

For Rudolf Hilferding, Socialism Was About Freedom

Austrian socialist Rudolf Hilferding, author of the magisterial *Finance Capitalism*, used the tools of Marxism to develop a rigorous understanding of the changing capitalist economy while making the case for a socialism that put freedom and democracy at the center of the project.



Rudolf Hilferding in 1923. Photo: Bundesarchiv Bild

In April 1902, [Rudolf Hilferding](#), an unknown, twenty-four-year old Austrian socialist, came to the attention of Karl Kautsky, the editor of European socialism's preeminent theoretical journal, *Die Neue Zeit (The New Age)*, and the movement's leading theorist. Hilferding had just completed medical school, but his real interest lay in political economy, and he hoped Kautsky would affirm the value of his contribution to the field. He had sent Kautsky an article that he intended as a refutation of [Karl Marx and the Close of his System](#), a work where Austrian economist Eugen von Böhm-Bawerk had attacked the basic premises of Marx's *Capital*. While Kautsky did not publish the article, he was nevertheless impressed. He invited Hilferding to contribute regularly to the journal.

Hilferding seized the opportunity. He wrote a number of insightful essays and book

reviews on economic matters (including value theory and the protective tariff) and on political questions (such as the general strike). Struck by his intellectual acuity and prodigious output, Kautsky convinced Hilferding to abandon medicine and devote himself to political economy full time. By 1906, he had arranged for the young socialist to teach political economy at the German Social Democratic Party's school for activists in Berlin.

Hilferding quickly made Kautsky proud. He expanded his critique of Böhm-Bawerk into a book; was appointed the foreign editor of *Vorwärts*, the SPD's flagship daily, in 1908; and, most important, published his masterpiece, [Finance Capital](#), in 1910, transforming him into one of European Social Democracy's most important intellectuals. It was a status he would retain until his death at the hands of the Nazis in 1941.

A Young Socialist

[Rudolf Hilferding](#) was born in Vienna in 1877 into a family of Polish-Jewish immigrants from Galicia. His father worked for an insurance firm and earned enough to raise Rudolf and his younger sister in a liberal, Jewish middle-class atmosphere. During his student years, Hilferding developed the basic ideological and political perspectives that would guide his long public career. At the age of sixteen, [he joined](#) the Socialist Student League, a small group of Viennese students that included Karl Renner, Max Adler, and, later, Otto Bauer and Margarethe Hönigsberg. Meeting weekly at the café Heiliger Leopold, they discussed Marxist classics: *Capital*, but also new books by Kautsky and articles from the *Neue Zeit*.

Although not officially connected to the Austrian Social Democratic Workers' Party (SDAP), the group participated in SDAP demonstrations and revered party founder Victor Adler. Renner, Max Adler, Bauer, and Hilferding became close friends and intellectual collaborators, and all later rose to prominence in either Austrian or German Social Democracy. Hönigsberg, the first woman to graduate from the University of Vienna's medical school, married Hilferding in 1904. The pair had two sons but separated in 1908 and eventually divorced in 1923.

What led Hilferding to socialism? Documentation is sparse, but his Jewish background likely played a strong role. Despite Jewish emancipation in 1867, Austria-Hungary at the turn of the century was rife with antisemitism. Liberalism, with its call for civil equality, had long attracted widespread Jewish support as a vehicle for emancipation, but by the end of the nineteenth century, it was in retreat, and antisemitic movements, such as Christian Socialism and Pan-Germanism, were on the rise.

Some Jews sought an independent Jewish state (Zionism). Others looked to socialism, which, as the SDAP [put it](#), “strives to liberate the entire people, regardless of nationality, race, or gender, from the chains of economic dependence, to end its powerlessness, and to reverse its stunted intellectual growth.” The socialists demanded workers' power based on the transformation of the means of production into “the common ownership of the whole people” along with an array of reforms, including freedom of association, universal suffrage, free public education, and the

separation of church and state. Like many other “non-Jewish Jews” of his generation, Hilferding adopted this party of universal emancipation as his political home. He never left it.

