Animal Spirits and the Beginnings of Market Research Activities of West German Banks

Friederike Sattler, München

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I. Introduction

To this day, the model of *homo economicus*, predominantly influenced by Adam Smith, has remained highly influential in economics as well as in economic and corporate history. And yet, it was not just the most recent financial and economic crisis, with its revelations of emotional and irrational behavior among the numerous market players that has put this model to the test. The pioneers of economic psychology after World War II, most importantly George Katona in the U.S., Pierre-Louis Reynaud in France and Günter Schmölders in West-Germany, and later on the founders of behavioral economics, among them Daniel Kahneman and Amos Tversky in the U.S. or Reinhard Selten in Germany, had criticized this model in a significant way already.[1] Their common cause of complaint was, that economic behavior of people, to the extend that it can be empirically observed, is not always based on complete information and is by no means always as purpose-oriented as this model assumes. Consequently, markets do not always function efficiently. Economic psychologists and behavioral economists tried to construct their own theoretical models that corresponded in a better way with their empirical findings, in other words: that showed a higher "reality content". They championed for a recollection of "moral sentiments" in economic behavior, which had been described by Adam Smith himself in great detail. In the era of the neoclassical theory, the awareness of the historical effectiveness of these "moral sentiments" had been relegated into the background, or rather been considered a domain of quite another field of science: psychology.

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1 Cf. George Katona, Psychological Analysis of Economic Behavior, New York 1951; idem, The Powerful Consumer. Psychological Studies of the American Economy, New York 1960; idem, The Mass Consumption Society, New York 1964; idem, Psychological Economics, New York 1975; Pierre-Louis Reynaud, La psychologie économique [Economic Psychology], Paris 1964; idem, Précis de psychologie économique [Handbook of Economic Psychology], Paris 1974; Günter Schmölders, Wirtschaftslehre und Psychologie [Economic Theory and Psychology], Berlin 1962; idem, Psychologie des Geldes [Psychology of Money], Reinbek 1966; idem, Einführung in die Geld- und Finanzpsychologie [Introduction into the Psychology of Money and Finance], Darmstadt 1975; idem, Verhaltensforschung im Wirtschaftsleben [Behavioral Research in Business Life], Berlin 1978; David Kahneman/Amos Tversky, Prospect Theory: An Analysis of Decision under Risk, in: Econometrica 47 (1979), 2, pp. 263-291; Amos Tversky/David Kahneman, Advances in Prospect Theory. Cumulative Representation of Uncertainty (1992), in: David Kahneman/Amos Tversky (Ed.), Choices, Values and Frames, Cambridge 2000, pp. 44-66; Wulf Albers (Ed.), Understanding Strategic Interaction. Essays in Honour of Reinhard Selten, Berlin et al. 1997.

Just to prevent a common misunderstanding at this point: The representatives of neoclassical theory, when operating with the model of *homo economicus*, do not claim to capture real economic behavior in all its facets. They simply make a basic methodological choice which is supposed to enable them to recognize not only historically specific phenomena, but rather universal economic mechanisms.[2] By using the model of *homo economicus* they do not want to make – against their better judgment –self-interested, rational economic behavior absolute, but rather take it to be the “normal case” for methodological reasons. In contrast to this, the primary concern of behavioral economists is to actually model economic behavior as “close to reality” as possible. For this purpose, they integrate the methodological approaches of psychology, sociology and political science into their own considerations. In other words: The insight, that economic players quite often act spontaneous, arbitrary and affect-driven, is moved from back stage to center stage. On this basis, behavioral economists have meanwhile been able to come up with some solid findings. To give you quite a basic example: Faced with the necessity for a decision between options with positively evaluated consequences, people usually behave far too risk-averse in order to be actually able to maximize their own profit.[3]

However, critics reproach behavioral economists with having so far gathered not more than just a few “market abnormalities” which the market itself – because of its inherent efficiency – would simply discard sooner or later. Behavioral economists to the contrary, who have increasingly been cooperating with neuro-economists recently, claim not just to be able to explain individual economic behavior in a much better way, but even socially and economically highly relevant phenomena which are based on emotionally charged, collective behavior. The economists George A. Akerlof and Robert J. Shiller took up essential thoughts of behavioral economics, developed them further and concentrated their reflections in the recently published book “Animal Spirits”.[4] They use this term, coined by John Maynard Keynes, to aim at instinctive, deeper, mental driving forces which are the foundation of human emotions. Keynes himself had seen the spontaneously effective animal spirits of people as an essential explanatory tool for the fundamental instability of the capitalist

[2] With reference to the classics, Friedrich August von Hayek pointed out: „It would much rather correspond to the truth to say: people are in their eyes lazy and indolent, blind to the future and wasteful, and that [in their opinion, fs] it is the power of circumstance only that can force them to act economically and to adjust their means towards their goals efficiently.“ Cf. idem, Wahrer und falscher Individualismus [Individualism – True and False], in: Grundsätze einer liberalen Gesellschaftsordnung. Aufsätze zur politischen Philosophie und Theorie [Principles of a Liberal Social Order. Essays on Political Philosophy and Theory] (= Friedrich A. von Hayek, Gesammelte Schriften in deutscher Sprache, Abt. A: Aufsätze, Bd. 5 [= Friedrich A. von Hayek, Collected Works in German, Section A: Articles, Vol. 5], Tübingen 2002, p. 13.

[3] Primarily Richard H. Thaler (who coined the term “quasi-rational economics”) described in numerous essays actual market behavior that runs contrary to rational expectations and therefore against market efficiency. Cf. Richard H. Thaler (Ed.), Quasi-Rational Economics, New York 1991; idem, The Winner’s Curse. Paradoxes and Anomalies of Economic Life, New York 1992.

