



Hamburg, January 2003

New Year Newsletter 2003

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

We would like to wish you and us more courage for honesty and truth in managing the task of 2003. "A year which washed away optimism" ("Süddeutsche Zeitung", 31.12.02) is now behind us. Perhaps it is only now that we can see what we would have preferred to ignore in what turned out to be the sad years of the New Economy. When we rebuild our sense of optimism, it needs to be more sustainable and, as expressed our slogan, not founded upon 'how much money we have, but how we deal with the money'. What is decisive is whether we make the gap between rich and poor wider or narrower and whether we solve current economic problems through redistribution of wealth from the bottom to the top, from the Ford Fiesta to the new Rolls Royce, from instalment loans to the bond with a nominal value guarantee offered to the politicians chosen by the meantime bankrupt Berliner Bank, or whether we reinvigorate the social market economy.

1. **Love of truth** in terms of the history of the Holocaust has been rewarded with the Nobel Prize for Literature in the past year. Truth about the present as the basis for construction of the future is, however, less in demand as we leave ascertaining the facts about retirement pensions, unemployment, nuclear weapons, the money system and the health service to vested interests and their mind-set. We may even have to pay for lack of honesty with a war.

At *iff*, when we entered 3,500 data-sets on history, the economy, law and the environment into our "Gulf War Database" after 15 January 1991, subsequently published in 1993 in Lit-Verlag, we did not suspect that this classified (and indeed since then out of print) reflection on facts and findings about the war would become topical again quite so soon, while still unchallenged.

Facts have been subordinated to strategy in financial services too. Branch closure has thus been explained solely by costs considerations. It was said that there were "too many" branches which some called even a "national disgrace". In order to target wealthy private clients, costs in mass business must be assumed at around 110 per cent of revenues and private banking and the remuneration of investment bankers must be made to pay even in times of crisis in fund management. Conversely, in order to go after mass business, like AWD and Citibank, with their steep

profit increases, it will be necessary to redefine the problems of returns and to emulate Postbank and SEB, which are now opening new branches.

The life insurance sector must demonstrate that its products are the ideal way of maximising retirement provision and therefore assert that they can achieve a profit of 2 per cent above market levels. Projections made when the stock market was booming underpin the claims of capital-based retirement provision that it is better than national insurance and mortgage banks are merging, because in Germany it otherwise does not pay.

The only thing accepted as true is what fits in with a settled short term strategy. The remainder remains hidden –enforced centralisation in Frankfurt, London or New York, which protects management positions from restructuring and relegates the consequences of remote decision-making about profit and loss to the periphery; failed investments in the Internet, electronic data-processing and investment banking; the profligate and ostentatious management of recent years; runaway “fat cat” payments with an increase of 350% for Deutsche Bank manager; ossified training systems; in mass business, inadequate quality of advice in the competition war with the use of outsourced sales teams or barriers to foreign markets; the rapid loss of client confidence as a result of manipulative products such as immediate building society funds finance, endowment mortgages, pre-payment indemnities, irresponsible incentives to speculate on credit, , neglect, misuse or abuse of state development programmes, speculation in property and securities. The new plans do not incorporate these residual truths.

The customer takes the blame for the crisis in banking. Consumers and small entrepreneurs do not want to pay the interest and fees that they apparently cost to the banks. Board members of two major banks were unanimous in their view that “there is no problem in providing credit if small businesses of the future are prepared to pay double the rate of interest.” Provident in the UK and the new Citibank subsidiary are the typical answer of outsourcing social problems into high interest markets. The customer is lazy if s/he wants a local branch, s/he just wants to stand and talk and prevent employees from getting on with their work, fails to buy enough cross-selling products, wants loans instead of making investments and fails to pay regular instalments at times of fluctuations in income. S/he insists on personal advice, spurns the advice of student temps in call centres, and even has the gall to complain about losses in recent months on the capital markets. “Insulting the Audience ”, a provocative stage play coined by Peter Handke to provoke people in the state-subsidised theatres of the 1970s, has come into its own with the latest pronouncement by commercial banks to the effect that there should be no question of passing on reductions in refinancing rates to the customer.

