Rudolf Hilferding and the Austrian School of Anti-Capitalism

BY

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The Austrian Marxist Rudolf Hilferding (1877–1941) produced an important and influential analysis of capitalism, and he played an active role in Austrian and German politics before falling victim to Nazism. He still has a lot to teach us about the way modern capitalism works.

Austria has long been synonymous with free-market economics. Economists like Ludwig von Mises and Friedrich Hayek, whose ideas were forged in Central Europe during the early twentieth century, have become talismanic figures for latter-day proponents of untrammelled capitalism. The term "Austrian School" now encompasses a whole set of free-market ideologues, many of whom have no connection to the country itself.

Yet Austria was also the home of an alternative tradition of economic thought whose exponents locked horns with celebrated "Austrians" like von Mises and Hayek. One of its luminaries was the Marxist thinker Rudolf Hilferding, who combined his intellectual work with a leadership role in the Social Democratic movements of Austria and Germany. Hilferding also served as Germany's Finance Minister during the Weimar Republic, but ultimately fell victim to Nazism in 1941.

His thought contains many valuable insights into the way the modern capitalist system works. Men like Hilferding, who formed an alternative "Austrian School" in their own time, can offer as much to the economics of socialism as their fellow Austrians did to the economics of capitalism.

Life and Career

Born in Vienna on August 10, 1877, Rudolf Hilferding grew up in a prosperous middle-class Jewish family. While still at secondary school, he became interested in the workers' movement; in 1893, at the age of sixteen, he joined the Socialist Student League. He studied medicine at the University of Vienna, qualifying as a doctor in 1901 and practicing for some years afterward, albeit with little enthusiasm.

While at university he also attended economics lectures by the Marxist scholar Carl Grünberg, and in 1905 he took part in Eugen von Böhm-Bawerk's famous graduate seminar in economic theory, along with the future neoliberal Ludwig von Mises, the Austro-Marxist Otto Bauer, and the young Joseph Schumpeter.

Hilferding had already begun to write on economic and political questions, publishing articles in Karl Kautsky's journal *Die Neue Zeit* on the history of the theory of value and the changing function of protective tariffs, and a 100-page defense of the labor theory of value, entitled *Böhm-Bawerk's Criticism of Marx* (1904).

Two years later, he had completed the first draft of his most celebrated work: an analysis of the latest stage of capitalism, its economic contradictions and its drive to imperialism, that would later be published under the title of *Finance Capital* (1910).

Hilferding made these two major theoretical contributions while still in his twenties. In 1906, Kautsky invited Hilferding to Berlin, where he taught briefly at the Social Democratic Party (SPD) school and served as foreign editor of the SPD's newspaper, *Vorwärts*, until 1915.

After the War, he edited the journal of the Independent Social Democratic Party (USPD) in Germany, which took a "centrist" position between Communism and the mainstream Social Democrats who had supported the German war effort. The majority of USPD members opted to join forces with the Communist Party of Germany (KPD) in 1920; Hilferding was part of the minority that later merged with the SPD in 1922.

By now a German citizen, he wrote extensively on the economics of "organized capitalism," and saw the increasing role of the state as offering a peaceful route to the introduction of socialism in advanced capitalist countries.

Hilferding sat as an SPD member of the Reichstag from 1924 to 1933 and served as finance minister in coalition governments in 1923 and again in 1928–29. Despising inflation as a capitalist device to cut real wages, he was a consistent supporter of "sound finance" while in office.

After Hitler came to power in Germany in 1933, Hilferding went into exile, spending his final years in Denmark, Switzerland and finally in France, where he wrote on the "totalitarian state economy" that he identified in both Nazi Germany and Stalin's Russia.

When Germany invaded France in 1940, the Vichy authorities denied him permission to emigrate to the United States, handing him over instead to the Nazi regime in February 1941. He committed suicide while in custody very soon afterward.