[4] George A. Akerlof/Robert J. Shiller, Animal Spirits. How Human Psychology Drives the Economy, and Why it Matters for Global Capitalism, Princeton 2009 (German edition: Animal Spirits. Wie Wirtschaft wirklich funktioniert, Frankfurt am Main/New York 2009).

economy, for the eternal ups and downs of its business cycles.[5] Akerlof and Shiller try to show how individual emotions can actually get worked up to economically highly relevant developments. They use as examples especially influential expressions of animal spirits: the need for mutual trust, the need for fairness, the tendency to corrupt, bad faith and antisocial behavior, the tendency for money illusion (that is: a tendency of habitual underestimation of inflationary and deflationary trends), and an inclination for "thinking in stories". Their claim is no less than to show "how human psychology drives the economy".

In my following remarks, I'm going to sketch out at first the basic ideas of the animal spirits approach and raise the question later on, as to what extent this concept could be used creatively for a type of corporate history that looks beyond the corporation itself and therefore asks: What happens "beyond the firm?" – for instance, to customers and their families. To be more precise, I'm going to take you back to the beginnings of market research of West-German banks during the late Fifties and early Sixties – when the banks began to court private customers from less-wealthy strata of the population.

II. Animal spirits – the basic ideas

First, a few words on George Akerlof and Robert Shiller. Berkeley economist and Nobel Prize winner of 2001 George Arthur Akerlof became known with an essay called "The Market for 'Lemons' ", which initially was rejected by several economic journals, but was after all published in 1970. In this article Akerlof discussed the market for used cars as an example for the inefficiency of markets in general. He demonstrated that something like "complete information" of market players does not exist, but rather an uneven distribution of information among buyers and sellers. With the 'Lemons'-study, Akerlof considerably promoted the disciplinary paradigm shift towards the New Institutional Economics.[6] Robert James Shiller, a financial economist, who teaches at Yale University, caused a sensation with his book "Irrational Exuberance" around the turn of the century, because of its precise prognosis of the crash of the New Economy which took place indeed shortly after publication.[7] Furthermore, besides Karl Case, he is the other patron of the Case-Shiller-Index, which nowadays is quite frequently quoted by the media. It started to help watching the development of prices for private homes in the U.S. since the late Eighties more carefully. Akerlof and Shiller are both no radical critics of the neoclassical theory; they themselves prefer working with its

[5] John M. Keynes, General Theory of Employment, Interest, and Money, New York 1964 (first published: London 1936), pp. 161-163.

[6] Cf. George A. Akerlof, The Market for 'Lemons': Quality, Uncertainty, and the Market Mechanism, in: The Quarterly Journal of Economics 84 (1970), 3, pp. 488-500.

[7] Cf. Robert J. Shiller, Irrational Exuberance, Princeton 2000 (German edition: Irrationaler Überschwang. Warum eine lange Baisse an der Börse unvermeidlich ist, Frankfurt am Main 2000).

instruments. However, they have only limited confidence in the efficiency of markets.[8] Instead, they prefer working on the assumption that price developments at markets – either for used cars or complicated securities – do not only exhibit "rational", but also a high degree of "irrational" behavior by the market players, since they are, for example, quite frequently driven by fear or greed. In their opinion, markets do require political regulation, partly to make them functioning in the first place. However, they should not be over-regulated, so that they, possibly supported by creative and intelligent product innovations, are able to remain functioning. Akerlof and Shiller do not see themselves as radical critics of the market, but rather as "market designers".[9]

Now, what are the most important ideas of the "Animal Spirits"? More accurately than it has been accomplished so far, Akerlof and Shiller are trying to recognize the spontaneous, erratic and contradictory quality, in short: the unpredictable nature of economic behavior. They attribute these unforeseeable decisions to instinctive, mental driving forces, which find their expression in a broad variety of human emotions. Among the most important of these expressions of animal spirits are, firstly, the need for mutual trust, secondly, the need for fairness, thirdly, the tendency to corrupt, bad faith and antisocial behavior, and in the forth place, the tendency to money illusion (that is: the underestimation of inflation and deflation), and last but not least, the inclination for "thinking in stories".

<u>The need for mutual confidence</u>[10]

According to neoclassical understanding, the existence or lack of confidence between market players entirely depends on a positive or negative assessment of future developments (concerning, for example, the question, if other market players are going to make investments or not). This is based on the assumption that confidence would rest on a rational consideration: people would use all information available to them in order to make rational predictions, and would, finally, make rational decisions on this basis. In contrast to this position, Akerlof and Shiller stress that in reality mutual confidence is much more complex. A

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8 Eugene Fama (University of Chicago) should be named in particular since he gained considerable politico-economic influence with his hypotheses regarding per se efficient markets since the Seventies. Cf. Eugene Fama, Efficient Capital Markets. A Review of Theory and Empirical Work, in: Journal of Finance 25 (1970) 2, pp. 383-417; idem, Efficient Capital Markets II, in: Journal of Finance 46 (1991) 5, pp. 1575-1617; idem, Market Efficiency, Long-term Returns, and Behavioral Finance, in: Journal of Financial Economics 49 (1998), pp. 283-306.

9 For instance, Robert J. Shiller pleaded successfully as early as in the Nineties that US-government bonds should come with a flexible interest rate depending on inflation, in order to offer investors in the American money market a better protection against currency depreciation. Cf. Uwe Jean Heuser, „Wirtschaft mit Gefühl" [Economy with Feelings], in: Die Zeit, 2.4.2009. Furthermore, he was not only an early critical observer of the inflated American real estate market after the turn of the millennium. He also presented quickly some pragmatic recommendations for solutions, so for instance, the idea of a publicly accessible marketplace for the securitization of houses. Cf. Robert J. Shiller, The Subprime Solution. How Today's Global Financial Crisis Happened, and What to Do About It, Princeton 2008 (German edition: Die Subprime-Krise. Wie wir hineingeraten sind und was wir tun sollten, Kulmbach 2008).

