Christopher Kobrak has written an ambitious work that attempts to combine narrative business history with a deep overall assessment of German business culture. While he is only partially successful, his book is well worth reading, as a biting indictment of the German way of doing business.

Kobrak argues that the German model of "cooperative capitalism," which can be called more accurately the "commonweal economy," is counterproductive.[1] He is correct in this assertion, but his attempt to support it is uneven. His historical account is not well integrated into his broader analysis, in large part because he never states his own theory of how an economy should function and how a business should fit into that economy. One wonders whether Schering was the best firm to choose for illustrating his point. This is particularly so since the archival sources relating to the firm's early years are thin, resulting in the story in which the firm virtually disappears from some parts of the book. Moreover, the author's analysis is weakened by the excessive use of buzzwords drawn from contemporary business literature. Ironically, it is also obscured by unnecessary and misleading references to the ideas of Karl Marx and Friedrich Engels.

Kobrak argues that cooperative capitalism limited the ability of German business to respond to changes in consumer demand, technological innovation, and the appearance of new management techniques. Not only did cooperative capitalism reduce the profitability of firms, but by politicizing business decision-making it made them more vulnerable to abuse from the Nazis. Schering scored its greatest successes when it ignored traditional German management practices. It encountered its greatest troubles when it allowed its priorities to be influenced by commonweal considerations. Indeed, following traditional economic and business priorities, especially in the 1920s and 1930s harmed the entire German economy. Kobrak rightly underscores the fact that anti-market thinking was "pervasive" in "German management circles." (p. 351) Overall, this is a damning indictment of the German way of doing business. It is a devastating critique of what Michel Albert in one of the most controversial business books of the 1990s called "Rhenish Capitalism."[2]
though Kobrak does not cite Albert's book, it is worth mentioning here to place Kobrak's analysis in context. Albert describes with unique clarity the counter-model to Kobrak's implicit ideal of how business should operate. Albert paints a picture of an economy in which competition is tamed in order to achieve humane results. A system of cooperation between management, labor and the government resolves disputes, subordinating economic considerations to broader social and cultural objectives. "Cooperative capitalism" only describes part of this arrangement. It understates the role of the government as operator of public enterprises, as mediator between capital and labor, and as sanctioning body for the cartels and syndicates that reduce or eliminate competition between firms. "Commonwealth economics" includes all of these factors, enabling us to see the politicization of the economy more clearly. Even using his more narrow approach, though, Kobrak puts his finger on a grave weakness in German business culture, a weakness that in the 1920s, and indeed today, has lead to slow or no growth and high unemployment.

Kobrak uses his description of the history of Schering as a vehicle to raise interesting questions concerning German business as a whole. The company was founded by Ernst Schering in 1851. Kobrak claims that Schering was not motivated by profit, but that, instead, his goal was to promote "good pharmacy." (p. 20) Yet, a few lines later, he relates how Schering only entered the business under pressure from his family. One is led to wonder if his relatives weren't motivated by economic considerations. Consequently, here at the very beginning of the story, Kobrak is either incorrect, or, more likely, shows a fundamental weakness in the German business model. The devotion to technical excellence and a reluctance to heed market signals is dangerous, both economically and politically. Schering placed itself at a disadvantage from the very outset.

Kobrak provides a good description of Schering's participation in various cartels. He notes that prior to World War I, Schering was not the most energetic participant in these anti-competitive arrangements. However, he does hint at their political dangers, by saying that they "heralded calamities that would follow" and stresses that they helped Schering and many other German firms avoid adapting to changes in the business environment (p. 31). In the early 1920s, Schering stayed out of the IG Farben cartel, but did participate in many others relating to particular markets, both inside and outside of Germany. Indeed, by 1930, Schering was a member of no less than thirty cartels. Kobrak notes that all of this cartel activity did not have the effect that its proponents promised. During the Nazi period, Schering participated in the compulsory cartel imposed on the chemical industry by the regime. Kobrak claims that the cartels were abolished at the beginning of the war (p. 250). That, however, was an optical illusion. The Reichsvereinigungen and other government sponsored organizations were simply the old cartels with new names. By the late 1930s, Schering participated in the international pharmaceutical cartel and in forty domestic cartels.

Kobrak also discusses the issue of German financial reporting methods. He points out that before World War I, Schering paid out an unusually high proportion of its profits as dividends. It changed this policy after the war. He states blandly that between 1924 and 1932 (i.e., from the end of the hyperinflation to the end of the Weimar regime), German corporate accounts were highly complex, making it difficult to gauge the results of Schering's foreign operations, and, one might add, its domestic business as well. Here it would have helped the reader if the author had addressed the issue of hidden reserves directly. This was a serious problem throughout German business culture. Indeed, Kobrak paraphrases a member of the Schering supervisory board (Aufsichtsrat) as characterizing dividends "as that part of profit that you can't, with all your best efforts, hide from
shareholders” (p. 183). Surely, a more extensive discussion of this matter would have been illuminating. In the meantime, Schering’s ownership structure had changed significantly. In 1922, during the hyperinflation, Schering was purchased in a complicated transaction by a Silesian coal mining and coke producing company, Oberschlesische Kokswerke. Schering was seen by the new management as a captive market for the chemical byproducts of its coke-making operations and as a cash cow that could be used to cross-subsidize its coal mining business. This highly damaging situation changed in 1937, ironically as the result of a Nazi law intended to make corporate financial accounting and reporting transparent so as to facilitate political control. The complicated corporate structure of Kokswerke was simplified through the consolidation of many of its subsidiaries. The reorganized firm was renamed Schering AG.