Defending Marx

The eminent Austrian neoclassical theorist Eugen von Böhm-Bawerk had published an extended criticism of Marx's theory of value in 1884. Böhm-Bawerk acknowledged that two goods must have some common property in order for them to be exchanged, as Marx had claimed. But he denied that this established a strong logical case for the labor theory of value.

For Böhm-Bawerk, there were many other common properties that were relevant to value. Goods had to be privately appropriated; they had to be products of nature; they had to be scarce, while also being the object of supply and demand; and of course they had to possess utility to the consumer.

Böhm-Bawerk also alluded to the question of how labor values are related to prices, which would later become known as the "transformation problem." When the final volume of *Capital* did at last appear after Marx's death, Böhm-Bawerk reviewed it in an extended essay, and continued to deny both the logical and the historical validity of the labor theory of value.

Hilferding's response to Böhm-Bawerk made no attempt to confront the technical issues arising from Marx's solution to the transformation problem, concentrating instead on qualitative rather than on quantitative issues. This was inevitable, since the analytical tools that might have enabled him to address those technical questions had not yet been developed.

Hilferding's argument was instead a methodological one, putting forward a criticism of the marginalist theory of value that was based on far-reaching objections to the neoclassical approach to economics as a science of society. Subjectivist economic theory, Hilferding argued, confused natural and social phenomena, which Marx had always been careful to keep separate.

The individualism of the bourgeois economists had prevented them from understanding that the labor theory of value was much more than an analysis of relative prices. Since labor is the social bond uniting an atomized society, the Marxian theory of value is a statement about the social relations underlying market phenomena, not a mere theorem about prices.

In making this argument, Hilferding was defending Marx's "logical-historical method." Subsequent generations of Marxian economists have seen that method as constituting a fundamental distinction between an objectivist political economy based on historical materialism and the ahistorical subjectivism of mainstream theory.

Finance Capital

F*inance Capital* was, first and foremost, an intervention in the revisionist controversy within German Marxism that had begun with Eduard Bernstein's attack on SPD orthodoxy in the mid-1890s — a controversy that was still simmering ten years later. Bernstein, a prominent SPD intellectual, argued that capitalism had changed, making its internal contradictions much less sharp.

German society was becoming less polarized as a result, according to Bernstein: there was now real scope for an alliance between the working class and the liberal bourgeoisie to implement economic and social reforms in the interests of the workers. A new stage of "reformed capitalism" was emerging, which offered the prospect of substantial — and above all peaceful — change.

Hilferding rejected the revisionist position on all counts, arguing that the contradictions of capitalism were becoming more acute, not less. As a result of the growing centralization and concentration of capital, and the increased power of finance, social polarization was actually increasing.

Middle-class liberalism in Germany was both weak and in rapid decline, as the growth of finance capital and its imperialist policies strengthened authoritarian, militarist, and racist views among the middle class. For Hilferding, the revisionists were deluding themselves when they suggested that piecemeal reform of the system through a broad class alliance was feasible.

Finance Capital is a contribution to the political economy of capitalism, very broadly conceived. In terms of academic disciplines, it straddles economics, sociology, politics, and international relations, in addition to finance. This is apparent from the structure of the book.

The first part deals with the theory of money and credit. Part II is devoted to the mobilization of capital, the analysis of "fictitious capital" and the operation of the stock exchange — this is where Hilferding deals with "finance" as it would be understood today.

The book's third part explains how the emergence of finance capital is connected to the restriction of free competition, while the fourth concentrates on the analysis of economic crises. In the final section, Hilferding dissects "the economic policy of finance capital," as he calls it, by which he means imperialism.

A Marxist Monetary Theory

Hilferding clearly derived his theory of money from Marx's analysis. According to this perspective, the money supply is endogenous, being primarily determined by the demand of capitalists for it. Hilferding sets out a supply-and-demand theory of interest, which he sees, in a similar way to John Maynard Keynes, as a money-market phenomenon. There is nothing "natural" about the interest rate, and the savings decisions of individuals are completely irrelevant to it.