10 Cf. for the following chapter: Akerlof/Shiller, Animal Spirits (German edition), pp. 30-39.

trusting individual sometimes simply ignores some information, or attaches only little importance to it. Another possibility: The individual digests all available information, but does not process it in a rational way. And even if it does, this individual may not take the actions necessary, but rather let its behavior be guided entirely by already existing convictions. In this view, confidence is of primary importance in the reinforcement of business cycles. In times of prosperity, confidence has a strengthening effect on the upward trend, because under these circumstances, it is the instinct that tells most people, often even against contrasting evidence, that they can be successful as well, therefore facilitating their tendency towards spontaneous and risky purchases and investment decisions. In an ailing economy, in comparison, insufficient confidence rather enforces the symptoms of recession, because it is the instinct that tells people under these circumstances quite the opposite: it may be better to be cautious, to postpone decisions for consumption and investment, even if the facts actually do suggest something else. Attempts to quantitatively measure the influence of confidence on the development of the gross national product are seen by Akerlof and Shiller rather skeptical – most of all, because it proves to be highly difficult to distinguish between information-based expectations (for instance in regard to future incomes) on one hand and "states of confidence" that are actually influenced by mentalities and emotions on the other.

The need for fairness[11]

While the neoclassical theory is not denying the human need for fairness, their models of barter barely consider it. In contrast to this, Akerlof and Shiller point to the particular value of this expression of animal spirits. By the way, one could term "the need for fairness", according to Ernst Fehr, "an aversion to inequality" as well, or describe it even less friendly, as the "hard-to-restrain" temptation for envy.[12] Anyway, Akerlof and Shiller assume "the need for fairness" to relate to a basic aspect of human identity. This need is therefore quite often asserted against economic considerations. People generally strive for recognition as being fair by other people; expecting at the same time "fair play behavior" by others, and feel deep satisfaction, if unfair behavior is socially sanctioned in a negative way.[13] On the basis of sociological theories of barter that go beyond the purely "rational" barter of certain values for their objectively calculable equivalents, Akerlof and Shiller reach an understanding of "fair" barter that includes subjective elements as well. For instance: special expressions of thanks as

[11] Cf. for the following chapter: Akerlof/Shiller, Animal Spirits (German edition), pp. 40-49.

[12] There is a debate currently going on among sociologists on the question if the extension of the redistributing welfare state will lead, as could be expected, towards a deterioration, or to the contrary, even towards stirring up additional feelings of envy within a society? Feelings of envy, so they say, refer as a rule to those persons whom one resembles, for instance, regarding occupation, income level, or the general life situation. See also: Franz Kromka, „Der Neid in der Gesellschaft“ [Envy in the Society], in: FAZ, 26.10.2009. In my opinion, such a debate will lead to nothing if it remains isolated from an examination of the historical developments of social dissimilarities in a society.

[13] Cf. George A. Akerlof/Rachel E. Kranton, Economics and Identity, in: The Quarterly Journal of Economics 115 (2000) 3, pp. 715-753; by the same authors: Identity and Economics of Organizations, in: The Journal of Economic Perspectives 19 (2005) 1, pp. 9-32.

gestures of inferiority if the two parties have a different social status. They illustrate this concept with the example of the job market: Most employees do not only look for a financial reward for their work, but for social reputation and fairness as well.[14] Far more important economically: Being well aware that a sense of fairness stimulates the motivation for work, many employers are willing to pay their employees wages that go beyond the "objective" level of market prices. Therefore, the need for fairness could lead to "voluntary joblessness", in other words: to a digression from full employment which would be attainable by purely "rational" economic criteria. Since nominal wage cuts are almost always seen unfair, and according to Akerlof and Shiller, are therefore avoided, people would rather accept a light, permanent inflation that shifts the effective wages almost unnoticed down the scale.[15]

The temptation to corruption, bad faith and antisocial behavior[16]

Furthermore, Akerlof and Shiller plead not to exclude the darker sides of economic activity – which arise out of the tendency of people to corruption, bad faith and antisocial behavior – from economic models of action as "exceptional cases". It could not be a coincidence that all recessions of the last decades were accompanied by the discovery of serious corruption scandals. Akerlof and Shiller recognize a clear connection between the course of a business cycle and the changes of individual tendencies to actually respect established regulations. While people tend to follow regulations during economic upswings, this respect declines considerably during periods of economic downswing. Regardless of all the differences in detail, business corruption stems from one and the same offence: the well-directed violation of commercial accounting standards – especially widespread is the falsification of the balance sheet.[17] However, Akerlof and Shiller do not offer a real explanation here. They only point out that the tendency to corruption, bad faith and antisocial behavior obviously increases during recession simply because the deterring effects of punishment for commercial crimes diminish. This could possibly be a consequence of the general cultural change during the times of a recession, for instance, the increased consumption of alcohol or the spreading addiction to gambling.

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14 This is described in detail in: Akerlof/Shiller, Animal Spirits (German edition), pp. 144-168. See also: Ernst Fehr/Lorenz Götte/Christian Zehnder, A Behavioral Account of the Labor Market. The Role of Fairness Concerns, University of Zurich, Institute for Empirical Research in Economics, Working Paper No. 394, Zürich 2008. Online at: http://www.iew.uzh.ch/wp/iewwp394.pdf [last visited on 27.10.2009].

15 To determine the exact dosage of inflation and the danger of its side effects is a rather difficult undertaking, especially since one should not assume rational behavior in politics. Cf. Erich Weede, „Rationalität überfordert den Menschen“ [Rationality Overstrains Human Beings], in: FAZ, 25.5.2009.

16 Cf. for the following chapter: Akerlof/Shiller, Animal Spirits (German edition), pp. 50-69. This passage is essentially based on: George A. Akerlof/Paul M. Romer, Looting. The Economic Underworld of Bankruptcy for Profit, in: Brookings Papers on Economic Activity, 2/1993, pp. 1-74

17 On this topic see also the observations of a management consultant and executive pay expert: Graef S. Crystal, In Search of Excess. The Overcompensation of American Executives, New York 1991.

