

Installment-plan finance – an innovative finance system in Germany in the 1920s

The finance institute KfV (Kreditanstalt für Verkehrsmittel AG) and its impact on living standards*

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1 Introduction

The history of installment-plan financing can be traced back to the Greeks and Romans, but in the middle of the 19th century there was the take-off for this model. The successful American mass-motorization was driven by the new financial method of installment-plan finance. Whereas in the United States the innovative system was installed without major critics or conflicts and soon paved a solid way of financing consumer goods, in Germany in the 1920s financial experts argued against this system and preferred the alternative way provided by saving banks. While in the latter the consumer is first saving money and purchase a consumer good in the end, in the first model the consumer immediately purchased the product and paid it back. Since the high risk of losing the consumer good or the credit standing, the innovative model of installment-plan finance regularly aimed towards the producers, not the consumer.

There were some protagonists even in Germany after World War I, when the German capital market was characterized by a severe lack of capital. Under this peer-group were some who dared to establish a new institute that aimed at stimulating German sales by bridging the lack of capital with this new refinancing method. Though the hyperinflation of the years 1922/23 recently had supported the critics against installment-plan finance since it had given evidence of the high risk in this financial means caused by an inflation, in the first half of the 1920s a handful of installment-plan finance institutes were established.

There are three issues I would like to follow up in this paper

1. International comparison encouraged the founders of the first credit institute based on financing industrial sales on installment-plan finance.
2. The international engagement of KfV transferred its successful experiences with this innovation to other European countries.

* This paper is an extract of a team-work on the history of Kreditanstalt für Verkehrsmittel. My gratitude is to my colleague Johannes Bähr. Some of his results I do use in this paper. See Johannes Bähr/Andrea H. Schneider, Teilzahlung im Wandel, Von der Kreditanstalt für Verkehrsmittel AG zur Diskont und Kredit AG, 1924-1951, München 2007.

3. The international expansion of KfV provided the institute with the necessary financial means and helped the institute and its ideas to overcome a deep crises.

2. The early days of Kreditanstalt für Verkehrsmittel AG

In 1924 the Kreditanstalt für Verkehrsmittel AG (subsequently referred to as KfV) was established in Berlin. Its basic idea was to create a credit institution “having the main aim of financing industrial sales on the installment plan”. The bank was the forerunner of the later Diskont und Kredit AG, otherwise known as “DISKO”. The object of the company, according to the Commercial Register, was “to finance supplies of rolling stock, of motor-powered vehicles for industrial, commercial, and agricultural purposes, and of other means of transport of all kinds and to purchase and operate companies providing transport in general”.¹ Initially, KfV had a capital fund of 1 million GM (gold marks). Ernst Leipziger, a director of ironworks company Berlin-Burger Eisenwerk AG, was appointed to the first Board of Management.²

The new foundation came out of the Berlin-Burger Eisenwerk AG group, which had done good business scrapping armaments and had an agreement with Ford to distribute Ford vehicles in northern Germany. Subsequently, Dresdner Bank was often described as a co-founder of the company. It is true that Dresdner Bank soon acquired substantial influence over KfV. But in terms of putting up capital it was not involved in founding the company. To begin with, because of its business connections with Berlin-Burger Eisenwerk, Dresdner Bank simply had a seat on the first Supervisory Board of KfV (Wilhelm Kleemann).

Initially, the offices of KfV were in Gendarmenmarkt, a fine square in central Berlin. The address was Charlottenstrasse 56. However, nearly two years were to pass before the company actually got going.³ Not long after the foundation of KfV its parent company, Berlin-Burger Eisenwerk AG, was taken over by the Barmat Group. Shortly after that KfV was detached from the new corporate complex. This was a fortunate development so far as KfV was concerned in that the Barmat Group collapsed soon afterwards, together with all its subsidiaries.

¹ Quoted from an entry in the Commercial Register dated 7 August 1924, Federal Record Office [*Bundesarchiv*] Berlin (BA Berlin), R 8127, no. 11223. According to this source, the articles of incorporation were drawn up on 11 April 1924. The share capital of Kreditanstalt für Verkehrsmittel AG was 23 per cent paid in at the time when the company was founded. Press report in the *Frankfurter Zeitung* of 20 January 1926, BA Berlin, R 8127, no. 11223.

² Entry in the Commercial Register dated 7 August 1924 (*op. cit.*).

³ Kreditanstalt für Verkehrsmittel AG, Company Report for third business year, 1 January 1926 to 31 December 1926, Report by Executive Committee.

The new owner of the company was managing director Ernst Leipziger himself. He held 90 per cent of the share capital.⁴ It must be thought likely that Dresdner Bank made this money available to him and that Leipziger came to own KfV purely as Dresdner Bank's agent – a common enough process at the time. For KfV it was a stroke of luck that at first *de facto* and subsequently *de jure* it became a subsidiary of Dresdner Bank.⁵

3 The years of expansion – Installment-plan finance on the advance: From the automobile industry to the entire market

In 1927, its fourth year of operation, KfV managed to more than double its sales – from 50 million RM to 112 million RM.⁶ Because of the special nature of the installment-plan finance business, the Board of Management felt it necessary to have a particularly good knowledge of local circumstances and of the relevant customer base. So during the course of 1927 KfV set up a number of regional subsidiaries. It also, through entering into association with other companies, spread installment-plan finance into fresh sectors. On each occasion KfV contrived to get various big banks and private banks on board as partners. Forming this systematic and strategic network of established banks gave the new and largely untried business of installment-plan finance a solid reputation. In addition, three subsidiary companies were founded in 1927: Rheinisch-Westfälische Kreditanstalt für Verkehrsmittel AG in Cologne, Kreditanstalt für Industrie und Verkehrsmittel in Dresden, and Hanseatische Kreditanstalt für Verkehrsmittel AG in Hamburg. The original idea, which was to derive benefit from being close to the customer, led to success in Hamburg; in Cologne, however, it turned out to be a major disadvantage in that the overall view of the various deals entered into was lost.

It was not long before KfV took its idea of financing sales on the basis of paying by installments beyond the borders of Germany and founded other subsidiary companies in Switzerland, Austria,

⁴ Report in the *Frankfurter Zeitung* of 10 January 1926, BA Berlin, R8127, no 11223. A list of shareholders attending the Kreditanstalt AGM on 23 September 1926 shows that Leipziger then held 90 per cent of the share capital with a nominal value of 900,000 RM. The remaining 10 per cent were owned by "Treuhand" Revisions- und Organisations AG, which had been a Kreditanstalt shareholder since the foundation of the company; Historic Record Office of Dresdner Bank AG (HADrB), 25484-2001.BE.

