

New Year Newsletter 2004

Dear friends and colleagues of *iff*,
Ladies and gentlemen

After 15 years of *iff* we wish you – and, of course, ourselves as well – courage and self-confidence for 2004, so that we can all work together towards re-structuring the economy and society on a sustainable basis in order to secure our long-term future.

1. If we want to be courageous and capable of taking action, we have to overcome our fear. According to FORSA, 74% of the German population consider that economic opportunities in 2004 are falling; according to NFO-Infratest, only 21% think an upturn is likely; the majority (70%) expects unemployment to grow and 88% have less confidence in the welfare state than previously.

We should remember the fate of the Minoans 3,500 years ago. By 1450 B.C., their sophisticated culture had disappeared from Crete. A 200-year old decline had taken hold. As a result of the eruption of the Santorini volcano in 1645 B.C., the lava scattered in the area made the sea impossible to navigate and changed the prevailing religious outlook. Visionary reverence for beauty and perfection changed into superstition. Fear, pessimism and fatalism robbed this great trading people of the ability to find alternatives which could have prevented their economic, and then their ethnic, destruction.

Ideologies based on fear are not strangers to us nowadays. The film and computer industries, with their thrillers, horror films, terminators (now elected Governor), aliens and monsters have prescribed fear, for the young in particular, as a habit-forming stimulant, and our news bulletins report daily on the threat of terrorism. Levels of alert or preventative wars are declared, fear of attack is the subject of our daily prayers, the material for which is provided by "the secret services, led by the Americans...with perhaps far too little scrutiny" (Marianne Quoirin in Kölner Stadt Anzeiger, 2.1.04 p.3, "Zwischen Panik und Verharmlosung" – "Between Panic and Downplay").

The pervasive fear of the double-headed monster of terrorism deflects attention from true threats – global warming, destruction of the environment, an ageing population, Aids, poverty, obesity, depravity, cultural mono-culture. An ongoing tale of a sense of powerlessness begins, hijacking the courage to do what can be done into the world of virtual reality.

Is this really necessary? Avid publicity of an individual incident is taken as proof of everything, and where there is an absence of news, preventative attacks, bulldozers, degrading treatment, even targeted preventative assassination of opponents fill the gap. In Latin America, dominated by North America, in a Europe occupied by the National Socialists, in Northern Ireland and Kenya under British occupation, in Algeria under French occupation, in the Spanish-dominated Basque region and in Italian Southern Tyrol there have been many more bomb attacks. Whether they are now called terrorists, resistance, freedom fighters, revolutionaries, guerrillas or religious warriors – they all set off bombs, just as the bomber pilots under the command of legitimised armed forces of every nation have done. Did fear of them in the past ever generate plans for the future? An American president who, at a time of crisis wanders through the USA in an aeroplane, hidden from his public out of fear, who reads his declaration of victory on an aircraft carrier or only publishes it belatedly, who surfaces at Christmas for two hours incognito in an Iraq under siege, personifies the image of fear governing the world. It then even seems courageous when he professes that he still eats beef after a single case of BSE.

"Fear", so the saying goes, "is not a good teacher." "Fear Eats the Soul" was the title used by Rainer Werner Fassbinder. Fear "cripples" people, depriving the "rabbit caught in the headlights" of its ability to flee. Courage is the only freedom from fear, not freedom from people, things and opinions attributed with fear-inducing characteristics, not subjection to the powerful. Freedom to, not

freedom from, is what creates vision, which in turn can generate courage, and for which it is worth coming forward and getting involved. The fear of dangers which can apparently only be resolved by others through the use of overwhelming force is the breeding ground for authoritarian ideologies and a licence for oppression.

2. Fear needs a breeding-ground of insecurity and powerlessness. Money has provided us with wonderful opportunities for security by enabling us to spread risk and ensuring that anyone who possesses it, irrespective of class, origin and sex, has an equal opportunity to acquire anything. It also, however, generates fear where it alienates us from danger, and creates risk through financial services, jeopardising social security through usury and discrimination and elevating the short-term to a general principle.

a) Modern threats are presented in terms of profit and growth rates in a form which is impossible for individuals to overcome. Instead of being like the medieval seven deadly sins of Evagrius von Pontus, painted so graphically by Pieter Brueghel ("gluttony, lust, greed, sorrow, anger, sloth, vanity and pride") and using methods for dealing with crisis which are immediate in nature and can be related to individual responsibility, we are supposed to spend, to squander, to exclude others, to take out loans and boost the economy, only to continue to fall short of or exceed magical statistical thresholds.

Estimates of population, deficits, household budgets, taxes and income are presented to us, making us stare like rabbits at the "Richter-scale" earthquakes in the economy, converting human creations into natural catastrophes. The dance around the Maastricht 3% deficit criterion, the "psychologically significant" thousand thresholds of the DAX and Dow Jones indices, the black hole in balance-sheets, the 15% return on banks' own capital, the 8% own capital fund of Basle II, the magical 20% contribution threshold for pension policies in Germany or the €1.30 to the dollar exchange rate, not to mention the "healthy growth rate" of 3% are sacred cows for us all and have diverted attention away from distortions in the economy over the last twenty years. Their rationality is derived from profit-orientated production which, while acting as a model for everything, is not everything in itself. Of the estimated 723 billion hours of free time available to Germans each year, a mere 3% is spent in the sphere whose objective is the pure profit-principle of shareholder value. We only spend a total of 7% of our time working for money; sleeping alone takes up 30%. Collectively we spend most of our time in consuming or education (34%), culture, food, housekeeping, communication and keeping or becoming healthy, and this is viewed as unproductive consumption, even though it is work. Whereas one element of business management studies is taken up with pondering the system of initiative and how we can work more creatively, co-operatively and economically, another element is dedicated to marketing and the task of making consumers increasingly stupid, egoistical and wasteful. Behind the veil of money, both seem to serve the same objective.