The tendency towards “money illusion”[18]

Akerlof and Shiller criticize furthermore that the phenomenon of “money illusion” is not seen as a factor in common concepts of macroeconomics. “Money illusion” is described by them as the thinking in nominal amounts of money, and the corresponding instinctive underestimation of tendencies of inflation and deflation. While the majority of economists nowadays assume that business decisions are not being made on grounds of nominal amounts of money, but rather on basis of the corresponding “actual” values, Akerlof and Shiller stress the high relevance of the money illusion for economic, decision-based behavior of people. They illustrate this point with some easily comprehensible examples. In decisions about holding or selling of securities, for instance, the nominal amount quite often is not put in connection to changes of real price levels. This basically means: Investment capital in the nominal amount of 50,000 Euro is seen by many people even then as stable in value, if the interest payment falls below the rate of inflation. To give another example: Even during negotiations of employment contracts, thinking in nominal amounts of money comes into effect. There are indeed an astonishingly high number of collective wage agreements being completed without any adjustment to the rising costs of living.[19] Considering the high degree as to which the economy is based on business accounting with nominal amounts, one can actually not assume that the “money illusion” would have no effect on real economic developments.

The inclination towards “storytelling”[20]

Another expression of animal spirits with high economic relevance is seen by Akerlof and Shiller in the inclination of people towards thinking in stories, this means: the creation of consistent sequences of events with inner logic and dynamic. Not least our own biographies – with all their preserved experiences and self-interpretations that come with it – can hardly be overestimated in their relevance for economic behavior. Literary scholars limit the number of reoccurring basic patterns in stories to about twenty – among them “ascension” and “descension”, even “wicked excess” – patterns that serve as outstanding storylines for telling “economic stories”.[21] Economic upswings, as observed by Akerlof and Shiller, are usually accompanied by stories that inspire the confidence of people in the future, however, during times of recession stories of “wicked excess” are obviously increasing. Akerlof and Shiller go so far as to categorize these stories of ascension and descension not merely just as background music, but to attribute to them an enforcing or diminishing effect on the economy, therefore

[18] For the following chapter see: Akerlof/Shiller, Animal Spirits (German edition), pp. 70-83. Here Akerlof und Shiller turn to a book by Irving Fisher that was already published in 1928 and fell into oblivion later. Cf. Irving Fisher, The Money Illusion, New York 1928 (German edition: Die Illusion des Geldes, Berlin 1928).

[19] Their arguments are based on statistical data collections regarding collective wage agreements in Canada between 1976 and 2000. Only 19 percent of these agreements were indexed accordingly – in general without granting a complete adjustment. Cf. Akerlof/Shiller, Animal Spirits (German edition), p. 79.

[20] For the following chapter see: Akerlof/Shiller, Animal Spirits (German edition), pp. 84-92.

[21] Other plots are: quest, adventure, pursuit, rescue, escape, revenge, riddle, rivalry, underdog, temptation, metamorphosis, transformation, maturation, love, forbidden love, sacrifice and discovery. Cf. Ronald B. Tobias, 20 Masterplots (and how to build them), Cincinnati/Ohio 2007.

seeing them as determining factors on the markets. Stories that conjure up a fundamental change, or even the beginning of a new era, are especially effective. Outstanding examples are the stories about the Internet, a technology that had immediate effects on our daily lives. Stories about young people who made a fortune in the Internet with their own business initiatives inspired a boom on the stock markets in the mid-Nineties which in turn triggered the general economic boom.[22] The “Internet story” literally swept the economy in a wave of collective euphoria to unforeseen heights, and finally into the depths of the next recession.

So much for the moment about the basic ideas behind the concept of “animal spirits”. Akerlof and Shiller examine the effects of animal spirits more closely by raising fundamental economic questions. With the instrument of animal spirits, the authors try to solve these questions in a better way than neoclassical economics have been able to until now. Their discussion of the effects of animal spirits on monetary policies of the Federal Banks in this context offers astute and instructive thoughts.[23] However, one could not seriously claim that they already accomplished to put together these basic ideas of animal spirits in a consistent economic theory.[24] It would be more appropriate, in my opinion, to speak of a developing concept that still is in progress. And I suppose, corporate history that opens itself up for questions about economic effects of emotions could be able to offer a valuable help for a further elaboration of such a concept. Therefore, I’m going to take you back now for at least a few minutes to the Fifties and early Sixties to look at West-German major commercial banks and their remarkably intensified efforts to court new private customers in the lower and middle income brackets. When did the banks actually begin to conduct systematic market research in this business area? Which models did they follow, which instruments did they use? What insights about the attitudes of the general population towards commercial banks and payment habits did they gain? What did they bring to light in regards to saving- and investment behavior, and about the needs of consumers and their loan requests? Did the animal spirits, as Akerlof and Shiller try to grasp them, have any effect in it?

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22 Cf. Shiller, Irrational Exuberance.