Bankers, like politicians, do not tell lies. They merely reflect back an abstraction of reality from the point of view of their own vested interests. Legal fictions are useful for lawyers if they make it possible to give effect to legal principles, even if they do not correspond to reality. And at times of high demand, knowledge and self-interest merge more closely. Thus, the findings of the UN weapons inspectors and the International Atomic Energy Commission will probably make less impression on us in relation to dangers in the Gulf region than the insights of the American Presi

dent, who has constituted an axis of evil from three impoverished countries and made them into a threat to the world, while seeking better partners in Oil Land.

2. Why don't we just ask about the **legitimacy of the interests** involved and put up with the truth which results, just as the legislature often does?

If we need more private retirement provision, we can talk down social security and damage its historical image of trust and reliability. We want more fairness in terms of costs. The Basle Committee helps with its new risk assessment models, making possible tilted interest rates and higher refusal rates for small businesses and even consumers, even though it is not directly applicable. 250 years ago, Montesquieu pointed out that interest rates "should not be too high, because the entrepreneur would notice that the interest was higher than his profits and no longer transact his business."¹

3. **Truth conveys legitimacy.** The legislature has no need of this. It obtains its legitimacy through the democratic process. All individual interests, however, are obliged to have regard to the truth itself for legitimacy. In Balzac's "The Splendour and Misery of Courtesans", he describes this relationship as he examines the craving for power of a middle-ranking judge's ambitious wife:

"For power can only be revealed through that strange abuse it bears within itself – for example, when it crowns something quite absurd with the palm of victory so that nothing can touch its genius. The elevation of Caligula's horse to the rank of Emperor has been staged a great number of times and will no doubt frequently be experienced again." (Honoré de Balzac, *Splendeurs et Misères des Courtisanes*).

In trials, there is both the fiction of truth represented by the law and by the "parties' version of the truth", which binds the judge even if it is false, and there is also the famous "nothing but the truth" contained in the oath taken when witnesses are sworn in. The witness has no legitimacy, s/he has to earn it. "Nothing but the truth" thus includes "the whole truth", as judicial inquiry frequently makes clear. This brings us to a central problem for the providers of financial services, to which this year's chief witness, Montesquieu, has drawn attention:

"Their profession, money, is only one indicator of value... Actual money was converted into ideal money" (ibid. p.76). "We are enabled (by means of the current account as anticipated by Montesquieu 250 years ago U.R.) to reduce at will money's actual intrinsic value and to alter its substance..." "It would be", the philosopher considered, "an excellent law which decreed that real money alone be used and any conversion into ideal money be prohibited in all countries where trade is to flourish... Trade is itself a very uncertain thing, and it would be a great shame to add the uncertainty of money to that uncertainty." (Montesquieu "De l'esprit des lois, vol. 2" (1748/1979 p. 450)

1 "Pour que le commerce puisse se bien faire, il faut que l'argent ait un prix, mais que ce prix soit peu considérable. S'il est trop haut, le négociant, qui voit qu'il lui en coûterait plus en intérêts qu'il ne pourrait gagner dans son commerce, n'entreprend rien;" (L'Esprit des Lois, p.97)

Reality has turned out differently. The worst damage wrought by ideal money has taken place in people's minds. Money symbols were produced by the propagandists of a fake world, seeing old age provision as no longer taking the form of children, health, viability and migration, but rather merely investment, strength of currency and our progress in increasing output realisable in money terms.

Balzac, our second key witness, has his courtesan fling the following words at the Banker von Nucingen in a box at the theatre:

"If you weren't one of the safes from Huret's or Fichet's factory, which had been turned into a man by a freak of nature, you would not make such a noise in a box at the theatre at a woman who loves music... You remind me of a petty bourgeois in a flannel suit, who scurries back and forth from his chair to the window, hour after hour, continuously checking whether the thermometer is showing the exact temperature prescribed by his doctor." (ibid. p.243)

In Christmas Carol, Charles Dickens dealt even more harshly with his hero's enormous capacity for making money:

