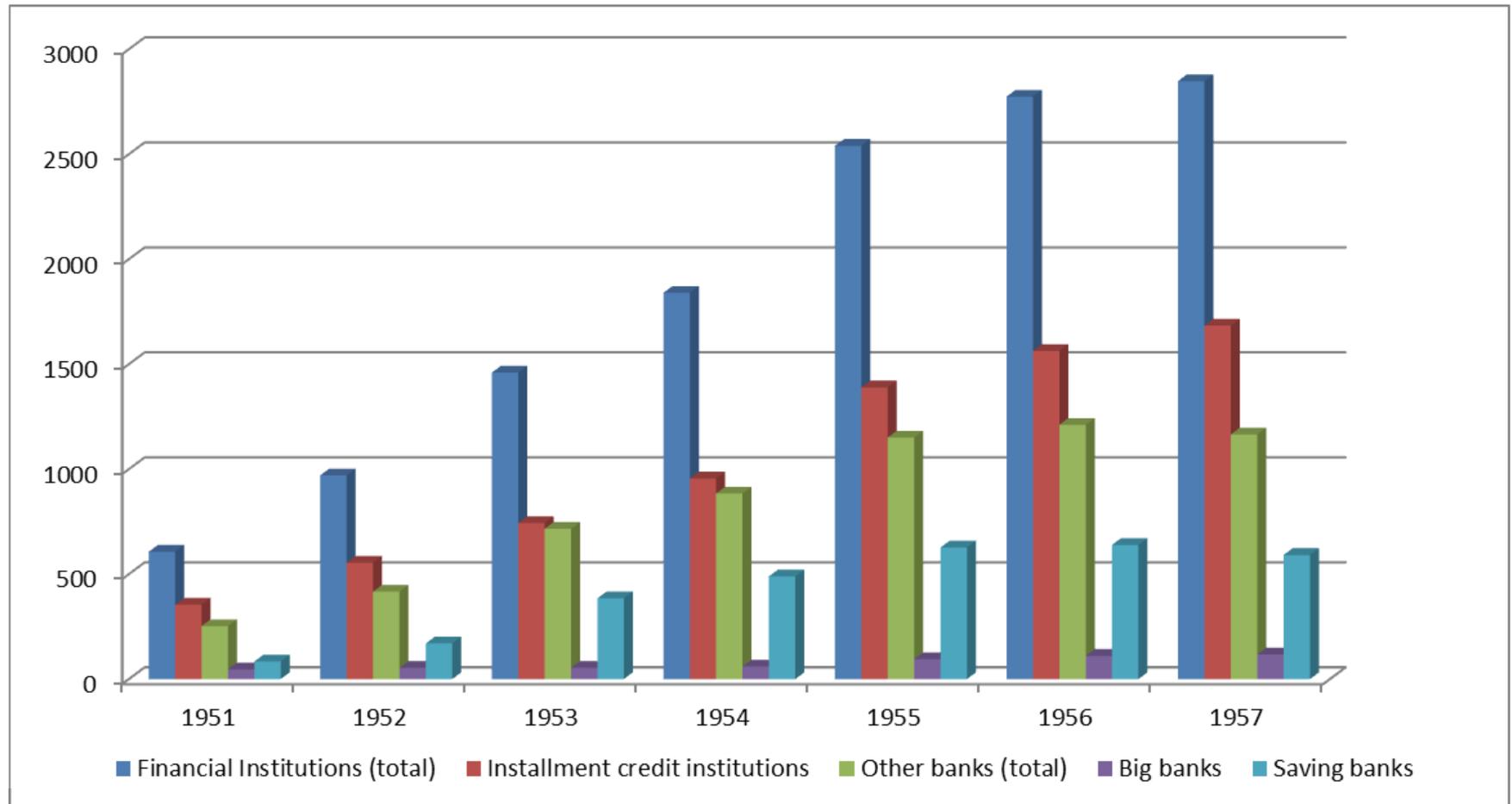


- ▶ 1955 33% of the German population purchased consumer goods with installment credits. But 2/3 of Germans have been against installment credits, and even 17% of consumers using installment credits were against it.
- ▶ By end of the 1950s Germans consumed more than they saved.
- ▶ Saving banks introduced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