While studying medicine, Hilferding also took classes from Carl Grünberg, one of Europe’s few Marxist professors; Ernst Mach, a leading neo-positivist philosopher; and [Böhm-Bawerk](#) himself. It was Grünberg’s conception of Marxism as a social science that most profoundly shaped Hilferding’s thinking. Grünberg held that Marxism “should be developed in a rigorous and systematic way through historical and sociological investigations,” and he argued that socialist intellectuals should not limit themselves to purely academic pursuits but instead work to develop the class-consciousness of workers.

Such ideas — combining science and politics — fired Hilferding’s imagination. He helped set up a party school for workers in Vienna and, in 1904, along with Renner, Bauer, and Max Adler, founded the journal *Marx-Studien* (*Marx Studies*), which tackled with theoretical questions related to law (Renner’s specialty), the nationality question (Bauer’s), sociology (Adler’s), and political economy (Hilferding’s). The journal, which aimed to “further develop the social theory of Marx and Engels, to subject it to criticism, and to place their teachings in the context of modern intellectual life,” became the theoretical organ of what later came to be called the [Austro-Marxist school](#). The perspective Hilferding developed during these years informed his approach to politics for the rest of his life.

For Hilferding, Marxism was an objective science, one “free from value judgements.” “The sole aim of any inquiry,” he argued in *Finance Capital*, “even into matters of policy, is the discovery of causal relationships. To know the laws of commodity producing society . . . [is] to be able, at the same time, to disclose the causal factors which determine the willed decisions of the various classes of society. According to the Marxist conception, the explanation of how such class decisions are determined is the task of a scientific, that is to say a causal, analysis of policy.”

It was with these principles in mind that Hilferding would formulate Social Democracy’s theory and practice.

“The Fourth Volume of *Capital*”

During the first decade of the twentieth century, Europe’s socialist parties, organized within the Socialist International, [were experiencing unprecedented growth](#). In rapidly industrializing Germany, the SPD’s membership exploded from 384,000 in 1906 to over 1 million in 1912, while the party’s electoral strength increased steadily until it peaked in 1912 at almost 35 percent of the vote, making it by far the largest party in the parliament. Yet the SPD was unable to use its organizational might to realize its programmatic aims. Not only were all the other parties united against it, but the semi-autocratic imperial system gave the executive branch, headed by the Kaiser, decisive power. As Social Democracy grew, it appeared to be on a collision course with a monarchy fundamentally hostile to democracy. Violent confrontation seemed increasingly likely.

It was in this tumultuous environment that *Finance Capital* appeared. Drawing on

both Marxist and non-Marxist thinkers, Hilferding expanded and reformulated many of their ideas to produce a work widely hailed as the fourth volume of Marx's *Capital*. Three main points form the book's core: first, that the most characteristic features of "modern" capitalism are "those processes of concentration which, on the one hand, 'eliminate free competition' through the formation of cartels and trusts, and on the other, bring bank and industrial capital into an ever more intimate relationship. Through this relationship . . . capital assumes the form of finance capital, its supreme and most abstract expression;" second, that there are, in principle, no limits to this process of centralization so that "the ultimate outcome of the process would be the formation of a general cartel;" and third, that the effort to introduce the "conscious regulation" of the whole of capitalist production would "inevitably come to grief on the conflict of interests [in society] which intensify to an extreme point." Hilferding believed that finance capital and the introduction of large-scale planning laid the foundation for socialism but would not resolve the social conflicts (polarization at home between the capitalist oligarchy and the mass of the people) and abroad (imperialist rivalry among the capitalist powers) that capitalist property relations had caused. Only socialism could resolve the property question and sweep away the basis of class conflict.