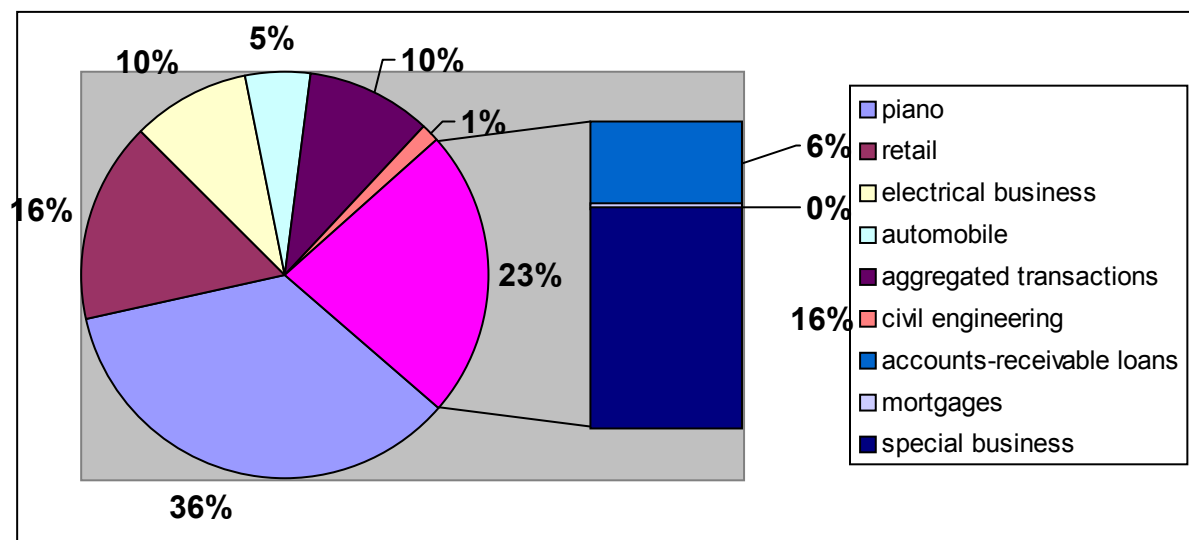
⁵ There were three reasons for Dresdner Bank for having a holding in KfV. For one thing, its involvement cushioned fears on the part of its customers from the automobile industry that American competitors might swamp the German market using installment-plan transactions. Another reason for Dresdner Bank to be the first big bank in Germany to get into the sales-financing business was its close relationship with the Wanderer-Werke vehicle manufacturer in Chemnitz. And there was a third reason: the bank's cooperative business. The retail businesses represented in the credit cooperatives suffered after the stabilization of the currency not only from the general shortage of capital but also from the growing competition of the department stores.

⁶ Kreditanstalt für Verkehrsmittel AG, 1927 Annual Report, p. 3.

and Hungary. The model remained the same: powerful banking partners were sought locally and converted to installment-plan finance. In this way, not only was the credibility of what was still regarded as a risky business enhanced; additional capital funds were also secured.

In Zürich, a company named Discont-Credit AG was set up in June 1927. Opening a branch office in Geneva's rue de Hollande underpinned the original intention to establish installment-plan finance in Switzerland as well. However, two developments quickly triggered a change in the core business of Discont-Credit AG. The success of these subsidiaries enormously boosted confidence that part-payment was going to revive economic life. This led in turn to hopes of a lightning expansion throughout Europe. For this, the German parent company required major amounts of capital to be able, in partnership with other banking institutions, to put together consortia to found further companies. The idea was to refinance this plan through the Swiss subsidiary company, since Switzerland's big banks had few opportunities of placing capital any longer and in this way, it was thought, funds could be diverted to the German market, where capital was scarce.⁷ To this end, in March 1928 the capital fund of Discont-Credit AG was bumped up to 20 million CHF (Swiss francs) and the object of the company expanded to "rediscounting European sales-finance institutions".

Sales of Kreditanstalt für Verkehrsmittel AG 1928⁸



The German automobile market having not developed as expected, as early as the beginning of 1926 KfV moved outside its original area of operations.⁹ Embracing new fields of business, it

⁷ See Joseph Jung, *Von der Schweizerischen Kreditanstalt zur Credit Suisse Group, eine Bankgeschichte* ["From Schweizerische Kreditanstalt to the Credit Suisse Group, a banking story"], Zürich 2000, pp. 71 f.

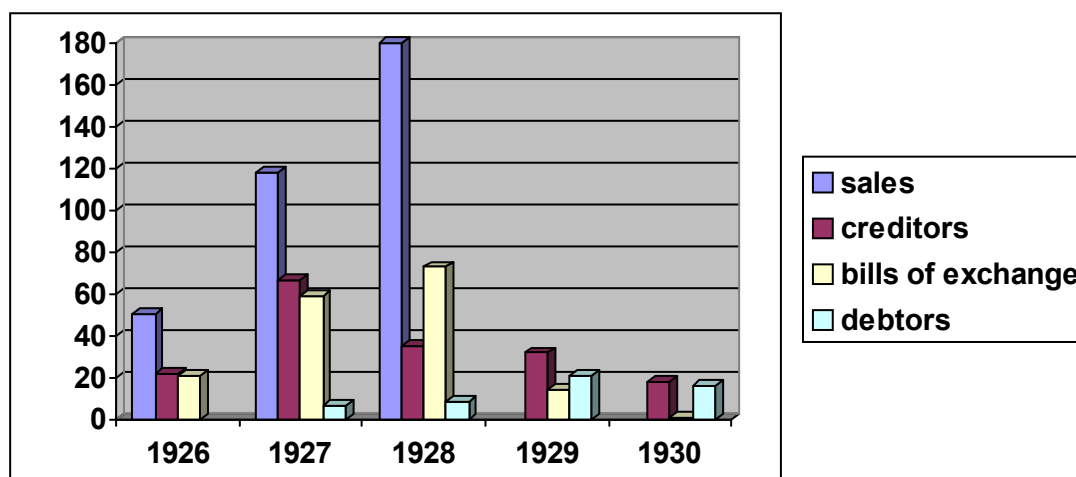
⁸ See Minutes of Supervisory Board meeting of 23 November 1928, HADrB, 25484-2001.BE.

⁹ *ibid.* Report by *Regierungsrat* [senior civil servant] Oeding concerning his last Swiss trip.

rediscounted the newly founded Kreditgemeinschaft deutscher Pianofortefabriken GmbH [“German pianoforte manufacturers’ credit union plc”].¹⁰ As Germany’s first installment-plan sales-financing institution and also because of its rapid success, KfV became a sought-after business partner.¹¹

KfV also got involved in the booming electricals sector, founding Elektrizitäts-Kredit AG, which initially signed an agreement with Berlin power supplier BEWAG. BEWAG paid the retailer the purchase and installation price of the appliances in question and included the repayment installments on the loan granted to the customer in the customer’s electricity bills.¹² KfV discounted BEWAG bills of exchange that went through Elektrizitäts-Kredit AG.¹³

Development of business of Kreditanstalt für Verkehrsmittel AG 1926-1930 (in millions of RM)¹⁴



¹⁰ *Frankfurter Zeitung* of 2 February 1926, BA Berlin, R 8127, no. 11223.