In the form of a Utopia of productive, collective and thus economic forms of consumption, which could take shape through research and "consumer enterprises" supported by the State, we have highlighted new ways for people to act as enterprising consumers and retain an element of control over the exploitation of their own labour power. Financial services play a central role in this Utopia. As well as consumer protection on the demand side, (protection of freedom of choice through provision of information to consumers) and protection of investors (protection of real income through social consumer protection), protection of the process of consumption itself (collective consumer protection) comes into play. "Selbsthilfe für die Hilflosen"¹ – ("Self-help for the helpless").

If we want to promote life, we cannot restrict ourselves to optimising the 3% of collective lifetime we mentioned above, and nurture it with capital, which we seek to use as a model, whose managers have the requisite power and determine our reform commissions, even though the head of government "clearly relies primarily on the advice of managers of German blue chip companies...in relation to the economy." ("Kanzler holt Rat bei Managern" ("Chancellor takes managers' advice"), Süddeutsche Zeitung, 9.1.04. p.5) We also need to channel money to places where it is "useful". Diverting money flows, depicted as streams of water in the graphics illustrating iff publications, is a task requiring imagination and technical know-how.

¹ http://www.money-advice.net/admin/media.php/file/media/762/Selbsthilfe_durch_die_Hilflosen_Bonn_2003.pdf

b) A large part of the general loss of a sense of security has been caused by the abrupt shift of pensions to private sector financial services, which in turn expect consumers to tolerate increasing insecurity.

Is the withdrawal of subsidies and social insurance provision the source of insecurity in work, health, culture and education? That is not inevitable. People greatest confidence lies in themselves. When they take care of themselves and take responsibility for their own problems, they feel more secure about their expectations, more involved and more capable of making decisions. Achieving something themselves gives rise to the courage to act, while dependence on welfare in the long term creates timidity and paralysis. That is why, as we argued in our report for the Bertelsmann foundation, private retirement provision is not, in itself, the problem. The same applies to contributions to healthcare, student loans, private finance for culture and education, none of which are, in themselves, the causes of insecurity. Children are afraid of going into the cellar, but only when they are alone. Consumers are made to feel insecure when they are isolated by Me plc, the Singles lifestyle, and individual responsibility, while public systems, which are at least based on a form of solidarity, are dismantled before adequate private solidarity-based schemes are available and operational. iff's SALIS financial services concept, in which we have added access and solidarity to the trio of security, liquidity and profitability, attempts to provide a fresh evaluation of retirement provision and credit, as well as financial education, and to extend them. Practice is making strenuous efforts, as the financial literacy project undertaken with Commerzbank made clear, to incorporate this aspect as well.

For people who are simply aware that they cannot do everything on their own, because it is just too much, their resources are too limited or the event for which they need to provide arises too soon, security of expectations simply means the secure expectation of material insecurity. Individual responsibility must therefore go hand in hand with individual capacity.

A society which provides no guarantees of work or training can only adopt the principle of individual responsibility on a cynical basis. For that reason, the lecture on the future of consumer protection at the Agenda 21 event organised by the Nord-Rhein Westfalen Social Democratic Party was given the provocative title of "Selbsthilfe für die Hilflosen" ("Self-help for the Helpless"). The Social Democrats, which give themselves a modernising profile every 40 or 50 years or so (1923, 1973 and 2003), leaving vision to conservatives or Communists, need to acquire for itself those very concepts that go beyond the dismantling of subsidies, tax chaos, bureaucracy, etc and for which it is worthwhile fighting, otherwise not only do they lose their party members and young people, they also fail to obtain recognition for what they do achieve. For that reason, the lecture was not an appeal for the return of the traditional welfare state. Self-help systems require intelligent forms of finance and mechanisms for managing capital. iff has proposed products and forms of marketing such as the collective current account, property-based pensions that are fair to the different generations, the "shard home ownership fund for tenants", the group insurance for consumer loans, micro-lending principles, its virtual small business centre and the community bank branch model ("*BankLocal*"). These ideas could be put into practice and tested. Banks fear a return to thrift and collective self-help on the part of their customers because, while they do not threaten their profit levels, they do undermine their profit margins. Fewer customers giving them a greater return seems still to be their current objective.

As well as taking advantage of the constructive opportunities presented by new financial services, there is a need to take control of failed schemes. The economy is creating increasing insecurity for consumers. The primary historic purpose of the concentration of capital was, as well as increasing productivity, to create the capacity socially to absorb risks of individual misfortune or of the failure of major investments. The development of insurance was merely the most visible expression of that process. Banks also act as insurers when they enter into credit agreements, guarantee interest rates and spread rates of default across the board. Their current operating principle, however, is to outsource risks to consumers.

