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Mark SpÖ¶rer. *Von Scheingewinnen zum RÖ¼stungsboom: Die EigenkapitalrentabilitÖ¤t der deutschen Industrieaktiengesellschaften, 1925-1941.* Stuttgart: Franz Steiner Verlag, 1996. 236 pp. DM 78,00 (paper), ISBN 978-3-515-06756-0.

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Published on H-German (January, 1997)

Mark Spoerer has written a systematic analysis of the returns on capital of publicly held German companies from the mid-1920s to the early 1940s. He relies on hitherto unused sources newly available in former East German archives to provide information that will be of considerable value to historians of the German economy. Spoerer's book can be assessed from two standpoints: as a catalogue of information, and as an analysis of German business practices.

As a report on the profitability of German companies, Spoerer's work presents information that other historians will rely upon in the future. In a series of methodological chapters, he explains why he chose to use confidential tax balances rather than publicly reported balances as the foundation of his compilation. His rationale is simple: the public balances are unreliable. In a very valuable appendix, he provides a tabulation of annual returns on capital for 111 companies for the period 1924-1943. Most of them filed tax returns in areas that are now located in the former socialist areas of eastern Germany, where such records remain accessible to the public. The tax records of companies situated in the West are legally closed.

Spoerer points out that the major difficulty in determining the profitability of German companies lies in calculating the extent of their hidden reserves. This is more easily done from their tax returns. He concludes that, although hidden reserves were substantial during the periods 1886 to 1913 and 1924 to 1930, which he defines as normal (p. 19), they were "tolerable" (p. 7), as if there is an acceptable degree of deception. Spoerer finds that between 1924 and 1929, the average annual capital return for industrial joint stock companies ranged from 2 to 5 percent. This was lower than for the prewar period, and less than reported returns. Companies consumed some of their hidden reserves in order to show sufficient profits to attract investors. From the mid-1930s, capital returns jumped to 15 percent, and then declined slightly in 1941.

As an analysis of German business during the Weimar Republic and under the Third Reich, Spoerer's book raises more questions than it answers. The author jumps to the conclusion that Knut Borchardt is correct that wage increases were excessive during the 1920s [1]. He also concludes that the contentions of Gerhard Mollin and Gottfried Plumpe–that profits during the rearmament boom of the 1930s grew enormously–are accurate [2]. However, he tempers this second point by noting that companies were forced to finance capital expansion internally through retained earnings because the Nazi government kept them off the capital market. That, in turn, reduced cash available for dividends and employee remuneration. The growth of return on capital during the 1930s is obvious. The reasons for the low returns during the 1920s are not.

That excessive wages may not have been the cause of the low return on capital during the 1920s becomes clear when we look at the details of German corporate investment practices. Return on capital was low because German companies grossly over-invested in physical plant as part of their rationalization campaign. They made these investments in spite of the low operating surpluses and low returns on investment of the period. The result was that they were burdened with massive overcapacity. Their reason for making such investments was irrational. They wanted to compete with large corporations in the United States and elsewhere for patriotic reasons. If the domestic and international markets for investment capital had functioned properly during the mid- and late 1920s, these resources would have been directed into other industries. One reason capital markets did not function effectively was that accurate information concerning the policies of German firms was not made public. During the 1930s, profits at Krupp and other large firms soared in large part because the rearmament boom allowed them to use their idle or under-utilized physical

plant. Of course, investors, especially foreign investors, could not get a return on their stakes by then.

The analysis offered here undermines the Borchardt thesis and Spoerer's support of it. There can be no doubt that labor's share of corporate outlays and national wealth grew during the 1920s. The question is why. Were workers simply seeking compensation for losses suffered during the inflation of the early 1920s or anticipating a renewed bout of inflation? Were they enriching themselves at the expense of the capitalists? Were they merely trying to share in productivity gains? Spoerer's information does not answer these questions.

The issue of duplicitous corporate reporting carries serious implications as well. If the objective of the firm is to provide a livelihood (*Existenz*) both for its owners and for its employees, hiding resources from claimants outside of the firm is understandable. This philosophy, which is typical of German companies, causes little difficulty when ownership is confined to members of the family that founded the enterprise and a few large institutions such as banks. However, in a society where stock ownership is widespread, such practices would be condemned as dishonest and would be stopped. Spoerer's glib assertion that distortions of returns on capital up to 1930 were "tolerable" only emphasizes the low importance attached to accountability by German firms. Is this the cause or the effect of the tenuous position of private enterprise in German culture? What does limited stock ownership among the public imply about the state of democracy in Germany then and now?

Given these considerations, we can formulate some issues that historians of the German economy might explore. To begin, we should look at the basic features that differentiate German enterprises from those in the Anglo-Saxon world. If companies are viewed solely or primarily as generators of wages over the long term, then the issue becomes how those wages should be divided between owners, employees, and other stakeholders. Ultimately, this question can be answered only on moral and political grounds. If companies are seen as vehicles to provide goods and services to the consuming public, which then rewards those companies that satisfy its wants by purchasing their products, leading to jobs and profits, then the focus should be on corporate financial policies and operating practices. Spoerer's book gives us both the incentive and some of the raw materials necessary to begin work on the latter.

Notes

[1]. Knut Borchardt, *Wachstum, Krisen, Handlungsspielraum der Wirtschaftspolitik*, (Goettingen: Vandenhoeck and Ruprecht, 1982). An English translation is available as *Perspectives on Modern German Economic History and Policy*, trans. Peter Lambert (New York: Cambridge University Press, 1991).

[2]. Gerhard Mollin, *Montankonzerne und "Drittes Reich." Der Gegensatz zwischen Monopolindustrie und Befehlswirtschaft in der deutschen Ruestung und Expansion, 1936-1944* (Goettingen: Vandenhoeck and Ruprecht, 1988); Gottfried Plumpe, *Die IG Farbenindustrie AG: Wirtschaft, Technik und Politik, 1904-1945* (Berlin: Duncker and Humblot, 1990).

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Citation: Alfred C. Mierzejewski. Review of SpÖ¶rer, Mark, *Von Scheingewinnen zum RÖ¼stungsboom: Die EigenkapitalrentabilitÖ¤t der deutschen Industrieaktiengesellschaften, 1925-1941.* H-German, H-Net Reviews. January, 1997.
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