¹¹ Agreements were concluded with the Finanzierungsgemeinschaft der Automobil-Zubehör-Industrie [“Financing union of the automobile accessories industry”], and the company got involved with Motor AG. KfV became the ideal partner of Finanzierungsgemeinschaft für Landmaschinen AG (Figelag) in connection with its plans to extend its successful financing of sales of agricultural machinery to industrial machinery in general. Kreditgemeinschaft deutsche Pianofortefabriken GmbH (already mentioned), Diskontvereinigung deutscher Pianoforte- und Harmonium-Fabriken GmbH, and Deutsche Kreditgemeinschaft GmbH in Berlin completed the portfolio. Max Böttger, *Die Absatzfinanzierung von Kraftwagen and Krafträdern in Deutschland* [“Sales-financing of automobiles and motorcycles in Germany”] (dissertation), Munich 1933, pp. 25 f. See “Exposé betreffend die Gründung einer neuen Finanzierungsgesellschaft für Industrielieferungen, Finanzierungsgesellschaft für Landmaschinen AG, Juni 1928” [“Report concerning the foundation of a new financing company for industrial supplies, Finanzierungsgesellschaft für Landmaschinen AG, June 1928”] in Deutsche Bank Historical Record Office [*Historisches Archiv Deutsche Bank* or HADB], P5583. Another sector that KfV became involved in was insurance, associating itself with a Berlin motor-vehicle insurance company named Kraftfahrzeug-Versicherungsdienst AG, the sole authorized company of the German Automobile Dealers’ Association [*Deutscher Automobil-Händlerverband*]. The National Association of Office Machinery Dealers [*Reichsverband der Büromaschinenhändler*] also established a credit union to finance sales. And in the autumn of 1928 other transactions followed through the credit union set up by the Munich-based Association of Instrument and Medical Businesses.¹¹

¹² Bewag AG (ed), *100 Jahre Strom für Berlin. Ein Streifzug durch unsere Geschichte in Wort und Bild, 1884-1984* [“100 years of power for Berlin. A journey through our history in words and pictures, 1884-1984”], Berlin 1984.

¹³ Report, KfV, p. 5, HADrB, 25484-2001.BE.

¹⁴ Source: Kreditanstalt für Verkehrsmittel AG, Annual Reports for 1926-1930.

The business activity of KfV went far beyond its original object of foundation. By 1929 installment-plan finance was a success. With a total 180 million RM of loans, KfV was providing important stimuli for the German economy.

In addition to its core business of sales finance, KfV expanded its activities very early on. In fact, as early as 14 November 1925 it founded Industrielle Garantie AG, which proceeded from the former German branch of Industrial Guarantee Corporation in Geneva and through its contacts in Switzerland brokered short-term foreign industrial loans and bridge mortgages for industrial and residential building plots. Later it also obtained long-term mortgages and loans secured against mortgages.¹⁵ That gave KfV a foothold in the property and loans business.¹⁶ In the early days of 1929 it was even reported in the press that KfV would be turning to “building-land speculation in Berlin”.¹⁷ The occasion was the purchase of Kaiser-Keller AG, a company that owned a hotel and several restaurants in central Berlin.¹⁸ The operations of Kaiser-Keller AG had been running at a loss for years, since after the inflation the customers stayed away. In addition, there were unusually high expenses because of the company’s large real-estate portfolio. Major losses during the world economic crisis had of course destroyed the greater part of the starting capital.¹⁹ That in the years 1928 and 1929 KfV went in for some risky real-estate business is shown not only by its involvement with Kaiser-Keller AG but also by the development of another subsidiary called AG für Industrie-Unternehmungen am Friedrichshain. Behind the name was a pure real-estate company.²⁰ It was not only the KfV engaged in the real-estate business, but that it took high risks.²¹ So risky a commitment could redound to the buyer’s advantage only if the hotel sector enjoyed a

¹⁵ Brochure, KfV, HADrB, 25542-2001.BE.

¹⁶ Other companies of this kind were “Guvag” (Gutsverwaltungs and Verwertungs AG [“Property management and exploitation Ltd”, “Domag” (Häuser und Güter AG [“Homes and Property Ltd”]), and Märkische Wochenendgesellschaft mbH [“Brandenburg weekend plc”]. Letter from Dresdner Bank management to KfV, dated 15 January 1930, HADrB, 20319-2001.BE. “Guvag” purchased and managed the manor of Pommerzig. Märkische Wochenendgesellschaft mbH divided up several pieces of land bought by KfV in Seeburg, near Berlin, and in the Berlin suburb of Spandau for the construction of housing estates. The plots were sold during the 1930s. KfV also owned “Grundag” or Grundstückserwerbs AG, a company formed (as its name suggests) for acquiring building plots.

¹⁷ “Zum Majoritätswechsel bei der Kaiser-Keller AG - Kreditanstalt für Verkehrsmittel AG”, in *Deutsche Bergwerks-Zeitung*, 4 January 1929, BA Berlin, R 3102, no. 4460, Bl. 64.

¹⁸ “Die deutschen Banken in September 1929”, article in *Die Bank* 1929, 1st half-year, p. 672.

¹⁹ “Kaiser-Keller AG in Berlin”, article in *Berlin Börsen-Zeitung*, 8 October 1935, BA Berlin, R 3102, no. 4460, Bl. 52.

²⁰ “List of all real estate owned by Kreditanstalt für Verkehrsmittel AG in liquidation and its affiliated subsidiaries”, HADrB, 49968-2001.BE. 20831-2001.BE.