"He carried his own low temperature always about with him; he iced his office in the dog-days; and didn't thaw it one degree at Christmas. External heat and cold had little influence on Scrooge. No warmth could warm, no wintry weather chill him. No wind that blew was bitterer than he, no falling snow was more intent upon its purpose, no pelting rain less open to entreaty. Foul weather didn't know where to have him. The heaviest rain, and snow, and hail, and sleet, could boast of the advantage over him in only one respect. They often came down handsomely, and Scrooge never did... No beggars implored him to bestow a trifle, no children asked him what it was o'clock, no man or woman ever once in all his life inquired the way to such and such a place, of Scrooge. Even the blindman's dogs appeared to know him; and when they saw him coming on, would tug their owners into doorways and up courts; and then would wag their tails as though they said, "No eye at all is better than an evil eye, dark master!" (Charles Dickens, A Christmas Carol 1850?)."

David Caplovitz drew my attention to the fact that traditional banker families were conscious of the partial nature of the profession of financier. They were only complete if art was added to money. It was part of their conception of themselves to promote "art without bread", in order thereby to keep sight of what was substantial in life, and this is a thread which runs through the biographies of the banker Salomon and the poet Heinrich Heine in our home town.

Eminent private bankers are a thing of the past. Modern bankers are in the main mere money managers, for whom creating money from money has become a world of its own. This world is disrupted by the cost of public services (taxes), the worries about survival experienced by business start-ups and the needs of unemployed consumers or inner cities starved of investment. They sell us, in their forceful commentaries on what is necessary for the economy and society, the assets side of the balance sheet as assets of society and create wealth for us from the nothingness of money symbols, which in fact merely show distribution, not creation:

"It may be unnecessary to observe here that such considerable resources as are contained in all the commercial, political and industrial revolutions of our time cannot be acquired, secured, increased and preserved without vast capital losses elsewhere or, if it can be put in this way, the application of the wealth of many individual contributions. Very little in the way of new value is added to the total wealth of this earth. Every new element of wealth which is acquired brings with it a new inequality to the general distribution of wealth... In short, all the battles which have been won over money together constitute the high politics of money." (Balzac p.180)

The real problems of the world in terms of work, education, age, reputation and poverty remain outside the doors of the financial markets, which have created this second, virtual world governing in all our minds.

In Berlin, in the meantime, the Berliner Bank has been restored with a 30 billion Euro bailout from the City who took it from subsidies for artists and theatres – a reversed form of Phil(b)an(k)thropy.

4. "**Sociological Imagination**", the title of a philosophical book from Oskar Negt, has no chance of survival in the pure money economy. But we can draw some comfort from the fact that this form of money economy has been overtaken and has made room once again for social reality.

Modern financial services do not require strong-boxes or monuments of their imaginary world. The reduction of money to a reliable form of information which is capable of virtual representation has made counting, paying, storing and spending money symbols superfluous. The disappearance of these functions means that, for money, both "warehouses" (banks) and "cashiers" (thrifts) are becoming obsolete.

The contemporary financial services provider, who now finds his or her prototypes in agency business or with the entrance of coffee-shops into the pension fund business, no longer has any money symbols to hide behind. Money transactions have become integrated in the exchange of goods, where bank deposits take place at the bakery round the corner, cash is issued by machines, money for transport costs is saved through plastic cards and computer software at home or in Internet cafes provide not only bank statements, but also individual budgets. The modern financial services provider spares his or her clients, in their search for happiness, the distraction of percentage calculations and multiplication tables. S/he understands, negotiates, links, exploits and refines individual and group efforts to participate in the productivity and wealth of a world organised on the basis of the division of labour. His or her place of business reflects its surroundings and the social groups it caters for in its architecture, furnishings, position and equipment. They are the ones who first know, present, and solve the economic problems of their client groups. Just as the boastful doctor with his Latin clichés had to defer to the understanding assistant and translator, employees of these new financial service providers are no long able to dazzle their clients with futures, options, covered warrants, endowment mortgages, investment certificates. Their products must instead translate directly into income and outgoings determined by work and needs arising

in the course of a lifetime. Sociological imagination and learning by example thus directly form the contents of advice and product development.