23 Cf. Akerlof/Shiller, Animal Spirits (German edition), pp. 114-128.

24 They explain convincingly that attempts by the central bank to control the supply of credit by interest rate policies lead by no means always to economically calculated effects. This is so, because the managers of commercial banks are not just guided in their decisions about lending by long-term interest rates and by the actual liquidity available, but are driven by animal spirits as well – in this particular case by a lacking confidence, and the tendency towards money illusion. However, Akerlof and Shiller do not follow up on an exciting question: What effect do the „rational“ interest rate policies of the central bank, and sometimes the partly “irrational” lending policies of commercial banks, have on the connection of inflation and unemployment precisely. Instead, they turn to their next topic: the effect of the desire towards fairness, and the tendency towards money-illusion of employees. This does not form a balanced idea of the subject. See the numerous book reviews, for instance by Hanno Beck, „Demontage der Rationalität“ [The Dismantling of Rationality}, in: FAZ, 23.3.2009; Fabian Lindner, „Akerlofs und Shillers ‚Animal Spirits‘, in: http://blog.zeit.de/herdentrieb/2009/03/23/akerlofs-und-shillers-animal-spirits_747 [last visited on 23.10.2009]

III. The Beginnings of market research activities of West German banks

A shift in the structure of income of the population, that became more and more visible in the second half of the Fifties, was the decisive factor for West German banks to try hard for an extension of their private clientele. In the course of the "economic miracle", the share of the income of wage earners in the national income rose strongly and became a charge to the share of the income from entrepreneurial activities and assets. The private households of wage and salary earners consequently became more and more a factor in the build-up of savings on a national level.[25] In order to secure a long term basis for refinancing the loan business with the sector of trade and commerce, the major commercial banks became dependent on reaching more influence on the accumulation of capital taking place in private households. Therefore, it was logical for them to turn to the broad social levels of earners of wages and salaries, even if these social levels traditionally were not part of their clientele, but rather the usual clientele of the savings banks. To manage the entry into so-called "retail banking" successfully, which did not pass without dispute among executive directors, the major commercial banks tried to get a picture not just of the savings potential of private households, but of their financial needs as well. They were well aware of the distant attitude of the traditional clientele of savings banks towards private banks. If they wanted to win them as permanent depositors of savings, or even more so as buyers of investment certificates, they had to make offers, for instance, in the areas of consumer loans. It was in May of 1959, when the three major West German Banks put this decision into practice by making available for the first time small credits to earners of wages and salaries for individual consumption. This offer was received quite well indeed.

For the West German banks, this new engagement in retail banking was not a fundamental turn in their objectives and business policies. The goals remained oriented towards profitability, liquidity, and the control of risks. But, besides that, the extension and stability of their "market position", a term rarely being used before, gained special attention now. Although it had been the habit of the big commercial banks up to this point to act for private customers only if requested to do so, an active "market policy" seemed to be necessary now. It was not just about winning as many new customers as possible, but tying them on a long term basis to the bank and to convince them of the advantage of additional financial services. This type of modern "marketing", which had previously only been interesting for installment credit institutions, entered the business policies of the three West German big banks from now on. However, it took almost another decade until it became reflected in organizational structures.[26] One of the most important elements of this marketing (besides product design,

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25 Their share increased from 20 percent in 1950 to not less than 51 percent in 1967. Cf. Eckart van Hooven, Wandlungen im Bankgeschäft mit der privaten Kundschaft [Transitions in Banking with the Private Clientele], in: Beiträge zu Wirtschafts- und Währungsfragen und zur Bankengeschichte 12 (1984), pp. 311-324, here p. 311.

26 The Deutsche Bank, for example, established a central „department for market- and sales" at the beginning of 1968, in which all segments of retail banking were combined. Starting in October 1970, it published its

diversity, pricing politics, organization, training, advertising, public relations and general planning) was market research, which had been employed by the banks before, but was never used in a systematic way.[27]

The first customer surveys of the Deutsche Bank, for example, took place in 1958, when they wanted to find out about the social profile of buyers of investment certificates.[28] They were quite surprised about the findings. One of the main surprises: Especially female clients seemed to have quite a potential for future business with "saving through investment certificates" – a result, which almost immediately became reflected in advertising.[29] Although, the banks did not seem to trust women to be able to make decisions based on their own rational considerations. Instead, they tried to attract them – and maybe not the least also their husbands – with the emotional slogan: "Women have a feeling for what is right!"[30] One may assume that we are dealing here with a simple ascription of female intuition, not with a result of profound market research.

Against the background of these first, rather "handmade", and not quite professional customer surveys, one can barely be surprised that the major banks relied entirely on external expertise

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own special customer magazine. Cf. Reinhard Frost, Wünsche werden Wirklichkeit. Die Deutsche Bank und ihr Privatkundengeschäft [When Wishes Become Reality – the Deutsche Bank and its Retail Banking], München 2009, pp. 79, 162/163.

27 Cf. Ulrich Weiss, Marktforschung der Kreditinstitute. Die Erforschung des Marktes der privaten Haushaltungen und ihr Einfluss auf die Verhaltensweise der Institute [Market Research by Credit Banks. The Examination of the Market of Private Households and its Influence on the Behavior of Banks], Berlin 1966; Horst Slevogt, Marketing im Bankgeschäft [Marketing in Banking], in: Franz Schneider (Ed.), Die Finanzen des privaten Haushalts. Festschrift für Walter Kaminsky [The Finance of Private Households. Commemorative Publication for Walter Kaminsky], Frankfurt am Main 1969, especially pp. 190-218. The methods of market research at commercial banks in the U.S. were already more polished: Cf. Association of Reserve City Bankers (Ed.), Marketing Research Activities of Banks, Chicago 1959; H. M. Redhead, Marketing Research in Banking, Chicago 1962.

28 After all, 28,7 percent of „Investa"-buyers were employees (no difference was made between workers and employees, and likewise, between the sexes, followed closely by 24,8 percent housewives (quite a high percentage which had to do, not least of all, with the "act according equal rights to women" of 1957; independent financial transactions were now available to married women; until then, according to formal law, only husbands had the income and private property of their wives at their disposal), followed closely by 14,9 percent business people, and 11,4 percent freelancers; some 7,6 percent of buyers were senior citizens (because of the reform of pensions in 1957, they had a significantly increased income at their disposal, especially when they had worked as salaried employees). The remaining 12,6 percent were categorized as „other " buyers, inclusive of juristic persons. Cf. Martin L. Müller, DWS Investments. Eine Erfolgsgeschichte. 1956-2006 [DWS Investments. A Success Story. 1956-2006], München 2006, p. 60. In greater detail about this topic: Friederike Sattler, „Investmentsparen" – ein früher Durchbruch der Geschäftsbanken zu breiteren Privatkundenkreisen? [Saving by Investment Certificates – an early Breakthrough by Commercial Banks to Broader Levels of Private Clientele], in: Ralf Ahrens/Harald Wixforth (Ed.), Strukturwandel und Internationalisierung im Bankwesen seit den 1950er Jahren [Structural Change and Internationalization in Banking since the Fifties], Stuttgart 2010, pp. 35-70.