With the substitution of savings through investment in shares and bonds quoted on the stock market, closed real estate funds, investment certificates and the misuse, supported by Government, of fictitious, unregulated holdings in retirement schemes, as well as the habituation of the public to purely risk-based instruments with no savings component, consumers now bear the uncertainties of an economic order that others can control and exploit. Insurers are encouraged to give up the guaranteed savings element contained in capital life insurance. ("The risk falls almost entirely on shareholders" dpa-AFX, 2.1.2003) The future thus lies in asset-backed securities, dominated by the USA market, in which consumers can buy the risk of losses involved in credit transactions as a pen-

sion investment. Telecom shares were available for the redistribution of capital from small savers to institutional investors in the crisis in the capital markets we have just overcome (when the stock exchange crashes, according to Kostolany, nothing is lost, it merely re-appears somewhere else owned by someone else). When we and the Bavarian TV applied our pension test, banks did not offer subsidised secure individual pension schemes based on savings at all or advised strongly against them and favoured more risky investments. The collapse of ENRON in the USA demonstrated the risks involved in company retirement schemes. Credit transactions present the same picture. The move from credit at a fixed interest rate, leaving the risk of interest rate changes at the door of the banks, to variable interest rates, which place the burden on the shoulders of consumers, from fixed credit agreements with a guarantee of capital amortisation (instalment and mortgage loans) to overdraft and credit card borrowing with a right to cancel at any time, has made consumers into the main insurers for increasingly speculative capital investments. Wherever consumers, whose income only just covers their cost of living, are not in a position to carry those risks, they pay for the losses with their standard of living or the future of their children.

Traditional legal protection against that type of risk transfer is not only being phased out in relation to speculation or investment regulations. The *Bundesgerichtshof* (German Supreme Court) is seeking to use incomprehensible arguments already criticised by the European Court in order to leave consumers carrying the risk of 100% finance for "junk housing" from the former Bayern Hyp insurance company. The judges fear that, by providing more protection for investors, they could endanger the economy, which they unfortunately consider to consist only of companies implementing the 3% model.

In 2003, we attempted, through our reports and newsletters, to develop feasible solutions for this grey market which, while not causing chaos in the short-term, offer more security to the investment markets in the long-term. A notary, who certifies a real estate purchase subject to a 100% loan in a consumer's home at three in the morning together with the declaration made on his behalf by a representative who is paid a commission and is cheating him, does not need the statutory exception of the right of revocation which the German parliament recently offered them for their business. Nor does a bank, which uses the notary's services in this way, need the protection of the *Bundesgerichtshof*. (see our contribution on the subject in the *Handbuch zum Deutschen und Europäischen Bankrecht* (Handbook of German and European Banking Law), Springer Berlin 2004, pp. 317f, margin nos. 187f)

c) A further component of increasing insecurity is the **weakening of consumers as a result of overindebtedness** and long-term agreements. What was only allowed to a limited degree and was viewed as disreputable 15 years ago in terms of irresponsible self-interest is now permissible and legitimised by success.

In his novel *Crime and Punishment*, Dostoyevsky offers an implied commentary on the often-quoted passage in Adam Smith's *Wealth of Nations* of 1776 about the advancement of the common good through self-interest and the redundancy of the view that "we depend on the goodwill of butchers, brewers and bakers for our sustenance". Pyotr Petrovich explains:

"If, for example, someone said to me, "Love thy neighbour", and I did so – what would happen as a result? What would happen is that I would tear my coat in half and share it with my neighbour, and we would both go half-naked like the Russian proverb, "A man who hunts for several hares at once won't catch a single one." Experience, however, tells us "Love yourself first of all, because everything in the world is based on self-interest." If you love yourself, you will sort out your own affairs first of all and the coat will stay intact. The laws of the economy add that the more private relationships in society remain on a proper footing and the more coats remain in one piece, the more solid will be the basis for furthering the common good. So, by acting for myself alone, I act for all, thereby contributing to general progress so that my neighbour will receive more than half a coat, and not simply as the charity of private individuals. The concept is simple, but unfortunately it cannot take effect because it is the victim of over-zealousness and over-enthusiasm in its application and you are forced to the conclusion that you don't need much wit to come to that view..." Two pages further on, the conversation continues (p.206), in which the still unrecognised thief and murderer Raskolnikov participates. Dostoyevsky begins with a simple case of forgery, narrated by Rasumichin: "What would he say to your professor in Moscow about why he forged the notes? 'Everyone was getting rich through all sorts of means, so I wanted to get rich quickly as well.' That was his answer! I don't remember the exact words, but he what he meant was that he wanted to get rich at the expense of others, to do it quickly and without having to work!" Then Petrovich, whose words were quoted earlier, interjected indignantly, "But then, where does that leave morality?..." to which the murderer Raskolnikov replied, "Well, what do you expect? That falls in perfectly with your theory! If you accept the consequences of what you preach, the result is that people should be allowed to kill each other...!"

Statistics as to success do not make success legitimate, they simply measure it. That point is illustrated by **Citibank**, a bank currently so applauded by German bankers and politicians, which has completely subordinated social consequences to success, meanwhile becoming a candidate for rescuing the profitability of German private banks and taking them over, while it is allowed to generate and externalise enormous social costs throughout the world.