How would the socialist transformation come about? According to Hilferding, as long as the SPD could use the imperial system to educate workers, expand its support, build its organizations, and push for pro-labor reforms, it should continue its parliamentary political approach and avoid provoking an existential conflict with the regime. Revolutionary action would only be warranted if the ruling classes attempted to roll back hard-won democratic rights or unleashed an imperialist war. Neither he nor [Kautsky](#) believed the SPD's role was to "make" revolution. It was, rather, to prepare the workers for their role in the revolution and to guide them in building the new world.

After the working-class majority had conquered political power, its "dictatorship" could best be exercised via parliament. Just as the bourgeoisie had used parliament to pursue its own interests, the proletariat could use it to transform society along democratic, socialist lines.

This position, which made parliamentary democracy central to revolutionary transformation, was both widely accepted within Social Democracy at that time and formed a core element of Hilferding's political thinking.

Theoretically, *Finance Capital* aimed to refute German theorist Eduard Bernstein's "revisionist" [attacks](#) on key elements of Marx's economic theory, as well as his suggestion that the SPD redefine itself as a reformist, rather than a revolutionary, party. Concretely, however, it suggested no changes in the movement's political tactics. Between 1906 and the First World War, Hilferding and Kautsky defended this position as leaders of the so-called "Marxist center," which rejected the open reformism of the revisionist right, while also opposing an emerging radical left, led by Rosa Luxemburg, [which sought to pursue a more aggressive extra-parliamentary strategy](#) to prepare the masses for revolution.

The war destroyed the centrist project. It forced party members to take sides, as the

SPD debated whether it should support the government, and it compelled Hilferding to reconsider his theoretical and practical assumptions. Rejecting the efforts of the majority of the SPD's leaders to explain away German and Austrian aggression, he joined the anti-war opposition from the outset.

Reform and Revolution

Despite his opposition to the war, Hilferding was drafted in early 1915 as a physician into the Austrian army and shuttled between hospitals in Vienna and the Italian front. Meanwhile, he pondered the causes of the SPD's failure in 1914 and the collapse of international socialism. The result was his emerging theory of organized capitalism, which he refined over the next decade.

Hilferding now thought that Marx's analysis of the "objective tendencies of capitalist development" was essentially correct, but that revolutionary working-class consciousness had not occurred as he expected. Victories in the class struggle had made life under capitalism more bearable for many workers and, in so doing, had undercut the appeal of revolution. The rise of finance capital, he believed, had led to shorter periods of economic crisis, reduced chronic unemployment, and, most important, transformed the anarchy of capitalist production into an "organized capitalist" economic order. It was now possible for an organized, non-democratic economy to develop, one dominated by monopoly capital (organized into cartels and trusts) and the state. These circumstances altered the terrain for the socialist movement.

While before the war Hilferding had thought that socialism would grow out of "the tendencies which operate in the commodity producing society," he now thought that a new, highly stable, undemocratic, hierarchical capitalist alternative was possible. It was the proletariat's new task to prevent its realization and pursue the goal of socialism through political action. But it was unclear how the increasingly divided labor movement could achieve these aims.

After the SPD expelled the anti-war opposition in January 1917, Hilferding joined the newly founded [Independent Social Democratic Party](#) (USPD), which included representatives of all the party's prewar factions, such as Bernstein, Kautsky, and Luxemburg. Eighteen months later, popular fury against the war toppled the German and Austrian regimes. In Berlin, the SPD and USPD jointly formed a provisional government backed by councils of armed workers and soldiers. It appeared that the long-hoped-for socialist revolution was at hand.

Hilferding returned to the capital in November 1918. There, as a member of the USPD Executive Committee; chief editor of the party daily, *Die Freiheit* (*Freedom*); and a member of a government commission to study the socialization of the economy, he played a major role in the unfolding events. His immediate prescription: a mixed economy where large-scale industry could be socialized and subject to democratic public planning. Consistent with his pre-war views, Hilferding stressed the need to create a parliamentary republic while also now considering complementary representative institutions, such as workers' councils, in the new state.

Sharply critical of the SPD for its wartime policy and its refusal to implement radical

political and economic reforms due to fear of civil war, he also fundamentally rejected the new German Communist Party's call to emulate Bolshevism in Germany.