²¹ Later a splendid hotel in Switzerland was added, the Hotel Montana above Luzern. AG für Industrie-Unternehmungen am Friedrichshain had acquired this hotel in order to get its hands on a further mortgage in Switzerland in the amount of 3.75 million CHF. In return for the mortgage, KfV had had to buy the Hotel Montana from the Schaffhausen-based Gesellschaft für Finanzgeschäfte AG at a price well above its true value at the time. Letter from Wilhelm Oeding to Kreditanstalt für Verkehrsmittel AG, dated 5 August 1930, HADrB,

sudden boom. However, with the advent of the world economic crisis precisely the opposite happened and the losses grew extensively.²²

4 – The international aspect

The expansion of KfV proceeded apace through the subsidiary companies in Germany and Switzerland. As explained, applications continued to pour in to KfV from the area of sales finance, whether to invite it to participate in founding other institutions or asking it to finance actual transactions. It was its expertise as an installment-plan finance institution in the field of electricity supply that a group of Austrian investors sought to turn to their advantage. Through a Munich lawyer, a financing request from a Burgenland energy company found its way to Berlin, where it was received with great interest. The first contracts were concluded with a view to financing the electrification of Austria's easternmost province in March 1927. In the following year KfV (acting in consort with Albert Krohn and Heinz Birthelmer) acquired 81 per cent of Eisenstädter Elektrizitäts-AG²³ (Eisenstadt is the provincial capital of Burgenland). Moreover, KfV bought a holding in Österreichische Gasglühlicht- und Elektrizitäts-AG [“Austrian Gaslight and Electricity Ltd”], also known as the “Auer Company”, a lamp manufacturer that stood to make a big profit from the growth-curve of electric power consumption. KfV also took an interest in Austrian water power, purchasing a concession to harness the Enns River, and it also tendered for the contract to extend the electrification of the railway in Austria.²⁴ The last-named ventures could not be realized, but most of the 179 municipalities in Burgenland province were linked up to a network that enabled the end-consumer to pay in installments for electricity use.

The success in Berlin with the BEWAG program “Elektrissima – E³” was supposed to be repeated now in Austria – in “Burgenland”.²⁵ Whereas in Berlin KfV was refinancing the producer (BEWAG), in Austria the institute engaged itself in an electricity provider. Since the turn of the century electricity symbolized the future, the culture and the wealth of nations. In Germany the decade of the 1920s was dedicated to the expansion of the electricity branch. Then the energy system still valid to the end of the century was established. The investments were enormous. The number of electricity companies climbed from 32 to 131 with a total capital of 891 Mio. Mark.²⁶ The escalating development is significant in some numbers: in the year 1910 only 3.5 % of the

²² The Hotel Montana went on accumulating huge losses, and the market value of the property continued to decline. Finally, in 1932 it had to be sold “at a low price”. ‘AG für Industrie-Unternehmungen am Friedrichshain’, in *Berliner Börsen-Zeitung*, 16 June 1932, BA Berlin, R 3102, no. 4460, Bl. 71.

²³ Formerly Kismartoner Elektrizität Actiengesellschaft (Kismartoni Villamossági részvénytársaság).

²⁴ Minutes of the meeting of the KfV Supervisory Board held on 4 August 1930, p. 4, HADrB, 25484-2001.BE.

²⁵ Expose, Kreditanstalt für Verkehrsmittel, p. 5, HADrB, 25484-2001.BE.

²⁶ *Bernhard Stier*, Staat und Strom, Die politische Steuerung des Elektrizitätssystems in Deutschland 1890-1950, Ubstadt-Weiher 1999, p. 43.

Berlin households were connected with the electricity supply, in 1925 it was 25 % and in 1932 already 74 %.²⁷ Similar to Berlin, in Vienna were only 2.9 % of the households connected with the electricity net in 1900. Also in the 1920s in Austria the consumer oriented connection started in this branch. Thus in 1922 the “Burgenländische Elektrizitätsgesellschaft” was established.²⁸ To be more consequent in realizing an integrated economy, in 1927 the „Eisenstädter Elektrizitäts-Aktiengesellschaft“ got an additional aim which was to realize a systematic approach. This change was expressed by the new suffix in its name: „Überlandwerke“. From then on it was dedicated to expand the electricity branch in Burgenland up to 1939. Nonetheless Burgenland²⁹ in comparison with Austria in total was underdeveloped in regard to the electricity branch due to its lack of watercourses. Additionally Hungary falling apart from Austria made Burgenland to a border-state. Thus it turned to an economically neglected periphery. Not even 20 – that was less than 10 % of the total 327 municipalities – were in 1921 supplied with electricity. But the need for electricity grew rapidly with the modernisation of the agriculture and with the need for qualitative light for cottage work. Confronted with this facts Burgenland’s government built a committee for realizing the electrification of the Burgenland.³⁰ Political crises and the ongoing inflation led soon to an end of this project. A new idea evoked: instead of the share-holding company a cooperative sponsored by the government – The Burgenländische Elektrizitätsgesellschaft (BEG) – was thought to electrify Burgenland. This cooperative sought for foreign financial support. But since the investors did not succeed, the cooperative failed and had to be liquidated. In 1924/25 Steirische Wasserkraft- und Elektrizitäts AG (STEWAG) took the initiative and founded the Oststeierische-burgenländische Wasserkraftwerke AG (Ostburg)³¹

With the world economic crises the fresh and fragile economy of Burgenland collapsed. The integrated electricity branch failed in supplying the southern part of Burgenland: in 1938 only 84 municipalities – and even those not completely – of the 180 communities were supplied with electricity. The engagement of KfV in the norther part resulted in a different development of the integrated economy. The initiative was started by an engineer, Heinz Birthelmer, director of STEWAG – who played a major role in the foundation of OSTBURG. He developed an idea for Burgenland where the connection of each consumer should be realized in an easy way. The idea was that the company itself should finance the electrification from a power station to the light bulb.

²⁷ Roman Sandgurber, *Strom der Zeit, Das Jahrhundert der Elektrizität*, Linz 1992, S. 109.

²⁸ Johann Wachtler, *Geschichte der Elektrizitätswirtschaft im Burgenland*, DAWU Wien 1982, S. 1.

²⁹ In 1921 four „Komitate“ - Pressburg, Wieselburg, Ödenburg und Eisenburg were added to young Austria. Therefrom stems its name Burgenland.

³⁰ The government gave 500 Mio. Kronen for the realization of the project.

³¹ At the end of 1930 OSTBURG supplied 38 municipalities in Burgenland, four in Niederösterreich and two in Steiermark with a total of 52.000 inhabitants.

The consumer should pay it back with an instalment-plan³² - a model similar to the Berlin E³-model of BEWAG. Since neither STEWAG nor OSTBURG were interested in his ideas, he left the company. On his search for support he met a member of the supervisory board of KfV, Dr. Albert Krohn, who arranged a meeting with an investor-group represented by KfV. A lawyer, Albert H. Mühlhaupt, mediated between this group and the government of Burgenland.³³ In 1926 the parties agreed that KfV will finance the electrification of Burgenland. The government granted the rights to build and run the electricity net for 30 years and vice versa KfV granted to ensure the electrification until 1929.³⁴ When they started there were 61 municipalities with 60.000 inhabitants with electricity, and additional 295 municipalities who needed to be connected.