There is also a sociological perspective – Citibank’s system destroys social structures and families. David Caplovitz, possibly the most important researcher into over-indebtedness in the USA, emphasised this repeatedly prior to his death in 1992. “There are many banks guilty of the improvident extension of credit, but based on my experience, the worst offender is the bank that also played a major role in Professor Udo Reifner’s book on instalment credit (he was referring to the project report “*Ratenkredite für Konsumenten*” published in 1976): Citibank shows up over and over again among the debtors who file for bankruptcy through BUCCS (The largest New York Money Advice Centre, for which Caplovitz worked as a bankruptcy lawyer shortly before his death, having undertaken his law studies as a mature student. U.R.) I have numerous examples that I might cite. One young man in his twenties has an income of \$25.000. He was able to obtain five different lines of credit from Citibank, a Mastercard, a Visa card, a Preferred Mastercard, a Preferred Visa and Ready Credit. His total debt to Citibank is almost \$15.000 ... In the law suit I hope some day to bring about, I will sue the bank for a range of damages that bankrupt debtors have suffered. These include the humiliation of going into bankruptcy, and the mental suffering as a result of the harsh collection tactics employed by the debt collection agencies. ... Because of their debt problems, many debtors have their marriages break up.” (Caplovitz, *Credit Card Mania in America*, in Reifner/Ford, *Banking for People*, Berlin/New York 1992 pp. 119f. 123). BUCCS now enters into standard agreements with Citibank and receives a percentage of the dollars recovered. Michael Hudson has recently carried out research in the USA for Southern Exposure 31.2 (Summer 2003) entitled “*Banking on Misery*”, which looked at the activities of Citibank in poverty markets on the basis of interviews over a period of seven months. He quotes a lawyer who represented hundreds of Citibank borrowers. “They live behind a veil at the expense of the weakest members of society.” Citibank is, he said, “a model of financial apartheid”, “a business which cuts back loans to less well-off consumers in order then to make profits from providing more expensive alternatives. ... On average, these borrowers paid \$327 a month more than they would have done using a regular bank.” Through their flagship for the poor in the USA, Citifinancial, they service 4.3 million customers through 1,600 branches in 48 states.” In 2000, ¾ of its secured loans were made to this segment. Its tactics include “stuffing naive consumers with insurance policies”. Loretta and Danny Jones of Knoxville would have had to pay \$7.242 in insurance premiums for a secured loan of \$34.075. The penalty of \$240 million, imposed on Citibank by the Federal Trade Commission² because of its practices in this market segment did nothing to change its behaviour because it represented only two weeks’ profit for this bank. (cf. also Handelsblatt, 6.6.2001: “*Geschäfte mit den Armen*” - “Deals with the Poor”).

The American consumer lawyer, Ralph Nader, who defeated General Motors, has tried and failed to use a consumer policy perspective to address this. In his all too cautious book³ written as long as 30 years ago, he referred to the data collected by professor Caplovitz in his second study on Debtors in Default. He took action without success against the ability of this bank to exercise unified and consistent power against outsiders. The successful class action supported by iff in the 1980s against Citibank’s then subsidiary KKB in relation to indebtedness through refinancing chain-lending has had as little effect as the complaints of usury affecting a large part of instalment loans made in the 1970s (the consumer centre in Nord-Rhein Westfalen sued by Citibank failed because of incorrect information about a date). Similarly, the excessive interest imposed on arrears, which they used to make irrecoverable debt mountains sky high and which the courts and legislators finally restricted, were only an attempt and not a goal. Their profit strategies remained so flexible and so focused that, at the end of the 1970s, when interest rates were low, they rescheduled debts using top-up loans in order to maintain the higher levels of interest already owed by consumers, but when interest rates then rose, they instead imposed global re-scheduling on consumers, who followed like lemmings, so that the earlier loans could then be based on the new, higher rates. Their cross-selling potential, praised by the specialist press, made them a gift of a surplus in com-

² <http://www.money-advice.de/view.php?id=31186>

³ <http://www.allbookstores.com/book/0670223549>

missions of €85 million on insurance covering the debt balance in Germany, which was achieved selling pointless services, sold at horrendous prices in comparison with independent term life insurance, at ever-increasing cost to the consumer, although the risk covered is overwhelmingly a risk to the bank and not to the interests of the consumer (see, for example, "Schöngerechnet und systematisch überschuldet" ("Neatly calculated and systematically overindebted") *Süddeutsche Zeitung*, 19.12.2003. ; *Frankfurter Allgemeine Zeitung*, 9.4.03, 46 "Die Kredite von Frau Licci" ("Frau Licci's loans") and the television programmes for which we did the calculations). The obligation to pay premiums in advance guarantees additional loan volumes and, in cases of early settlement, a reduction using the buy-back value method, to the detriment of the borrower. They thus take advantage of a loop-hole in judgments on extortionate credit, which only regulates interest paid direct to the bank and not the total sum payable by the consumer for the loan. With the approval of the regulators, only half of the costs are therefore shown. The EU Commission, which we are supporting in this area with our alternative draft on behalf of European consumer organisations, is presently attempting to close the loop-hole at least in relation to disclosure of the cost of credit. It is, however, being defeated in this by the European Parliament, whose version is remarkably close to that of the banks. Through their incitements to indebtedness, Citibank drives its customers into credit chains, in which old insurance policies, frequently pre-paid at intervals of less than a year, are cancelled, and new rates formulated based on age progression, once again provided as additional credit. Even refinements such as the deduction of cancelled loans are not omitted from their philosophy, which involves reducing the interest to be repaid to the consumer by applying the disadvantageous 'fist' formula of the rule of 78, making a monthly numerator smaller and converting it into a quadratic formula. It went even further by applying interest to the administration fee, which was incorporated into the instalments. 23 of our iff-Info Letters⁴ now published on the Internet concern Citibank cases and countless loans have been calculated and commented upon for the Press⁵. In the USA the Coalition for Responsible Lending⁶ in North Carolina monitors Citibank and provides information on the research there.