Condemning the Bolsheviks' creation of a single-party state, their use of terror, and, through the newly created Communist International, their interference in the USPD's affairs, Hilferding again tried to steer a middle course among the conflicting factions of the German left.

To no avail. While the new republic represented a democratic advance over the imperial order and workers won substantial gains such as the eight-hour day, collective bargaining, and the constitutional right to form factory councils and receive welfare benefits, Germany's socialist forces failed to transform the country. Divisions among the socialist parties, their inability to win a majority in the National Assembly, recurrent civil war, and the resurgence of the far right not only blocked the radical reforms, but also left the republic vulnerable to the forces of counterrevolution. By 1921, it was clear to Hilferding that the revolutionary wave had ebbed, and that defending republic had to be labor's highest priority.

Following the defection of the USPD's left wing to the Communists in the fall of 1920 and the assassination of foreign minister Walter Rathenau in June 1921, Hilferding supported the reunification of the remnant of the USPD with the SPD. Thereafter, he gave full support to the parliamentary republic as the means to gradually achieve socialism. "The great goals remain the same," he wrote, but now the party had to "hold its demands within the limits of the possible." To achieve its aims, the party would have to either conquer a majority or form alliances; extra-parliamentary means would be of limited use in a developed country.

Thus, for all practical purposes, Hilferding had now adopted Bernstein's political outlook. Between 1922 and 1933, as the SPD pursued its reformist agenda, he became one of the party's most important leaders. As a member of the Executive Committee and in the Reichstag delegation, he specialized in finance. In 1923, at the height of the Great Inflation, and again in 1928–29, he served as finance minister. Appointed editor of the SPD's new theoretical journal, *Die Gesellschaft (Society)*, in 1924, Hilferding strove to ground the party's reformist strategy within the framework of his theory of organized capitalism.

In his view, the planned and regulated production that increasingly characterized the capitalist economy laid the basis for socialism — but only if workers became conscious of the "antagonistic foundation" of this system, which continued to be based on private property and social and political inequality. Achieving socialism depended, first, on the degree to which the working class could use the democratic republic's institutions to carry out extensive reforms in all spheres (social security, education, cultural goods) and, second, on the ability of the trade union movement to create "economic democracy" by extending workers' decision-making power within industrial enterprises and the economy as a whole. Socialism, then, would be achieved via a tenacious struggle within the republican framework.

Hilferding's scenario was widely favored in the SPD and the trade unions in the mid-1920s. Arguing that the movement's ability to "hammer it into the head of every worker that the weekly wage was a political wage" that rests on parliamentary power,

he won support for the SPD's participation in coalition governments with bourgeois parties and, in 1928, the Hamburg Congress of the German Trade Unions adopted the concept of economic democracy into its official program.

Events soon demonstrated that Hilferding's assumptions were wildly optimistic. The onset of the Great Depression revealed that his assertions about capitalism's degree of organization were greatly exaggerated, and the rise of Nazism proved a monumental challenge for which the SPD's parliamentary strategy was inadequate.

Hilferding was certainly able to use his knowledge of Marx's method to put forward insightful analyses of capitalist development. But in the sphere of economic policy making, he was unable to go beyond the limits of capitalist orthodoxy; he had no concrete socialist alternative. At the same time, while he fully grasped the significance of Adolf Hitler's success in building a cross-class "people's party" that would enable him to use parliamentary means to destroy the parliamentary system, Hilferding and his comrades in the SPD leadership proved incapable of crafting an alternative politics that could halt the Nazis' growth. Even after Hitler's appointment to the chancellorship they refused to advocate any radical actions outside of parliamentary norms until it was too late. The result was total defeat.