To realize this project KfV in 1928 engaged itself together with Dr. Albert Krohn and Heinz Birthelmer in the Eisenstädter Elektrizitäts-AG (EEAG).³⁵ KfV held 36 %, Krohn and Birthelmer each 32 % of the total capital of the association. After the project was started the number of municipalities with electricity supply rose to 75, for the next year another 25 communities were planned to be connected. For each “Auslass” – household – KfV was paid 75 öS. The consumers were offered the possibility of instalment-plan finance, which was often used. The success of KfV and the continuously growing number of electrified households was supported by the excellent reputation of KfV that resulted from its good advisory system. KfV always took experts from GASFÜREL or BEWAG as advisors for new contracts.

Within three years EEAG built 90 kilometres of a 20kV power line. In comparison to the southern parts of Burgenland, in the northern parts production as well as consumption was still rising, even in the beginning years of the economic crises in the early 1930s. This development can be explained by the backwardness of Burgenlands' electricity economy and with the ongoing financial support of KfV.³⁶ Nonetheless the economic crises resulted in a falling expectation on side of KfV towards the profits.³⁷ KfV's involvement in Burgenland ended in conjunction with the liquidation of the company and was continued by Dresdner Bank.³⁸ In 1931 the Dresdner Bank took over the investments of KfV in Austria.³⁹ With the new owner – and with the new economic development – Dresdner Bank arranged that EEAG instead of paying interest rates invested this

³² Ebd., S. 16.

³³ Letter Mühlhaupt to Landeshauptmann Rauhofer dated 26. December 1926, Landesarchiv Eisenstadt; VIII/1/141-934.e

³⁴ Letter Landeshauptmann Rauhofer to Kreditanstalt für Verkehrsmittel dated 5. January 1927, *ibid.*

³⁵ Before: Kismartoner Elektrizitäts Actiengesellschaft (Kismartoni Villamosági részvénytársaság).

³⁶ Johann Wachtler, *Geschichte der Elektrizitätswirtschaft*, p. 19.

³⁷ See Minutes of the meeting of the Supervisory Board held on 29. September 1931, HADrB, 25484-2001.BE

³⁸ See Minutes of the meeting of the Supervisory Board held on 22 December 1931, HADrB, 25484-2001.BE.

³⁹ See Minutes of the meeting of the Supervisory Board held on 22. Dezember 1931, *ibid.*

amount in the continuing development of the integrated net.⁴⁰ EEAG realized 1.600 new connections. But still the financing stayed a vicious circle, since each new client creates beforehand high investment costs. Since the working conditions deteriorated for the managing directors, in May 1933 Birthelmer offered Dresdner Bank to sell his sharer (1.6 Mio. ÖS).⁴¹ Albert Krohn followed. In a “dubious financial transaction” insisted on by the German government, in 1939 “Eisenstädter Elektrizitäts-AG Überlandwerke”, as it was now called, was transferred to the Lower Danube “Gau” Works. The other Burgenland electricity works were assigned to Alpelektrowerke AG, a wholly-owned subsidiary of the German government’s VIAG.

KfV paved the way for the ongoing electrification in Burgenland. Though being of high reputation in Vienna, KfV failed in gaining more rights in using water power in Austria or the permission to electricificate the Austrian railways. This successful project gives evidence of the early success of installment-plan finance as well as it shows the advantages of international institutes, that were able to transfer financial means. With the economic backwardness customers were not prepared in investing in electricity supply. Only installment-plan payments laid ground for this development. To stick with the original idea even during the rough years of the economic crises can also be traced back to the experience KfV gained with its international activities. For tax reasons, in August 1929 the members of the consortium put all associated rights and obligations as well as the share capital of Eisenstädter Elektrizitäts-AG into Energie Trust Reg., Vaduz, a trust company under Liechtenstein law. They also established Elektro-Finanz-Trust Reg., Vaduz, and Elektrizitäts-, Gas- und Wasserwirtschafts-Trust, Vaduz.

These were golden years when not only was business booming; confidence in KfV was also great, giving it access to capital in the City of London. Installment-plan finance had lost its bad reputation. Internationally, KfV was active from Russia (an export transaction that Wilhelm Kleemann offered the company) to Baltimore (a cooperative arrangement with Commercial Credit Company) and New York (Foreign Bank and Investment Corporation).⁴²

The years of expansion had turned the modest Berlin institution into an international player with an exchange turnover of 180 million RM and a certified portfolio of 8 million RM. However, such rapid growth had given rise to a business that was virtually uncontrollable. In a welter of intersecting partnerships, takeovers, real-estate acquisitions, and bridge companies, the individual commitments of KfV were almost beyond comprehension. In so short a time-span, it can scarcely

⁴⁰ Letter Dresdner Bank to Eisenstädter Elektrizitätswerk AG, Überlandwerke dated 11. November 1931, HADrB, 22058-2001.BE.

⁴¹ Letter Birtelmer to Direktion Dresdner Bank dated 16. May 1933, *ibid.*

⁴² Exchange of letters between Ernst Leipziger and Wilhelm Kleemann, 27 August 1928 and 7 December 1928, HADrB, 25484-2001.BE.

be assumed that sufficient internal professionalization occurred. The situation was by no means unusual in the 1920s, and in the case of many businesses it led to collapse. KfV too, with its complicated group structure and all the risks that that entailed, looked as if it would meet a similar end.

5 A long detour – the collapse, the Swiss years, and a new beginning in Berlin

The general economic situation aside, it was above all the high risks that had been entered into that caused the installment-plan finance model to stumble. Rising unemployment from 1925 began to affect repayments, and the Great Crash did the rest. Initially, it was cooperative societies with their commercial-credit stores that got into payment difficulties.⁴³ The biggest blow to installment-plan finance came with the collapse of the insurance company, Frankfurter Allgemeine Versicherungs-AG (FAVAG). The ensuing world economic crisis and 5 million unemployed meant curtains for most institutions in the sector. Some survived purely on the basis of internal reorganization schemes and because for the first time the big banks got involved on a major scale through credit-union financing company Gesellschaft für Finanzierung von Kreditgemeinschaften GmbH.⁴⁴

The economic climate, outstanding debts, and forced seizure of assets in the form of shares and real estate given as security pushed KfV into a serious liquidity crisis. As real-estate manager, energy supplier, and hotel owner, it had secured its borrowing in a wide variety of ways, not all of them completely sound; inflated book values for mortgages right through to art objects on which it was scarcely possible to put an accurate figure had been accepted as security for loans. On top of fact that the commitments of KfV and its partner companies could only be described as excessively risky, the financial situation was made even worse by the inability of KfV, in connection with many loss events (i.e. missed repayments), adequately to refute the objections of its insurers – with the result that in countless instances full indemnity (at least) was not obtained. With KfV heading for bankruptcy, it suddenly dawned on the supervisory board that CEO Wilhelm Oeding, whom they had regarded as a financial genius, had not always done his duty by them in terms of keeping them informed about the company's affairs. Dresdner Bank lost no time in dispatching Walter Hesse to audit KfV, and he soon exposed the true extent of the disaster: the management had embezzled funds and cooked the books, and by now the company was over-indebted to the tune of more than 40 million RM.