Citibank is certainly not the only one. Many others follow their lead. In particular, the move by the Royal Bank of Scotland through Santander Direkt Bank into the German market (which is also promoted by the coffee seller Tchibo) achieved a doubling of interest rates through insurance premiums. But no bank is capable of doing this as systematically, as innovatively and as effectively as Citibank. Citibank is a bank based on detail, where every member of staff appears to have a goal – to extract as much as possible from each transaction without regard for the consequences. Trade unionists have referred to their Citibank members as being like a closed shop. They were also the first bank in Germany to divide up their customers into income groups and openly require the poor to pay higher interest rates for the same services as those provided to the rich. At the end of 2003, those earning under €1,500 net were paying 12.38% per annum for small loans, whereas those earning twice as much only had to pay 6.96%. For longer-term agreements, those on low incomes had to pay as much as 15.73%. That does not take into account the cost of outstanding balance insurance premiums (cf the iff-expertise⁷ for the legal position). Citibank has no sense of justice in this respect and no scruples. "If they don't see it, how can they change?" is Michael Hudson's resigned conclusion to his report. "Millions of borrowers exploited by the largest American credit institution and its predecessors await an answer."

Ultimately, only an economic and legal perspective can achieve progress - Citibank has to be seen as a cartel in its own right. It excludes competition and makes consumers into objects of its business rather than people to whom it is providing a service. The whole organisation functions, just like Microsoft, as a form of feudalism existing in the market economy - the dependency cartel. The cartel binds not only providers, but individual consumers as well. Our legal system recognises the problem when it prohibits commitments for longer than two years in General Terms and Conditions. It ignores, however, de facto commitments. Spirals of indebtedness keep consumers tied into the bank, which is able to react flexibly to their situation, to construct a friendly and understanding facade, and to portray itself as a helper at a time of its customers need who seem, somehow, to have got themselves into debt. Customers are chained to the bank in practical, economic and psychological terms and the bank literally capitalises on this situation. There was therefore nothing disreputable for Citibank in persuading the *Bundesbahn* (German railway network) to compel its season ticket-holders to accept its inseparable integration into a Citibank credit card as well. iff tackled this problem and, acting in co-operation with consumer organisations and data protection agencies, succeeded in making the *Bundesbahn* back down.

But Citibank is not just anyone. It distinguishes between customers and consumer organisations, and uses targeted funding and open communication to deal with potential critics. Analysis of their ways of operating and their impact has to be capable of levels of complexity and coherence only possible through a long-term research project, for which funds are not available. Hence the anger so frequently provoked by this bank at the perfection of its dealings, which in turn enables it to accuse its opponents of being emotionally motivated. It must be aware that even people who see the social damage as being much less significant than the increased opportunity for access to credit by the poor are fascinated by the Citibank instrument which could operate in a very different way if

4 <http://www.money-advice.net/index.php?id=4&txt=MAINAREA%28R%29+Citibank&subsequent=2&lang=en>
5 <http://www.money-advice.net/search.php?txt=MAINAREA%28P%29+Citibank&subsequent=2=2&lang=en>
6 <http://www.predatorylending.org/research/index.cfm>
7 <http://www.money-advice.net/view.php?id=17817>

it were to take into account the "limits" addressed by Dostoyevsky. Adam Smith's search for profit in the interest of the common good turns into the strangling in Dostoyevsky's novel when cartels deprive their customers of freedom through anti-competitive agreements or by tying in their customers. The open admiration of German bankers and politicians for the profitability of this bank suggests that, contrary to Adam Smith's argument, it is indeed goodwill that we need. That would be the only way of protecting the competition that Adam Smith saw as a fundamental principle. It took 200 years to achieve a prohibition of cartels under civil law. If courts and supervisory bodies understand that protection against usury, cheating, discrimination and deception is an expression of the protection of competition, it will at least become more difficult for this type of social destruction to invoke the market economy both internally and externally.

3. Using **secure, accessible and transparent, available, inexpensive and socially responsible financial services** (SALIS), we can stem fear. Products like these convey justice. They make risks manageable and provide a social cushion against misfortune, instead of exacerbating it. At the same time they provide the technical opportunities for us to act as more autonomous and thrifty consumers. This is a long-term vision in a world which can contemplate solidarity between all people. That is something which is not comprehensible in our 3% model, which does not offer an answer either to the question of when we will actually receive the food referred to in the Adam Smith quotation. Balzac, whom we quoted last year with reference to his portrayal of the banker Nucingen, had described in his previous novel "*Lost Illusions*" (Frankfurt-am-Main 1996/1903 p.153) the process of deterioration in quality and the short-term nature of the market economy using the example of the displacement of linen by cotton in the manufacture of paper:

"While the durability of linen compared with cotton makes linen cheaper in the end, the poor prefer to spend less rather than more because they are always concerned about the money in their pocket, and as a result, because of *Vae victis!*, they suffer enormous losses. The bourgeoisie operates in just the same way as the poor. For that reason, linen is becoming increasingly rare. ... This new paper, which has the principal disadvantage of being fragile and tearing easily, dissolves so quickly in water that a book made from paper using cotton only has to stay in water for a quarter of an hour to become porridge, while an old book would not be spoiled if it were left for two hours. ... We will soon reach a time when all fortunes will become the same and therefore smaller, in which we will all be poorer; we will need cheaper underwear and cheaper books, just as people are beginning to want smaller pictures, because they no longer have the space to hang big ones. Shirts and books will no longer last a long time, that is all there is to it. The solidity of goods is disappearing everywhere.