As a Jew, a Social Democrat, and a Marxist, Hilferding stood for virtually everything the Nazis hated, and in March 1933, he fled into exile. Settling first in Zürich and later in Paris, he remained an important figure in the Prague-based Social Democratic leadership in exile (the Sopade). Appointed to edit its theoretical journal, *Die Zeitschrift für Sozialismus* (*The Journal of Socialism*), he had the unenviable task of leading the effort to identify the myriad causes of the SPD's failure and consider the movement's way forward.

In January 1934, at the Sopade's behest, he published the *Prague Manifesto*, the most radical programmatic document the SPD ever put forward. In it, Hilferding asserted that "in the fight against National Socialism there . . . [is] no place for reformism or legality." The struggle was for "the conquest of state power, its consolidation, and the realization of socialism" and, in this new political situation, the old party apparatus had to be discarded. Thus, the SPD had to be transformed from a reformist into a revolutionary organization.

The German Social Democrats, however, were too weak and divided to carry out this transformation. As initial hopes faded, Hilferding adapted to the difficult life of a political exile. Stripped of his citizenship and property, transformed overnight into a pariah in fear for his life, he survived by writing hundreds of articles on economic and political affairs for *Neuer Vorwärts* (*The New Forward*), the Sopade's weekly paper. Depressed about his circumstances, about Social Democracy's failure, and about what he perceived as the workers' lack of will to preserve democracy at all costs, he also undertook a thoroughgoing reconsideration of Marxism as a tool for understanding historical development.

Hilferding had considered himself a Marxist throughout his life, but he had always been willing to reconsider aspects of Marxism that no longer seemed viable. The consolidation of Stalinism in Russia and [National Socialism in Germany](#) reaffirmed his earlier conclusion that capitalism's contradictions did not "of necessity" lead to

socialism. Both cases, he argued, were evidence of completely new and apparently converging systems based on metastasizing state power where a “totalitarian” state apparatus took possession of society and restructured that society as it saw fit. While he recognized the significant differences between the two societies, at bottom, he argued, it was now politics that was in command regardless of the different forms of property that characterized them.

Writing to his friend Paul Hertz in March 1936, Hilferding made a bold assessment: “the great contradiction today is not socialism and capitalism. On the contrary, it is freedom or slavery.” Capitalism had certainly been abolished in Russia, but the “total state” erected by the Bolsheviks had nothing to do with socialism. It was a murderous tyranny that had done irreparable damage to the international socialist movement. It had to be overthrown, just like the “total state” regimes of Hitler and Mussolini. To do so, he was willing to work with all those who valued individual freedom, whether embodied in a liberal republic or in a future socialist one, as something worth defending at all costs.

Socialism and Freedom

Hilferding continued grappling with the applicability of Marxist ideas until the Nazis tracked him down in southern France in February 1941. Arrested by Vichy authorities as he attempted to escape to the United States, he was turned over to the Gestapo, badly beaten, and brought to the dungeon of Le Santé along with his friend and comrade, Rudolf Breitscheid. There, having successfully concealed veronal on his person, he brought his struggle to an end.

Hilferding was fond of saying that in the end, “history is the best Marxist,” and history has certainly shown that some of his theoretical postulates missed the mark. His theory of finance capital, for example, overgeneralized the applicability of developments in Germany to other countries, and his assumptions about the increasing stability of organized capitalism collapsed in the face of the great depression.

Nevertheless, his legacy is a rich one. *Finance Capital* remains a major milestone in our understanding of corporate capitalism’s ascendance and its ability to survive through cartelization, the extension of credit, and imperialism. Many of the trends Hilferding identified — the growing role of the state in economic life, the integration of the state and corporate interests — only came into their own in the mid-to-late twentieth century. With the twenty-first-century state’s unprecedented ability to track and control the activities of its citizens, his dire warnings about the power of the “total state” seem more prescient than ever. And finally, amid the social wreckage left by neoliberalism and the revival of authoritarianism across the world, his insistence that [democracy and socialism are inseparable](#) should be a principle taken to heart by all those attempting to rebuild the socialist movement.

For Hilferding, the fight for socialism was always about expanding freedom. It should be for us, too.