Dresdner Bank, which was involved in KfV and its subsidiaries in a great variety of ways through capital holdings, loans, guarantees, and as a trustee, found itself in an awkward situation:

⁴³ Fischer, *Finanzierung, op. cit.*, p. 32.

⁴⁴ *ibid.*

through Wilhelm Kleemann it presided over the supervisory board, and the president might have been held co-responsible for the incorrect conduct of the management. Grave as the liquidity bottleneck was, Dresdner Bank saw bankruptcy as an even bigger risk. In the crisis of 1930 and 1931, reporting that a company in which it had such a large holding had ceased to make payments might well have plunged the bank into the abyss. After all, similar news in July 1931 threw the customers of Danat-Bank into such a panic as to accelerate the collapse of that institution. Dresdner Bank was anxious to make sure it remained fully exempt from recourse claims itself, and that was something only a controlled process of liquidation would guarantee.⁴⁵

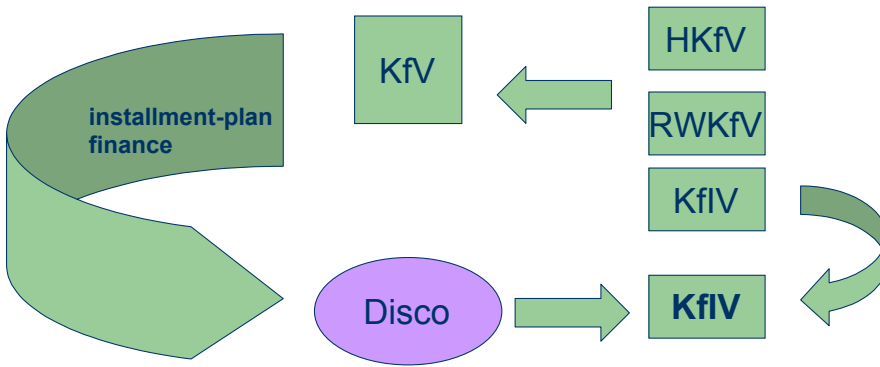
To rescue the installment-plan business, a complicated plan was followed. First of all, in order to render KfV liquid the company sold the still functioning installment-plan finance business to its own subsidiary in Switzerland, Discont-Credit AG. With the profit from the sale, KfV was able to reduce its accumulated debts. The next step took place in the background and cost Dresdner Bank a lot of money.⁴⁶ It consisted in adjusting the KfV balance sheet – and took until September 1931. Subsequently, after a brief period had already shown that profits could no longer be earned even with further transactions, what was left of the company went into liquidation. In order that these deals, reserves, write-offs, and negotiations with creditors might be carried off behind the scenes, the 1929 annual report was postponed, not being presented to shareholders and above all to creditors until September 1931.⁴⁷

The structure of the group was completely rearranged with a view to pursuing installment-plan sales finance on a solid footing. In an initial step, KfV separated its high-risk and now ailing commitments from transactions with a positive rating and sold the latter to Switzerland in return for a goodwill payment in the amount of 4 million CHF. Switzerland passed the installment-plan business (which had to stay in Germany) back to Kreditanstalt für Industrie und Verkehrsmittel AG (KfIV), the regional subsidiary company of KfV based in Dresden. To handle this transfer of all installment-plan finance business, in 1929 the Dresden company moved its head office to Berlin.

⁴⁵ Note for Kleemann, Israel of 5 April 1932, HADrB, 22058-2001.BE.

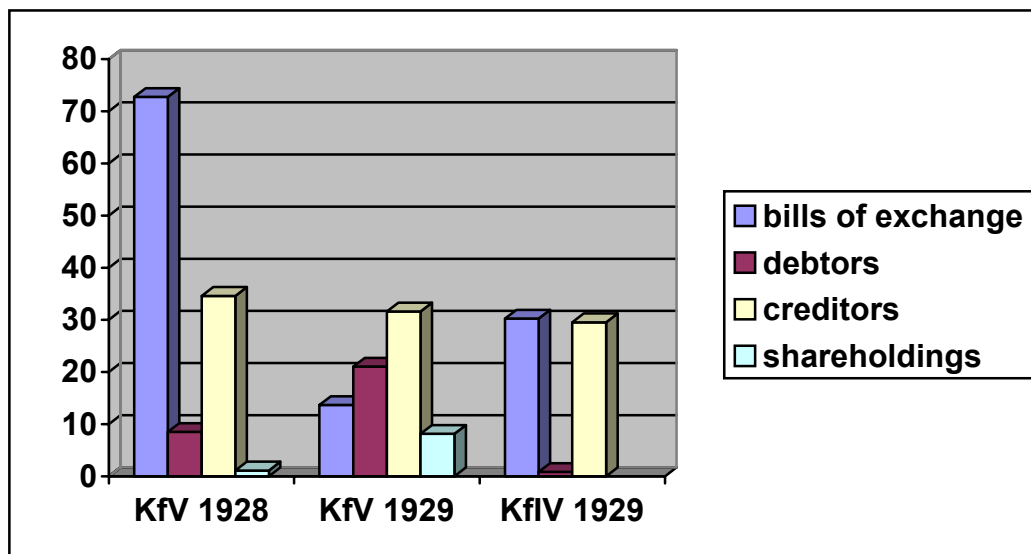
⁴⁶ In June 1931, assets of up to 9.3 million RM belonging to KfV had already been pledged to Dresdner Bank. See also the letter that Walter Hesse wrote to Wilhelm Kleemann on 5 August 1931, HADrB, 30323-2001.BE.

⁴⁷ Letter from Walter Hesse to Dr. Pilder dated 6 August 1931, HADrB, 25544-2001.BE.



Using this roundabout route via Switzerland (and this is the key aspect of this transaction), holdings of bills in installment-plan finance business were adjusted: while at KfV these declined from 72.75 million RM to 13.66 million RM, at KfIV the figure was only 30.21 million RM. That meant that in fact 28.9 million RM of bill holdings had disappeared from the balance sheet. In this way KfIV had taken over from its former parent company an adjusted bill holding in the amount of 30.2 million RM, compared to 29 million RM in long-term loans.