The production of mobile phones to last six months and 20 million unused mobile phones lying around in people's drawers in Germany show that we have caught up with Balzac. But modern times have also brought a way of countering this process by means of credit. Using long-term loans, we could create value for future generations, instead of leaving them to get rid of our junk. But that involves high interest rates for short-life products and low rates for durable ones. One way forward would be to restrict the loan to the object, as is the case with secured loans. Things which deteriorate quickly could only be subject to small loans or at high risk. Long-term, large, low-risk loans could be provided against things which last a long time. Purposeful saving would be the means for refinancing this system for customers, because the loan only concentrates horizontally on particular items (thereby withdrawing from others), while taking future use into account in the present vertically in terms of time.

Long-term investments are only possible if we learn again to think more collectively with our children and grandchildren in mind and if we remember the origins of the word credit, which requires long-term trust between savers and users. Falling savings ratios mean loss of solidarity, short-sightedness and lack of perspective. In the USA, they are already negative overall. German savings ratios orientate towards the top ten thousand, which reflect a surplus and not thrift, should not obscure the fact that they are also negative in Germany for 40% of the population and falling. Saving in order to provide loans and loans to promote savings would be the objective, using the same means whereby cathedrals and monuments once were built. To that end, there is a need not only for financial education but, even more urgently, for appropriate financial products and services which would make clear once again the general social meaning of saving as an investment for a pension. The German Chancellor's call for more expenditure, never mind what for, on New Year's Eve, was not much help in this process.

4. In 2003, we concluded eight projects, some of which had been underway for several years: Insolvency Prevention at SME (Ministry of Research BMFT), Planning for a Local Bank Branch (BMFT),

Financial Literacy in Europe (EU DG Social Policy), Regulation of Overindebtedness in the EU (EU DG SANCO/DG Market), Efficiency of the Self-regulation of the Mortgage Industry in EU-Member States (EU DG SANCO/DG Market), Monitoring the Uptake and Effectiveness of the Voluntary Code of Conduct on Pre-Contractual Information for Home Loans (EU DG SANCO/DG Market), Financial Literacy in Practice (Ministry of Family Affairs), Alternative Draft Consumer Credit Directive (Federation of German Consumer Associations). We also published three books⁸. In addition, we expanded and developed our Internet presence, our CAWIN⁹ software on debt advice and our services, including advisory tests, Infoletters and expert case reports. iff has been able to maintain its financially diversified structure consisting of 60 % research, 20% services and 20% product sales.

Amidst all that, two subjects have been our main preoccupation: financial literacy and the prevention of over-indebtedness.

Our school experiment in Hamburg and the experiment in learning from over-indebtedness in cooperation with money advice agencies in Cologne and Essen, together with a current project analysing school text books and the conclusion of our projects in England (Finance Pisa Questionnaire), France and Belgium (Financial Literacy in Voluntary Organisations) and Italy (Immigrants and Finance), have made our theoretical concept of education as the development of a learning process between finance and consumers more practicable. Through this work, it will be possible to produce, market and apply more socially appropriate financial services. Our website "Finanzielle Allgemeinbildung"¹⁰ and our European Clearinghouse Financial Literacy¹¹ are accessible by the public and support this process.

In 2004, we intend to develop a private pension scheme campaign with the Deutscher Volkshochschulverband (Association for Continuous Adult Education) aimed at showing people the possibilities for avoiding the new injustices inherent in the existing range of private alternatives. At the same time, Commerzbank, which has taken up our financial literacy theme and has not shied away from our critical position on the subject, wants to test out an internal training programme on financial literacy with us, using an American model. Finally, we and the Hamburg education authority are looking for a partner in the banking sector for the follow-up "Bank in a school" project, for which surprisingly no bank or savings bank has been able to muster up the necessary enthusiasm, despite the fact that teachers and schools welcome the project and want to put it into effect. The involvement of the bank would be minimal – opening an account and sponsorship for a class as part of a process of self-teaching through simulated banking, just as a Brooklyn school has been doing successfully for years. Perhaps our text book analysis, which we will publish in the New Year, will assist in this context.

In our Research into the Prevention of Over-indebtedness for the European Commission and the Alternative Draft Consumer Credit Directive for consumer organisations, we placed the triangle of conditions in the form of providers' product ranges, the allocation of tasks and State regulation, together with social competence on the part of consumers, at centre stage. We have now begun, as critical support for the commitment of the German Creditor's Database on Payment Incidences (SCHUFA (Schuldenkompass) to convert the questions into a system of 10 basic principles for further development. As ever, we have documented all our work on the Internet. There are also relevant principles for the regulation of consumer credit and the operation of micro-lending. What used to be termed dogmatism is now, encouraged by the Danish film-maker, being restored into the original meaning of the word – drawing lessons which will advance and structure debate. With regard to SCHUFA, which like Commerzbank is not put off by our critical comments, we are going to conduct international research into Best Practice for the prevention of over-indebtedness.