29 About the beginnings of advertising by financial institutions in West-Germany and Great Britain cf.: Robert Knothe, Der neue Bankkunde. Eine Untersuchung über die Bemühungen der Kreditbanken in der Bundesrepublik Deutschland und in England um den „Kleinen Mann" [The New Bank Customer. A Study on the Efforts of Credit Banks for the "Ordinary Man" in the Federal Republic of Germany and England], Diss., Mainz 1965, pp. 106-118, 200-214.

30 See the advertisement of DWS Investments in 1959: "Frauen haben ein Gefühl dafür, was richtig ist!" [Women have a feeling for what is right!], printed in: Frost, Wünsche werden Wirklichkeit, p. 164.

when they needed diversified surveys. In 1959, the commercial banks that were organized in the Federal Association of Private Banking commissioned the "Gesellschaft für Industrie-Publizität" (Society for Industrial Publicity) in Düsseldorf with an analysis of the attitudes and behavior of the "new bank customer" and ask for recommendations for their well-directed "manipulation".[31] This study uncovered that almost 40 percent of male and more than 50 percent of female interviewees from the well-to-do middle class, who had not had any account at one of the major commercial banks so far, had "completely wrong ideas" about terms like: checks, foreign currencies, securities and bonds, stocks, mortgages, bills of exchange and interest rates.[32] This ignorance combined quite often with the fear of making a fool of oneself in a personal conversation with a bank employee. "There was this guy at the counter, and he talked for half an hour about missionary rates or something like it – but quite honestly – I didn't understand a single word and surely didn't dare asking silly questions. So, I never went again." This, for example, was one candid answer of a test person.[33]

Even more alarming for the banks: large sections of the West German population did not only exhibit ignorance and a certain fear of contact, but many people assumed quite an ambivalent, if not altogether indifferent, or basically disapproving mental attitude towards the major commercial banks. This negative attitude wasn't even based on personally negative, or so to speak, "rationally" assimilated experiences. Actually, they were deeply rooted in the emotionally charged traditions of certain social milieus. Additionally, some ideological, especially hostile slogans towards commercial banks from the Nazi-Period, like the expression "Zinsknechtschaft" (interest serfdom), were obviously still effective after all.[34] While fewer than 20 percent of the male interviewees showed a "positive" attitude towards the banks, about 30 percent were "ambivalent" and another 18 percent "indifferent", whereas

[31] Cf. Gesellschaft für Industrie-Publizität mbh (GIP), Der neue Bankkunde – Eine Untersuchung über seine Einstellung und Verhaltensweise und Empfehlungen für seine Beeinflussung [The New Bank Customer – A Study about his Attitudes and Behavior, and Recommendations for his Manipulation], Düsseldorf 1959 (in the following quoted as: GIP, Der neue Bankkunde, 1959). Results of this non-representative survey were never published in full, however they became part of: Knothe, Der neue Bankkunde, 1965; idem, Der neue Bankkunde. Wie bemühen sich die Kreditbanken um den „Kleinen Mann"? [The New Bank Customer. How do Credit Banks Court the "Ordinary Man"], Wiesbaden 1967. The "Institut für Demoskopie" [Institut for Public Opinion Research] in Allensbach, the "Forschungsstelle für empirische Sozialökonomik" [Research Center for Empirical Social Economics] in Köln and the "DIVO-Institut für Wirtschaftsforschung, Sozialforschung und angewandte Mathematik" [DIVO-Institute for Economic Research, Social Research and Applied Mathematics] in Frankfurt am Main were commissioned to do surveys, too. Cf., for instance: Institut für Demoskopie, Erhebung zur „Einstellung der westdeutschen Bevölkerung zu den Banken" [Survey on „Attitudes of the West German Population towards Commercial Banks], Allensbach 1955; Forschungsstelle für empirische Sozialökonomik, Sozialökonomische Analyse des Wertpapiersparens in der Bundesrepublik [Socio-economical Analysis of Saving through Securities in the Federal Republic of Germany], Köln 1960; DIVO-Institut für Wirtschaftsforschung, Sozialforschung und angewandte Mathematik GmbH, Wertpapiere im Blick des Wirtschaftsbürgers – Untersuchungen über die Einstellung zu Wertpapieren und über den Wertpapierbesitz [Securities in the View of the Economically Mature Citizen – A Study about Attitudes towards Securities and Security Portfolios], Frankfurt am Main 1962.

[32] GIP, Der neue Bankkunde, 1959, pp. 18/19 (quoted from Knothe, Der neue Bankkunde, 1965, p. 52).

[33] Ibidem.