Balance-sheet figures of KfV and KfIV after transfer of installment-plan finance business (in millions of RM)

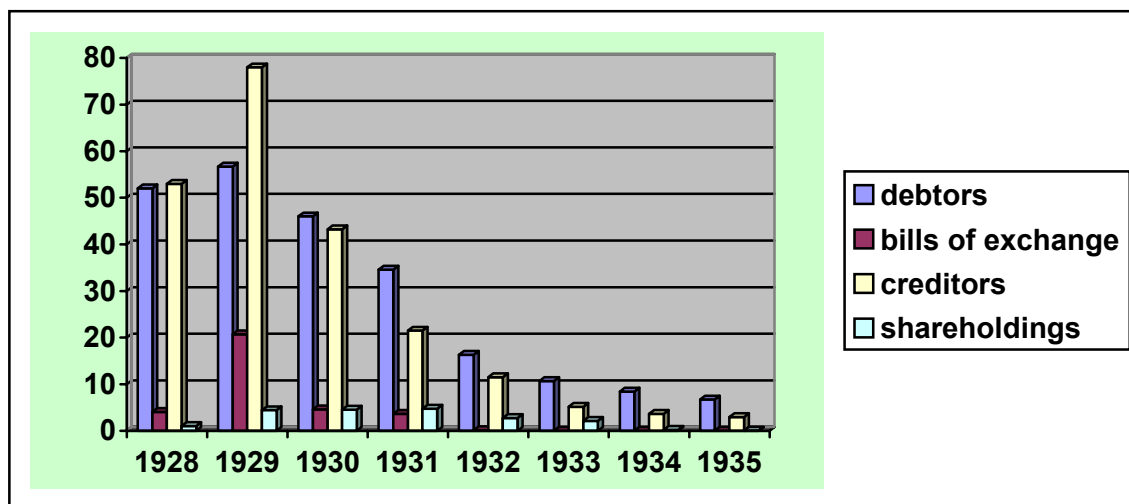


Sources: Annual reports of KfV and KfIV for 1928 and 1929.

The world economic crisis brought a decline in installment-plan finance in Germany. Because of the foreign-currency controls brought in by government, the Swiss company Discont-Credit AG was unable to transfer its meager profits from its northern neighbor.⁴⁸ Since rediscounting business gradually ceased as a result, the Swiss institution concentrated on on-the-curb dealing in stocks and shares and became increasingly involved in brokerage.

⁴⁸ 1931 Annual Report of Discont-Credit AG Zürich, Diskont und Kredit AG Düsseldorf.

Development of business of Discont-Credit AG, Zürich, 1928-1935 (in millions of CHF)



Source: Annual reports of Discont-Credit AG, Zürich, 1928-1935, in Schweizer Wirtschaftsarchiv [“Swiss business record office”], Banken 1014.

Selling its installment-plan finance business to Discont-Credit AG had still not averted bankruptcy for KfV. However, any hope of having the rump of the company continue to trade was quickly removed by events. But before the liquidation registration statement (the initial balance sheet required to institute liquidation proceedings) could be drawn up, Dresdner Bank had to enter negotiations with the major creditors, notably Discont-Credit AG and Swiss insurance company Eidgenössische Versicherungs AG.⁴⁹ These negotiations culminated in March 1932 in a settlement among those involved. While the often somewhat unpleasant discussions were still going on, KfV’s liquidation registration statement had to be published, since this became a legal requirement in September 1931. Before an auditor could spot the exploitations in the 1929 balance sheet (which was not published until autumn 1931, remember), KfV went into liquidation at almost exactly the same time. The 1931 liquidation registration statement showed modest losses of 3.95 million RM instead of the losses that had actually accrued, which amounted to 40 million RM. By 1942 the accumulated losses were shown as exactly 5 million RM – precisely equivalent to the starting-capital of the company. With this result, KfV was deleted from the Commercial Register in that year.

How should we view the outcome of this complicated as well as expensive break-up? For one thing, clearly the sale of KfV’s installment-plan business to Discont-Credit AG prevented the collapse of the Berlin group and with it possibly that of Dresdner Bank. KfV was able to use its restored liquidity to settle its commitments. In particular, the huge financial concessions offered by

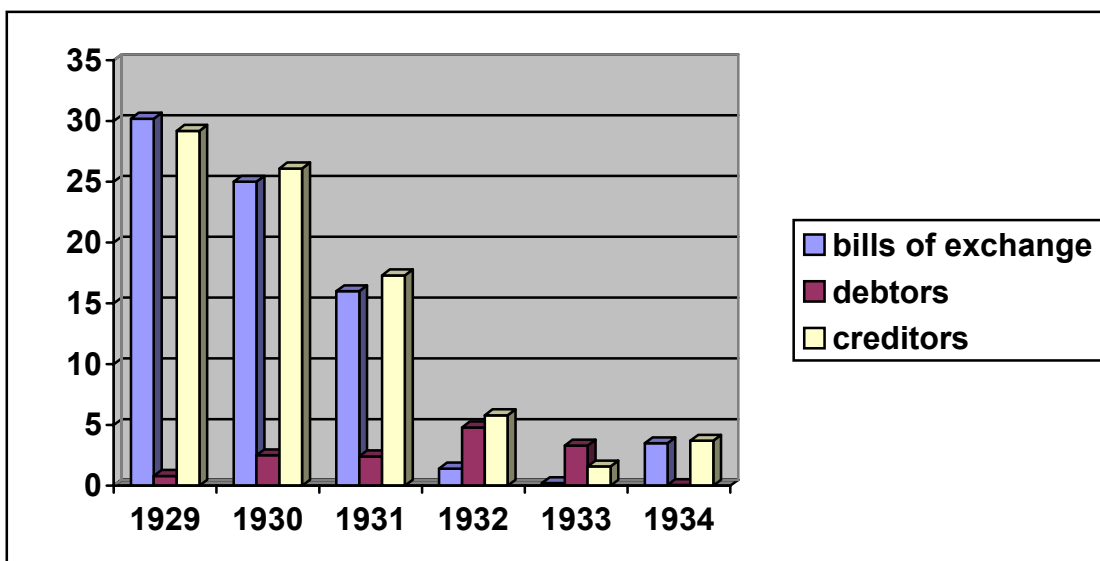
⁴⁹ *ibid.*

Dresdner Bank (in the period 1929-1931 injections of finance by Dresdner Bank totalled approximately 7 million RM and 5 million CHF, while another 5 million RM followed later for the liquidation of the company, and there were further financial concessions in the form of acceptance of pledged assets – paintings, real estate, businesses, etc.) were successful in helping to avoid bankruptcy.

The installment-plan operation as such was saved, but the collapse affected KfV at all levels, including through its subsidiaries. The biggest losers, though, were Discont-Credit AG and its associated banks. Discont-Credit AG had to put up a total of 12.6 million CHF for write-offs. The Swiss company had looked like going bankrupt itself, but this averted the threat. But the strain on the major shareholders (Basler Handelsbank, Dresdner Bank, and Eidgenössische Bank) was sobering. In the end Dresdner Bank, heading a consortium of German banks, approached Discont-Credit AG with a view to buying KfIV. And in May 1934 the said consortium did indeed acquire the Berlin institution.