5. Who then will conquer the **financial services market**? Experts in people's problems or experts in money? In our recent book on micro-lending (in English language), which describes the socially orientated system for start-up lending and its regulation in Europe, we came to the conclusion that the experts, operating with so much state support, are to some extent such bad bankers that the damage they do by using inappropriate products often outweighs the advantage they bring to the economy. It is as if those in need, having been turned away by car companies were then sold cars without brakes consuming twice as much petrol, but accompanied by a complete understanding of their transport problems. The same point applies to the employees of coffee-shops or indeed self-styled financial planners provided by unskilled brokers, who may be able verbally and personally to empathise with their clients' need to make retirement provision, but who lack the necessary knowledge about the way their products work and the risks they entail. If they all call for deregulation, they often mean merely the right to work without professional qualifications and the right to offer extortionate credit. It is for that reason that we defended the bank monopoly including its responsibility for micro-credit. Financial intermediaries established by the banks could thus combine professionalism with appropriately targeted products and services.

At present, however, the banking sector lacks the vision. Old pension savings products are wrapped up in new packaging. It considered that there would be insufficient demand for our model of an ethical real estate retirement pension and thought that an experimental local branch would be too expensive. Inquiries were made about group advice about securities or pilots to establish whether bank advice services would be sustainable, but these ideas were never taken forward. Standardised electronic advice on financial planning for mass products is just as unthinkable as experimental procedures and products in credit-referencing or where there is a risk of insolvency.

At present, the banking sector is interested in down-sizing and increasing their prices. But why not, when a third of branches are being shut down, at least indulge in the luxury of one "research branch" which could demonstrate that complete dismantling is not absolutely necessary and which would at least ensure that the sector had not rationalised itself out of existence?

The money system is only one aspect, and it can only be understood properly through knowledge of the whole and, above all, it cannot be further rationally developed on the basis of itself alone.

In his "A Christmas Carol", Dickens places the former businessman Marley, now returning as a ghost, at the side of his Scrooge, and makes him exclaim, in response to the suggestion that Marley had at least always been a "good man of business":

"Business!" cried the ghost, wringing its hands again. "Mankind was my business. The common welfare was my business; charity, mercy, forbearance, and benevolence, were, all, my business. The dealings of my trade were but a drop

of water in the comprehensive ocean of my business! I am here tonight to warn you, that you have yet a chance and hope of escaping my fate. A chance and hope of my procuring, Ebenezer.”

6. **Our projects** stayed with the subject of social finance in 2002, thanks to the commissions we received from various German federal ministries, two divisions of the European Commission, the VW and Bertelsmann Foundations, as well as the Bundesverband der Verbraucherzentralen (Federal Association of Consumer Advice Centres) and numerous smaller commissions.

In *Projekt BankLocal* (Local Bank Branch Project), we prepared an interim report for a Hamburg branch of Vereins- und Westbank, in which we developed ideas and products for a new type of research branch, targeted at a client group based on sociological criteria and designed to be sustained in structurally disadvantaged areas of the city. At the beginning of February we will follow this up with a conference with bankers and trade unionists, in which our ideas will confront those underpinning current reform of bank branches.

In our *Projekt zur finanziellen Allgemeinbildung* (Financial Literacy Project), a report on which is currently being printed and will appear at the beginning of 2003 in our Nomos series, we have investigated the issue of whether financial literacy on the part of consumers will inevitably promote the development of new financial services, in addition to our analysis and proposals relating to financial education in schools, the media and advice services. We have taken our analysis forward into practical projects in the form of a pilot on preventative financial literacy in Hamburg schools and in money advice centres in Cologne and Essen. The results will be available to other German Länder.

Finally, a third book, which has also already been completed and will appear as volume 7 in our Nomos series, sets out the results of our research into *small businesses, insolvency law and finance*. Using empirical material, we underpinned our thesis of “worker entrepreneurs”, whose personal life circumstances determine the possibilities of and limitations on the bank-client relationship. We expect that, taken together, FinanzCheck, analysis software for financial services, a required manual for the analysis of businesses which has been integrated into payment transaction software, our hotline, tested in Cologne, and our financial advice package, developed for the Internet, will make possible the development of our *Small Business Finance Research Center*, in which we hope to combine advice, support and research. For this centre we need operational partners and funders who will promote the development of advice systems and associations in Chambers of Commerce and trade associations, general advice centres and associations, and in state or credit institutions. We have had promising discussions in Hamburg, Bremen, Cologne and Paris about this.