[34] Knothe, Der neue Bankkunde, 1965, p. 55.

more than 32 percent exhibited a clearly "negative" attitude.[35] In other words: The banks were confronted with the problem that only one fifth of their potential new male customers (and only 5 percent of female customers!) summoned up the necessary confidence for entering business relations. The need for mutual confidence, as expressed by Akerlof and Shiller, was strongly present as a problem – simply because it was literally non-existent.[36] However, one statement of the study seemed to offer some consolation: Despite all of the "rational and emotional reasons for rejection", almost all of the interviewees expressed a "longing" for "having a bank account as a symbol of an optimal social prestige".[37]

In conclusion: The "Society for Industrial Publicity" recommended the private commercial banks to carry out an educational campaign about the "nature and functions of credit banks" as broad as possible.[38] In order to dispel any prejudices and to gain the essential and necessary trust, the banks should become much more "publicity friendly" by informing factually about their own range of services.[39] Behind all these recommendations we can identify quite obviously the expectation to promote the inclination towards rational considerations and decision-making of potential customers by providing them with more factual information. In other words: although animal spirits were seen as existent, it seemed to be possible to influence them, and in to long run, even remove them permanently.[40]

Since 1960 the three major West German banks expanded their services in the area of retail banking quite quickly – despite all persistent ignorance, ambivalence and disapproval. There is one crucial driving force behind this development: For reasons of rationalization, West German employers were more and more refusing to make cash payments on wages and salaries. Instead, they asked the banks to offer wages and salary accounts without interest and bank charges for account holders. It was the employers who paid the costs. Because the banks

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35 GIP, Der neue Bankkunde 1959, pp. 21/22 (quoted from Knothe, Der neue Bankkunde, 1965, p. 57).

36 Cf. L. Mellinger, Vertrauen gegen Vertrauen [Trust for Trust], in: Zeitschrift für das gesamte Kreditwesen (1958), Heft 19.

37 GIP, Der neue Bankkunde, 1959, p. 49 (quoted from Knothe, Der neue Bankkunde, 1965, pp. 61/62). There was more than one third of a total of 18 million West-German households that had no current account agreement with any bank at that time. Cf. Forschungsstelle für Empirische Sozialökonomik in Cooperation with the DIVO-Institut für Wirtschaftsforschung, Studie: „Umgang mit Geld". [Study: Handling Money] Representative survey in West Germany and Berlin (West), sine loco, autumn of 1959, Table A 8 (quoted from: Knothe, Der neue Bankkunde, 1965, p. 67). For an evaluation of the prestige value of different forms of financial investments: Johann Christoph Leverkus, Das Verhalten der Kleinaktionäre in seiner Bedeutung für die Eigentumspolitik [The Behavior of Minor Shareholders in its Relevance for the Politics of Property], Berlin 1969, pp. 140-144.

38 Knothe, Der neue Bankkunde, 1965, p. 54. This recommendation ran contrary to the traditional corporate culture of the major commercial banks which were very much concerned with discretion. Corresponding to this attitude, the discussion about demands for more publicity in the Fifties was rather guarded. Cf. Müssen Banken schweigen? [Do Banks Have to Remain Silent?] in: Gabler-Mitteilungen (1954) 3.

39 Knothe, Der neue Bankkunde, 1965, p. 201.

40 Characteristic of this expectation: The Federal Association of Private Banking strongly focused its educational work regarding the responsibilities of banks in the Fifties and Sixties on schools. The quality of educational materials was generally ranked by teachers „very good". Cf. Knothe, Der neue Bankkunde, 1965, p. 208.

recognized in this basic service a kind of "hub" for communicating further services, they did not refuse.[41] Although setting up an accounts management for millions of additional private customers came with enormous challenges for the internal work organization and carried a tall price tag, it brought the major commercial banks the actual breakthrough to more and more groups of private customers. And these customers became subsequently not just convinced by the advantages of standing orders, the Eurocheque, and personal overdraft facilities, they also were building up the necessary confidence to transfer their savings to the commercial banks. The calculation of the banks to win an additional source for refinancing the general loan business by retail banking seemed to have worked out well indeed.

But the savings did not grow as fast as banks had expected they would. Therefore, quite soon the banks were wondering if this possibly would change once they raised interest on savings. Would it be worthwhile to argue for a change of the interest on credit rate agreements in the credit business?[42] Would the new bank customer act like a good *homo economicus*, and intensify his or her savings efforts, because of higher interest on savings? Would he or she convert money from other purposes to the commercial bank? An intense debate ensued among experts on the issue of "sensitivity towards interest rates". The banks tried to find out the facts by consulting the expert Günter Schmölders who had established a special "Research Center for Empirical Social Economics" [Forschungsstelle für empirische Sozialökonomik] at the University of Cologne. The scientists at this institute had begun interdisciplinary research on economic behavior with recourse to psychology, social psychology and sociology.[43]

The enquiry of Schmölders and his team came up with the insight that a "sensitivity towards interest rates" could not be determined with most savers at all.[44] Simply because, this was the surprising result, they didn't even know about the level of interest on their own savings. Their decisions for a savings book and the amount of deposits didn't have much to do with the interest offered, but were rather dependent on the traditions and habits in their own families. Thinking of Akerlof and Shiller, one could see here as a reason for this deep-rooted behavior an inclination for thinking in stories, that is family stories in this case. Schmölders determined the decisive factors for savings behavior not to be the level of income, the expenses to maintain the living standard, or aspects of age, but rather firstly the educational level,

41 Van Hooven, Wandlungen im Bankgeschäft, p. 312.

42 Such a change could not have been used to the disadvantage of competitors. However, it could have had effects on the national income savings ratio of the population in general, or on other ways of saving, for instance, on saving by securities.

43 Established in 1960, the "Zentralarchiv für empirische Sozialforschung" [Central Archive for Empirical Social Research], is still the most important German language archive for opinion poll data in Europe.

44 Results of this survey were published in: Günter Schmölders, Die sogenannte „Zinsempfindlichkeit" des Sparers [The so-called Sensitivity towards Interest Rates by the Saving Public] in: Zeitschrift für das gesamte Kreditwesen (1961) 15. Schmölders resumed his examinations and developed it further in: idem, Der Umgang mit Geld im privaten Haushalt [Handling Money in Private Households], Berlin 1969, pp. 140-147. Cf. also: Bernhard Wissmann, Die Zinsempfindlichkeit der deutschen Sparer [Sensitivity towards Interest Rates by the Saving Public in Germany], Berlin 1960.

secondly the individual attitudes towards life, and thirdly the mentality of the social group people belonged to. Furthermore, the purpose of saving was of importance. A certain sensitivity towards interest rates was recognizable with long-term provisional saving and property saving only, but not with consumption related saving.