Kobrak describes Schering’s activities during the period of the Third Reich in detail. He makes clear that Schering was not a major government contractor. Therefore, it had low priority for the allocation of all factors of production. It did not play a significant role in aryranization and employed relatively few forced and slave laborers, Jewish or foreign. Not surprisingly, it lost contact with its foreign subsidiaries and its facilities were heavily damaged by Allied bombing. Kobrak concludes convincingly that “Schering’s primary goal seems to have been to survive” (p. 348).

Despite the promise of the title, Schering’s international operations do not seem to have exerted a decisive influence on the policies of management. While these foreign businesses were important, yielding significant profits, they did not cause the company to contemplate departing from the German business model. Nor did Schering’s management ever consider abandoning its German base in order to shift to a more favorable location elsewhere. Kobrak never gives the reader an analysis of the relationship between Schering’s domestic and foreign businesses either from an economic or a strategic standpoint. Instead, he resorts to the buzzword “internationalism” as a substitute. He uses “internationalism” to typify Schering’s commitment to international sales. However, the word is much too vague. If Schering entered foreign markets as an article of faith, then we should learn why they made such a leap. If they did so to evade the limitations of their domestic market, we should be told. If they had a well articulated theory of international trade that lead them to commit themselves to involvement in foreign markets, it would have been interesting to have learned about it.

Other buzzwords such as “shareholders” and “corporate governance” also serve only to sow confusion. “Shareholders” is a murky concept developed by anti-market critics in the 1990s to politicize internal management decisions. It is an attack on property rights. It would have been far better for our understanding of Schering and other businesses to have left this term to the pundits and political activists and to have talked instead about an assault on property rights. Corporate governance means shareholders’ ability to influence the policies of a firm through annual meetings and the board of directors (the Aufsichtsrat in the German case). It is not a sluice for “shareholders” to insinuate their priorities into corporate strategy. It has nothing to do with government regulation of business or management control of the firm.

Two additional cases of confusion deserve mention: reparations and Marx. Kobrak, due to inadequate research, accepts the fantasy that Germany groaned under an unbearable reparations burden during the 1920s. Relying on James Angell’s seventy-year-old book, he grossly overestimates the burdens that Versailles imposed on Schering and the German economy as a whole (pp. 67, 86, 159). In one instance, he asserts that coal shortages immediately after the war were due to a lack of coal cars needed to bring coal from the mines to companies like Schering. He
implies that this shortage was the result of Germany being compelled to give thousands of freight cars to the Allies as reparations-in-kind in 1918. In fact, there was a vast surplus of coal cars (O-Wagen) and locomotives to move them. The newly formed national railway, the Reichsbahn, and its predecessors engaged in a massive production program that more than replaced the rolling stock that they had relinquished to the Allies. Similarly, Kobrak refers to the Dawes Plan as a "failure" and asserts boldly that it was nothing more than a scheme for the collection of debts by US banks. (p. 218) The Dawes Plan was actually a success since it helped the German economy to revive. Moreover, Kobrak misses an opportunity to discuss how the Dawes Plan was an attempt to have the Germans adopt western, market-oriented accounting practices, a line of reasoning that would have fit his thesis well.[4] Finally, Kobrak opens his initial narrative chapter with a quotation from The Communist Manifesto (p. 12). He sees it as typifying the process of creative destruction that Schering and German management in general tried to short-circuit. Nothing could be more wrong. Marx and Engels described here what they viewed solely as a process of social destruction. Kobrak would have been far better served if he had quoted instead the originator of the phrase "creative destruction," Joseph Schumpeter: "The opening up of new markets, foreign or domestic, and the organizational development from craft shop and factory to such concerns as U.S. Steel illustrate the same process of industrial mutation--if I may use a biological term--that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in."[5] This is probably the most glaring example of Kobrak's use of fashionable concepts, and Marxism is still fashionable in Europe, to make a point, without fully comprehending those concepts.

In sum, Christopher Kobrak's history of Schering raises very important issues and offers the reader useful insights into German business culture. It suffers from errant assertions on many issues and the use of too many fashionable but superficial concepts. It is also weakened by the lack of a bibliography and an unusual number of editorial lapses. If the book had been focussed more closely on Schering and then drawn conclusions from that example, it would have been stronger. As it stands, Kobrak's book will be a valuable starting point for all who are interested in modern German economic history, the role of business in the Third Reich, German business culture and style and the serious problems that issue from them.

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