In the wake of the Government Reform Commission on old age pension schemes, *iff* will enter the New Year with a fourth book, the *Altersvorsorgereport* (Report on Retirement Provision), which will be published in mid-February by the Bertelsmann Foundation. It contains our economic analysis and proposals on private retirement provision together with the evaluation of the empirical results of a household questionnaire. We developed our SALIS (Latin for salt) concept for the evaluation of

financial services in greater depth in the report. It's objective is to compare and evaluate all financial services in their five dimensions, **security, access, liquidity, interest and social responsibility**. In this area we have also prepared a concept paper for the German Federal Association of Consumer Advice Centres, as well as advising the German TUC- "DGB" in connection with selection of adequate financial retirement products. Our next step would be to analyse and further develop employee retirement and provident funds, as well as prospects for solidarity models based on experiences abroad, in the Netherlands in particular. We are looking for partners for this work, either as consultants or as research partners.

In the international field, we have compiled national reports on financial literacy in Great Britain, France, Belgium, Italy and Germany and co-ordinated the special areas of financial literacy, its evaluation, the use of rights of information for educational purposes, immigrants and the potential for education in consumers' and social organisations across Europe. The project will be concluded, along with projects on small businesses and bank branches, in April 2003, and is similarly expected then to move forward into a pilot phase.

Our *FIS Database* has been developed further in collaboration with a number of partners in England (Money Advice Trust) Ireland (Money Advice and Budgeting Service) and Germany (vzbv) into the Internet co-operative www.money-advice.net, to which access is free. It is both a database (with 30,000 complete texts) and a subject-specific portal. Its advanced technology enables us to set up additional, short-term portals, such as www.finanzen-in-not.de, through which we were able to support the advice provided to flood victims by the metal union and vzbv, and from money advice centres in the areas affected by flooding. A further application is our specialist information home-page www.CAWIN.de for users of our new CAWIN money advice software, of which Version 6.0 is now available.

Finally, since taking over responsibility for the periodical *Verbraucher und Recht* (Consumers and the Law), we have developed a new structure and additional contents in co-operation with vzbv.

7. In its fifteenth year, *iff* has undergone a complete transformation. With new auditors from Price Waterhouse, a new Opentime time-recording system, we are now able to categorise and evaluate how time is allocated, receipts and losses, calculation of which does require considerable skill in the research field, with its individual projects aligned with publicly funded institutions, which do not cover their costs. The balance-sheet for 2001, after a loss in the previous year, showed a small profit. Despite the economic crisis, in 2002 turnover again reached the million mark. Through the "Werk4" agency we have further developed our corporate identity and improved our external image, with a new logo but, most importantly, with a new brochure. Co-operation with the Hamburg Universität für Wirtschaft und Politik ("HWP") enables us completely to overhaul our software resources. Furthermore, at *iff* we have created research directorships for the four core disciplines, to which the Board has currently appointed university teaching staff for a term of three years, who share joint academic responsibility in their field and can make use of *iff* facilities for that purpose. The first research director for economics is Prof. Ingrid Gröbl. Prof. Wilfried Laatz, who has joint responsibility for our empirical research, will be research director in sociology. We have had very promising

discussions at *iff* with the candidate for the chair in business management at HWP (successor to *iff* member Prof. Tebroke, now at Bayreuth), who, if he is appointed, will collaborate with *iff* as did his predecessor. Thus, in addition to its own legal qualifications, *iff* would have an inter-disciplinary team, which will also manifest itself externally in terms of quality control.

8. **Our Institute**, thanks largely to the contribution of our Information Manager, Michael Motylewski, has electronic data-processing support in all areas. Time recording, financial planning, book-keeping, electronic banking, address management, macro-support for text and communication management all enable us, with over 30 staff, de-centralised management and 1.2 administrative posts, to operate. The formula for remaining professional amidst all this is a well-run electronic data-processing system, the status-free co-operation of all staff and the targeted and selective use of external services.