⁸ <http://www.iffhh.de/3/nomos.html>

⁹ <http://www.cawin.de>

¹⁰ <http://www.finanzielle-allgemeinbildung.de>

¹¹ <http://www.finlit.org>

The finalisation of our **finanzcheck** Software¹² represents a significant step forward in the control of the financial services market through skilled money advice for consumers and the collection of data relating to existing products. Using the liquidity model, all financial services are broken down into income and outgoings over time from the point of view of consumers and small businesses, which enables financial planning for households and business planning, and the review of legal restrictions such as those imposed on usury, as well as the rules relating to interest on arrears and debt repayment, the conditions relating to information as to cost and results on losses. Not only does this create new possibilities for controlling new products such as consumer and small business loans, home purchase finance, pension policies and special-purpose investments; products which meet our SALIS criteria can also be created. This instrument has been developed over 15 years through the CALS, FOAB, BAUFUE and CAWIN programmes and it will enable exposure of illegal and harmful products, the technical implementation of new schemes and the design of a socially appropriate application of financial services. **finanzcheck** now forms a unit with iff's money advice and household finance analysis programme CAWIN, bringing together the subjective needs of consumers and the objective structure of products, thus supporting the process of mutual development.

5. 2003 ended with the first refusal by the EU in our history of research work. The financial services and consumer protection division, now re-named Law and Economic Interests, had no tenders out for 2004. Projects in other divisions were cancelled where we and our partners took the view that they were bordering on unviable, such as adult education in financial services and consumer rights over the Internet, micro-lending or insolvency prevention for small businesses. We have the impression that the Commission's new, anxiety-provoking award practices have led to a position where tenders have to be increasingly formalised, and more and more unrealistic in terms of scope, finance and timescale. The winners in this situation are institutions which meet formal requirements by virtue of their office, such as university associations but more frequently consultancy firms, which can do and promise everything but can offer only short term gains. The Commission seems to profit from streamlined allocation procedures. The outcomes remain to be seen.

Unlike our previous five conferences, the conference we have already announced, due to take place at the University of Coimbra on "Sustainable Financial Services", and to which numerous organisations have pledged their support, including the Verbraucherzentralen Bundesverband, the Portuguese Consumer Association, the International Association of Consumer Law, in both cases as joint conference organisers, as well as individuals and the University itself, cannot be proposed to the EU for 2004, because no decision will be made before the middle of this year. Many of the European financial service providers and non-governmental organisations who have been contacted have not answered or declined to provide support. There are some minor exceptions. We need encouragement for a conference from the "bottom up", because sustainability does not appear to be a subject of interest to the finance sector at present.

When political institutions are over-extended by their daily business, politics must take place somewhere else. Our subjects led, for example, to inquiries from the OECD, the Central Bank of Japan, the Woodstock Institute in Chicago, the World Bank, the French housing organisation ANIL and the European Association of Direct Finance Institutions as well, of course, as many finance associations, banks and the press.

6. From mid- 2004, we applied to participate as a junior partner in a multi-national project for structural improvements in the new and candidate Member States, together with the Halle Institut for Economics and over 15 European research institutions. We intend to apply to conduct an interdisciplinary project at the VW Foundation on the status and quality of the call for "ethics" in the finance industry and take forward our project involving the drafting of a General section for a Financial Services Act for the Verbraucherministerium (German Ministry of Consumer Affairs).

In the Product and Services sector, our virtual Small Business Centre is completely ready with a telephone hot-line, Internet access, contents syndication, advisers, advice software and a website,

¹² <http://www.iff-finanzcheck.de>

and will be available to cities, non-profit organisations and Chambers of Commerce, which can adapt the presentation to their own web-site, together with our Infoletter system, in which we offer reports on current cases and problems four times a month on a subscription basis. This includes sale of our finanz**check** Software and CAWIN, the conduct of qualitative advice tests for providers and the media, a calculation service and reports on specialist subjects at home and abroad.

In institutional terms, we are looking for a new partner, because the Hamburger University for Economics and Politics, with which we have been personally associated from the beginning, is merging with Hamburg University. The birthplace of German consumer protection, which was linked with names like Scherhorn, Reich, Tonner and Micklitz, as well as the magazine Consumer and the Law, which we are publishing at present on a temporary basis, will be disbanded when the merger takes effect; these changes are passing without comment. The new faculties, lawyers and economists, have so far not shown any interest in this occurrence. iff is independent of this process, because it has proved from the beginning that it can exist without subsidies. It has, however, entered into discussions with a series of institutions with a view to anchoring its work in independent research, as well as guaranteeing proximity to teaching in the future. There are doubtless many prospective partners who would be interested in iff as an institution, with which they could link up and through which they could gain long-term security, benefiting from its advantages in the form of its information technology skills and its web presence, its lean administration, its many research contacts and its partners in networks and joint projects throughout the world, as well as the continual growth of its income¹³ throughout the 15 years of its existence,.

To this we might add another side of iff. In the past 10 years, iff has not only created 30 permanent jobs, but also brought in €7.7 million in third-party funds for the city of Hamburg. On average, in recent years, €480,000 a year of that sum was made available only for research, and the *Deutsche Forschungsgemeinschaft* (German Research Association), which contributed 18% from business management graduates and on average over 40% of all third party funds (see CHE, *Forschungsranking* (research ranking), 2004 pp.18, 138) has not given iff a single euro in the past 15 years. Moreover, the faculties in Frankfurt and Saarbrücken alone collected 20% of all third party funds in Management Science. Calculated on an annual basis, of 55 Business Studies faculties, only 9 bring in more than iff. If the ranking indicator is taken as "per academic", which is set at over 30,000 euros only by Witten-Herdecke, iff would be unchallenged in first place with 7 full positions. That would place iff as an unsubsidised institute in tenth place in the leading group of business studies faculties, and put the Hamburg faculty, which is not listed at all, in at least 31st place in the top CHE research-ranking group¹⁴. There is no third-party funds ranking for lawyers, because in that area the figures would be even more modest. And some weight should be added in terms of publications, promotions, press releases and international profile. In 2003 alone, iff co-operated with institutions which included the University of Trento (Business Studies and Law), the University of Nantes (Law), the University of Caen (Business Studies), the University of Lyons (Business Studies), the University of Birmingham (Business Studies), the University of Bayreuth (BWL), Eindhoven University of Technology (BWL) and the Halle Institute for Economic Research (Law, Business Studies, Economics).