Business activities at Discont-Credit AG declined ever further in the following years. From 1931 to 1945 no dividends were distributed. The Swiss company reduced its share capital repeatedly until in 1943 a mere ½ million Swiss francs remained; ⁵⁰ in 1985 it finally merged with Swiss bank Schweizerische Kreditanstalt.

Development of KfIV. 1929-1934 (in millions of RM)



Source: Kreditanstalt für Verkehrsmittel AG, Annual Reports for 1929-1934.

⁵⁰ In 1937 it stood at 4.5 million CHF, in 1938 at 1.7 million CHF.

6 Sales finance in the Third Reich: Foundation, rise, and fall of Diskont und Kredit AG; future prospects

Under the National-Socialist dictatorship, the Board of Management of KfIV continued for a time in its old composition. This body had been dominated since 1930 by Fritz Pickert, who had previously worked at Hanseatische Kreditanstalt für Verkehrsmittel AG. Pickert belonged to the KfIV management until 1934 and subsequently (until 1958) headed the successor company Diskont und Kredit AG. After the disaster that the two previous managing directors Ernst Leipzinger and Wilhelm Oeding had left behind, Pickert provided a large measure of continuity, which helped the company to regain the trust it had once enjoyed.

Whether employees of KfIV or its successor company were discriminated against and persecuted by the National-Socialist regime on racial grounds can no longer be established.⁵¹ The attitude of the Board of Management of KfIV towards the National Socialists can no longer be reconstructed in detail. Yet the installment-plan sector had high hopes of the Hitler regime. This was because one of the first actions of the new government was to boost automobile sales (and hence the principal market for installment-plan finance) by means of tax cuts. More than twice as many private automobiles were sold in Germany in 1933 as in the year before.

So it was that on 31 May 1934 KfIV was taken over by a German banking consortium headed by Dresdner Bank. The company was renamed Diskont und Kredit AG.⁵² In the early years the installment-plan business of Diskont und Kredit AG developed exceptionally well. For the first time sales financing in Germany grew as its original founders in the 1920s had imagined it would – that is to say, in close conjunction with a dynamically expanding automobile industry. In 1933, of total automobile sales of some 25 billion RM nationwide, only around 2 billion RM were financed on the installment plan.⁵³ By 1938 installment-plan business had reached its zenith, with 38 financing institutions in existence – 3 AGs, 22 GmbHs, 4 cooperatives, 1 e.V., and 8 individual proprietors.⁵⁴ However, the upsurge that Diskont und Kredit AG experienced in the wake of the National Socialists' motorization policy was to be short-lived. The company did manage to record a further rise in sales and take on new staff in 1937 and 1938.⁵⁴ But the rate of growth slowed noticeably. This development too was in essence determined by the politics of the National Socialist state. The

⁵¹ Probably in 1933 the company employed only a small staff in any case, because its business activity had largely collapsed during the earlier world economic crisis. Another point to bear in mind is that, as a subsidiary of a Swiss finance company, KfIV enjoyed special status until 1934.

⁵² Diskont und Kredit AG, 1937 Annual Report.

⁵³ Fischer, *Finanzierung*, *op. cit.*, p. 35.

⁵⁴ Diskont und Kredit AG, 1937 Annual Report.

business of Diskont und Kredit AG suffered increasingly from the downgrading of civilian motorization in favor of preparations for war. Hitler's Four Year Plan, proclaimed in 1936, was intended to get the German economy ready for an imminent war of aggression. There was also the fact that because of the economic upswing many automobile buyers were wealthier and no longer needed to fall back on payment by installments. Yet another factor was the NS regime's Volkswagen project, one practical result of which was that DAF (*Deutsche Arbeitsfront*, the organization behind the project) got into financing automobile sales on a part-payment basis – with the difference that what was involved here was not an installment-plan model, as in the case of Diskont und Kredit AG, but a qualifying-balance model.

With the outbreak of the Second World War, installment-plan finance largely collapsed. Contracts for the German armed forces had absolute priority over the civilian automobile industry. Private-automobile production slumped dramatically in Germany following the start of the war, reaching a level in 1940 that was only around ten per cent of what it had been in the previous year. For Diskont und Kredit AG there was now virtually no new business. Specializing as the company did in a purely civilian sector, it was almost inevitable this would happen in wartime. As the war continued, Diskont und Kredit AG ceased operating altogether, and when it ended in 1945 there were only three employees left in the capital: a caretaker couple and the woman in charge of the management secretariat. Managing director Fritz Pickert had left for Hamburg; authorized signatory Hermann Stüber was an American PoW. Some 30 per cent of the company's head office at Berlin's Kronenstrasse 11 had been destroyed in air raids.⁵⁵

Like all Berlin banks, following the end of the war Diskont und Kredit AG came under the city's Joint Allied Command. It was forbidden from initiating new business in Berlin – not that it would have been in any position to do so. With the capital market in ruins and purchasing power non-existent, installment-plan finance looked like being superfluous for the foreseeable future. The currency reform of June 1948 created the conditions for a resumption of installment-plan finance in the Western zones, and Diskont und Kredit AG was re-founded in Düsseldorf on 12 September 1951.⁵⁶ After the Korean crisis, the installment-plan business took off in West Germany. In 1952 Diskont und Kredit AG increased its turnover by 52 per cent; not even in the best of the prewar years had the company achieved such growth.⁵⁷ In the ensuing years of the “economic miracle” [*Wirtschaftswunder*], Diskont und Kredit AG also enjoyed a rapid rate of expansion. Together with

⁵⁵ Letter from Diskont und Kredit AG to Berlin City Council [*Magistrat der Stadt Berlin*], finance department, head office for monetary institutions, 23 September 1946, Landearchiv Berlin, C Rep. 105, no. 3585; Berlin City Council, finance department, head office for monetary institutions, note of 31 January 1946 concerning Diskont und Kredit A.G., Berlin W 8, Kronenstr. 11. *ibid.*, no. 3583.

⁵⁶ At this stage the company had share capital of 1 million DM (deutschmarks).

⁵⁷ Diskont und Kredit AG, 1952 Annual Report.

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the automobile market, installment-plan finance boomed. After a protracted and difficult start, the sales-financing business now became a permanent fixture on Germany soil too.⁵⁸ Altogether, in the decade from 1949 to 1959 installment-plan loans in the amount of around 1 million DM were issued.⁵⁹

⁵⁸ *DISKO - ein Spiegel deutscher Investitionsfinanzierungsgeschichte* ["DISKO - Mirroring the history of capital-goods financing in Germany"], Düsseldorf 2004, p. 28.

⁵⁹ Diskont und Kredit AG, 1959 Annual Report.