In this way we seek to establish a prototype for the effective organisation of small businesses in the financial services area, which will excite both the non-profit sector and self-financing research institutes. The direction of our work towards common ideals, our internal structure with weekly *iff* round-tables, external "strategy days" once a year, our principle that every project leader must also work as a team member on another project, as well as the definition and physical, electronic and organisational anchorage of the subject areas we target, such as retail banking / consumer protection, building finance, small business, insolvency and debt, financial literacy and social investment, ensure both cohesion and competence.

9. *iff's* potential lies in its **staff** and its friends. Between them they have achieved much in the course of 2002 and acted magnificently in dealing with a vast amount of work, projects, services and acquisitions to a high standard, without equal in *iff's* history.

Helga Springeneer, attorney-at-law, continues to be responsible for the area of insolvency law (consumers and small businesses) and for CAWIN, our money advice programme in its recent versions. The programme will be networked in 2003 with the FinanzCheck programme, which enables liquidity planning for the future, claims assessment, financial analysis and planning, so that we can offer a complete financial planning system. This programme will be maintained by attorney-at-law, Achim Tiffe, who also leads in the areas of retirement provision, credit law, consulting for consumer advice centres and our calculation service. Mirjam Jaquemoth works on the financial literacy projects. From March 2003, Mrs. Jaquemoth will spend more time with *iff* to develop the consumer education work. Anke Turner will be responsible for the Small Business Finance Research Center, having joined us last year following a period of training in the USA and her work for Sal Oppenheim as a graduate in bank administration. She will also continue to work in the building society sector as a consultant in the banking sector. Andreas Mahlke, also a graduate in business administration, is working in a co-operative project with HWP in the area of small business evaluation. Serkan Narin is our network administrator. Economist Michael Feigl is the mainstay of our archives and provides support for our academic research. He leads the expanding group of law and economics students who look after the FIS database. Isabel Herwig completes our team of lawyers and deals with contacts abroad, as well as providing administrative assistance.

After working with us on a full-time basis for a year, she has now reduced her hours while she completes her period of traineeship. Susanne Görtsdorf-Kegel, a graduate in economics and political science, works as a journalist specialising in insurance, and is responsible for our public relations, as well as the Banking Guide project conceived as a successor to the thirteen iff volumes published by rororo publisher. We appreciate the good collaboration with Rosemary Conaty-Foggitt who does all the translations from French and German into English via e-mail. We have had a longstanding and intensive working relationship with the software companies CTNM (FinanzCheck and Internet) and GFT (CAWIN). Andrea Hansen is our office manager.

10. **Next year** lies under the sign of projects on consumer insolvency law, European mortgage lending law and consumer credit law, all already awarded by the European Commission. We intend further to develop pension funds in the area of retirement provision, to support plans for branches in the bank consultancy area and to provide tests for sustainable quality of advice. We are planning to work with the Hamburg Consumer Advice Centre and Diakonisches Werk to develop a pilot advice centre in Hamburg Wilhelmsburg, combining research, development, advice and education while operating effectively as a debt advice centre. In the MBA structured course on Entrepreneurship for Small Businesses at HWP we will be supporting the core Finance element. Our new Financial Advice software is intended to furnish an important pillar for the plans described above for the Small Business Finance Research Center (SBFRC). We will test out school materials in the educational projects and, at the international level, we will begin work on a pilot project for immigrants in Italy, a pilot for educating small entrepreneurs in Germany, together with a "Finance PISA" with our English partners. We will also start to prepare our sixth international conference on social finance on the issue of "Sustainable Financial Services" which is scheduled for September 24, 2004 at Coimbra in Portugal if we again manage to get your support and the sponsorship of the EU, national governments and especially Banks and Bankers associations like in the last 15 years.

Finally, once again, very many thanks indeed for your constructive criticism and your trust. On behalf of all of the employees at the Institute, the Board and members of iff e.V.. I wish you all the very best for the New Year.

Yours sincerely