We would hope to conclude this process of moving from start-up to becoming an institution by iff's 20th anniversary in 2007. Ideas and proposals for this are welcome. Who we are and what we do is comprehensively documented on our various websites.

7. At our Christmas dinner this year there were 34 people, who work more or less closely, but consistently, with iff. Achim Tiffe continues to run the Financial Services Law department and to manage product-testing, Helga Springeneer heads Insolvency Law and, in co-operation with Herr Lis of CS Consulting, a computer software company, CAWIN. Anke Turner, as an expert in business management, deals with Small Business Finance¹⁵ and banking structures. Michael Motylewski, as Information Manager, heads up the electronic and paper information system, together with publicity, and interfaces with our Internet and software partner, CTNM. Michael Feigl is our longest-serving member of staff, and is responsible for student interns and the internal contents of our database, FIS money-advice, which now contains 35,000 records.

¹³ <http://www.iff-hamburg.de/1/16/IFF-Bilanzen.html>

¹⁴ http://www.che.de/Intranet/webservices/news/uploads/Forschungsranking2003uebersicht_148.pdf

¹⁵ <http://www.fit-in-finanzen.de/>

Unfortunately, in autumn we lost Mirjam Jacquemoth to a professorship, like other five previous members of staff in iff's history, which saddens and honours us at the same time, because Hamburg at present has no positions in this area and a departure is also always a matter of regret. Her post has been advertised and a new appointment will be made. Anke Dedert has already processed this task. In the area of Small Business Finance, Andreas Mahlke, a member of the academic staff at the Hochschule für Wirtschaft und Politik, has moved into practice. Leonore Michaelis has recently joined us after 8 years in a senior management position in consumer organisations, and she will be responsible for internal management and the increasingly complex management of project budgets. Doris Böhm and Ilona Kotek together attend to office management. The journal Consumer and the Law, hitherto run by Tanja Plaisier, will be published in a new format in 2005. Rosemary Foggitt will continue as our translator, working in Birmingham. As Director of Research, Professor Ingrid Gröbl advises us in the areas of economics and sociology. Professor Wilfried Laatz has provided us with evaluation of our empirical data verification.

Finally, many thanks once again for your support and criticisms. Please accept greetings and best wishes on behalf of all the staff of the Institute, the Board and the members of iff e.V.

Yours sincerely

Iff's 15th birthday and New Year wish-list for 2004 (excerpt)

1. You will become a patron member and make contributions to specific objectives.

You can also donate your (tax deductible) "Förderung" (key word – "support contribution") to specific purposes in the form of pro bono iff expert reports for consumers, small businesses and voluntary organisations, which address matters of public interest and for which those concerned have no funds, either because they and their source of finance or investment have become insolvent and they have become over-indebted, or because the cost is disproportionate to the benefit to the individual.

2. You help us to export our software and books or draw up an international Infoletter.

Books since 2002: *Schuldnerberatung* (Money Advice), *Kleinunternehmen und Banken* (Small Business and Banks), *Finanzielle Allgemeinbildung* (Financial Literacy), *Micro lending*.¹⁶

Software: CAWIN 6.0¹⁷ and finanz**check** 1.0¹⁸. Finance Check is already equipped with an English surface and can easily be adapted to other languages.

Over 360 *Infobriefe* containing solutions for individual cases, background information and opinions on various practical issues arising from consumer advice practice. There are about four each month. They are based on current information, contain suggestions and legal analysis.

3. You will support the 6th Financial Services Conference in Coimbra in 2005 entitled "Sustainable Financial Services".¹⁹

A conference entitled "Winning in Retail Finance" was held in March 2004 in Lisbon, in which all of the world's major banks participated, and the text of its concluding plenary session contained the following statement: "Dreaming up the bank of the future, relieved from any constraint, is a nice exercise. But one has to cope with legacy systems". We would like to be able to provide a response. Support us by sending a letter of support for our application to the EU and confirmation of your intention to participate. You may wish to be involved as a joint organiser or funder, as a speaker or as chair of a workshop along with a number of other organisations and individuals who have already committed themselves.

4. You will participate in our Internet information system and our specialist library.

Our bilingual Money-Advice.net Internet system offers free access to its various levels, which contain almost 40,000 pages of full text on all subjects relating to social finance. Eight members of staff constantly analyse and evaluate notices, press items, judgments and addresses, publish grey literature, educational materials and background information and make these systems available to third parties for decentralised data entry. We can offer you both content and design, enabling you to develop your own Internet presence through your own Internet page.

5. You join us for international projects in a bidding team.

It has become ever more costly to tender for international calls for calls. Especially the Commission requires a coverage of all EU members states and often even beyond. Only a network in which partners can rely on each other will be able to tender quickly and efficiently in the future competing with multinational consultancies.

¹⁶ <http://www.iff-hamburg.de/3/nomos.html>

¹⁷ <http://www.cawin.de>

¹⁸ <http://www.iff-financheck.de>

¹⁹ http://www.iffhh.de/4/coimbra/coimbra_en.html