These findings of market scouting suggested keeping the interest on savings for the time being at existing levels. Additional customers among the employees with growing incomes could be better attracted with new products. The consumer credit business was just the right thing for this purpose, because it enjoyed a rapidly growing popularity, as the banks had observed – and besides, it was much more profitable than the business with wages and salary accounts.[45] One of the most important conclusions of the early market research activities of West German banks, mainly done with the help of external experts, was simply this: Banks ought to make it as easy as possible for employees to get the credit they want.[46] Well, as we know today, they were quite successful with that.

Handling money has strikingly changed under the influence of banks, savings banks and insurance companies among the German population in the second half of the 20th century: Thriftiness was still considered a primary objective in the early Fifties; indebtedness continued to be a taboo subject for many people. However, borrowing for consumption and improved enjoyment of life nowadays has become normality.

IV. Conclusion

Following up on the initial question of how the basic ideas of animal spirits can be used creatively for corporate history that reaches beyond the corporation itself, let me say this much: The examination of the early market research by major West German banks, which focused on a new group of private customers with their different family backgrounds, has shown that these ideas can indeed be used in a meaningful way for an interpretation. However, it must be considered that the additional insight corporate and economic historians can gain from this has its limits. Market research in the late Fifties and early Sixties, that brought together practitioners from the major banks, commercial market research institutes and academic behavioral scientist significantly influenced by Günter Schmölders, was well aware of the importance of emotional, spiritual, and psychological factors for the economic decision-making of the “new bank customers”. The animal spirits’-approach can certainly be

45 Cf. Britta Stücker, Konsum auf Kredit in der Bundesrepublik [Consumption on Credit], in: Jahrbuch für Wirtschaftsgeschichte 2007/2, pp. 63-88. Apart from personal loans, which were offered since 1959, the Deutsche Bank provided as early as 1962 so-called “personal purchase loans” for long-lasting consumer goods. Personal overdraft facilities, building loans and mortgage loans were added in 1968. Cf. Van Hooven, Wandlungen im Bankgeschäft, p. 313. About the Profitability of Retail Banking: ibidem, p. 316.

46 Slevogt, Marketing, p. 217.

helpful to save and secure this already existing knowledge, and maybe even interpret it with greater differentiation in the context of business studies.

More exciting, in my opinion, is another question: Will corporate and economic history, that asks for economic effects of emotions, possibly be able to bring forward new food for thought for the development of a consistent concept of animal spirits? The plea by Akerlof and Shiller – to sum it up briefly – consists in its core in the attempt to expand the *homo economicus* model by the ideas of animal spirits in order to make its fundamental assumption about economic decision-making and behavior more "realistic". But, from a perspective of corporate and economic history, does it make sense to argue endlessly about improving the "reality content" of the supposedly universal model of *homo economicus?* I do not think so. As a historian I am convinced that the issue lies in understanding the model itself to be a historical phenomenon that has changed and that will continue to change over time.

Let me explain this argument. If one considers, as recommended by Werner Plumpe, that the model of *homo economicus* came about during the transition from the old-European to the modern economy, this process of open historical change can be understood in a better way.[47] The process can be understood as a co-evolution of, firstly: semantics, a culturally dependent attribution of meaning (especially with the focus on human self-interest that is no longer seen as entirely reprehensible, but rather considered more and more useful for the community); secondly: social institutions with their rules for the mutual formation of expectations by individuals, and, thirdly: as daily practices, that is: the actual behavior, which can deviate significantly from these rules from time to time. The multi-functionality of the model of *homo economicus* becomes evident in this view: It can claim – and often quite convincingly – to be an empirical statement, while serving at the same time as a behavioral norm; and furthermore, it functions as an axiom for the theory formation within the emerging modern economy. (Considered to be a social system, the emerging modern economy begins to develop means for its own self-observation as an independent social sphere). However, the model of *homo economicus* is not static in all these functions. It is not so much the anthropological constant of "human self-interest", but rather the changing contemporary "rational" fencing of it, which constitutes the essence of the *homo economicus* model. As our own little case study demonstrates: During the early Fifties it was still very "rational" to be thrifty, while during the Eighties it was obviously more "rational" for many people to borrow for consumption and

[47] Cf. Werner Plumpe, Die Geburt des „Homo oeconomicus". Historische Überlegungen zur Entstehung und Bedeutung des Handlungsmodells der modernen Wirtschaft [The Birth of „Homo economicus". Historical Reflections on Formation and Relevance of the Behavioral Model of Modern Economy], in: Wolfgang Reinhard/Justin Stagl (Ed.), Menschen und Märkte. Studien zur historischen Wirtschaftsanthropologie [People and Markets. Studies on Historical Economic Anthropology], Köln 2007, pp. 319-352; idem, Ökonomisches Denken und wirtschaftliche Entwicklung. Zum Zusammenhang von Wirtschaftsgeschichte und historischer Semantik der Ökonomie [Economical Thinking and Economic Development. The Connection between Economic History and Historical Semantics of the Economy], in: Jahrbuch für Wirtschaftsgeschichte 2009/1, pp. 27-52.

improved enjoyment of life. But in contrast to anthropological constants, rational criteria are expandable by historically evolving emotional and psychological factors – as well in the context of empirical descriptions, as in the context of behavioral norms and theoretical axioms – although they are not necessarily mathematical computable.

To put a long story short: In order to understand "how human psychology drives the economy", in my opinion, one should direct the focus on to the historical changes of rationality criteria, that are composed to a great extend of emotional and psychological factors.

Dr. Friederike Sattler
Historische Kommission bei der Bayerischen Akademie der Wissenschaften
Alfons-Goppel-Straße 11
D – 80539 München
Friederike.Sattler@hk.badw.de

Comments are highly welcome!