Hilferding ends part I by considering the broader implications of his monetary theory: "In a developed capitalist system," he writes, "the rate of interest is fairly stable, while the rate of profit declines, and in consequence the share of interest in the total profit increases to some extent at the expense of entrepreneurial profit." This leads to "the growing influence and importance of interest-bearing capital, that is to say, of the banks," and is "one of the main levers for effecting the transformation of capital into finance capital."

This transformation is the principal focus of part II, in which Hilferding develops his analysis of the economics of the corporation. His argument centers on the crucial concept of the "promoter's profit" that accrues to the financier who floats a company on the stock exchange. Increasingly, share promotions are undertaken by banks, which take their profits in the form of shares and thus become major shareholders in industrial companies. This gives the banks an interest in the long-term profitability of the enterprise, and hence an interest in the restriction of competition to increase profits.

In part III, Hilferding shows in much more detail how the growth of financial capital is related to the centralization and concentration of industrial capital. Each bank has a strong interest in eliminating competition among the firms in which it participates. This explains the development of cartels and trusts, which reduces the risks associated with competition and increases the opportunities for the banks to benefit from promoter's profit.

Cartelization makes the relations between the banks and industry even closer, and the banks acquire increasing control over the capital invested in industry. At this point, more than halfway through the book, Hilferding at last defines finance capital: it is "capital at the disposition of the banks which is used by the industrialists."

Sources of Crisis

The theory of capitalist crisis that Hilferding sets out in part IV emphasizes the contradictions of the "real" — as opposed to financial — sector of the capitalist economy. A crisis begins when the rate of profit starts to fall. The cause of this decline could be an increase in the organic composition of capital: for Marx, this was the ratio between constant capital, invested in machinery, raw materials and so on, and variable capital, invested in wages for the purchase of labor power (according to Marx's theory, since labor was the source of value, an increase in the share of constant capital would lower the profit rate).

Downward pressure on the rate of profit could also be linked to growth in wages and interest charges at the peak of the boom. This analysis permits Hilferding to range very widely in his discussion of the actual causes of cyclical fluctuations, revealing a considerable degree of eclecticism in his approach.

For Hilferding, almost anything can be accepted as a legitimate explanation of crises so long as it is interpreted as a form of disproportionality. This includes theories of underconsumption — attributing crises to inadequate demand — which have a controversial status among Marxists.

While cartels introduce planning and conscious regulation of production into individual economic sectors, they also worsen distortions in the price structure as a whole and increase the overall degree of disproportionality. Thus, in opposition to the claims of the revisionists, he argues that crises are *more* severe, not less, under conditions of monopoly.

Hilferding sets out his theory of imperialism in part V. Tariffs, once used only to protect infant industries, are now employed to bolster cartels, giving them permanent security against import competition and permitting them to dump their excess production overseas. The banks are increasingly involved in the export of surplus capital to underdeveloped countries, where the organic composition of capital is low, and both the rate of profit and rate of interest are high.

Hence, finance capital has three objectives in its policy, he argues:

> (1) to establish the largest possible economic territory (2) to close the territory to foreign competition by a wall of protective tariffs, and consequently (3) to reserve it as an area of exploitation for the national monopolistic combinations.

There are enormous political consequences stemming from this. First, the struggle for economic territory leads inevitably to a sharpening of international tensions. Second, because each national finance capital needs a strong government to defend its interests against foreign interlopers, the traditional bourgeois hostility to the state has become a thing of the past. Third, the cosmopolitan capitalism of the nineteenth century has given way to an aggressive nationalism.

Unsurprisingly, *Finance Capital* came to be regarded by many — and not just Marxists — as having provided the most powerful structural explanation for the events of 1914–18 and 1939–45.

Weaknesses

But there are also substantial weaknesses in Hilferding's analysis, not least in his theory of money. Hilferding's commitment to the Marxian labor theory of value requires him to view commodity money — the precious metals, above all gold — as the only "real money" (a paradoxical term that he employs in *Finance Capital*).

On the one hand, Hilferding deems the quantity theory of money to have been refuted by Marx. (The quantity theory claimed that the money supply and the level of prices were in direct proportion to one another, so an increase in the supply of money will drive up prices.)

On the other hand, however, he ends up reintroducing it through the back door. And he has nothing to say about monetary policy, the role of the central bank as the lender of last resort, or the possibility of reforming or regulating the money markets.

In his discussion of finance capital, Hilferding also generalizes too freely from the historical experience of early twentieth-century Germany and Austria. He mistakenly presented the specific conditions of these "late starters" in the process of industrialization as general characteristics of all capitalist countries in this "latest phase of capitalist development" (as the subtitle of his book called it).

In fact, the "bank-centered" financial system that Hilferding analyzed in *Finance Capital* was fundamentally different from the "market-centered" system found in the Anglo-Saxon countries, above all in the United States. It was the latter that had clearly come to predominate by the end of the millennium, even in Germany.

Moreover, Hilferding's emphasis on the increased regulation of the capitalist economy by finance capital, which seemed to be overcoming the "anarchy of the market," could easily be interpreted as revisionist in its political implications. Hilferding can also be criticized for treating finance as epiphenomenal in his analysis of economic crises: for the most part, he depicts financial instability as a symptom, not as an underlying cause. In this sense, he remained very much an orthodox Marxist.

Organized Capitalism

Hilferding had thus made some concessions to revisionism in *Finance Capital,* where he seemed to accept that the road to socialism might be a gradual one, with no need for a sudden act of expropriation. His identification of disproportionality as the underlying cause of economic crises raised the possibility that the state might mitigate such imbalances through various forms of macroeconomic intervention, using monetary and/or fiscal policy.

Addressing the impact of the First World War in 1915, Hilferding came even closer to the revisionist position, pointing to the benefits of increased state intervention in the economy, not just for the capitalists but also for the workers. He now identified a new stage of "organized capitalism," with a much greater role for the state than had been the case for most of the nineteenth century.

In the mid-1920s, he returned to these questions in a series of articles discussing the seemingly permanent increase in the influence of both the state and the industrial monopolies and cartels that had resulted from the War, with an associated reduction in the severity of crises. According to Hilferding, the ruling class had also learned important lessons from the carnage of the war. Cooperation between capitalists in different nations had increased, allowing international relations to become peaceful once more.

It would be unreasonable to criticize Hilferding for failing, in 1926, to anticipate the rise of Stalin and Hitler, which soon cast serious doubt on these rather optimistic conclusions. In a short article written just before his death, he denied that either Nazi Germany or Soviet Russia could be described as forms of "state capitalism," a notion that for Hilferding made no sense. Instead, he saw them as representing a new social formation that he termed "totalitarian state economy."

Hilferding argued that such systems reversed the direction of causation insisted on by historical materialism, with politics now dominating economics, instead of vice versa. The closest analogy to the new totalitarian regimes, Hilferding suggested, could be found in the rule of the Praetorians during the later years of the Roman Empire. The emergence of the state as an independent power did not rule out a Marxist analysis of the Nazi and Stalinist systems, he insisted, but it did make such an analysis very much more complicated.

Assessing Hilferding

In conclusion, it can be said that Hilferding asked many of the right questions, even if he often did not provide satisfactory answers to them. Some of these questions are more salient and more pressing now than they were fifty years ago. This is most obviously the case with respect to the rise of finance, which has transformed both the nature of the capitalist system and the preoccupations of political economists, in ways that would have been inconceivable in 1970.

Equally, the slow but inexorable erosion of what used to be known as US "super-imperialism," and the steady increase in the influence of China — economic, political, and military — have produced a dangerous revival of imperialist rivalry, and a growing interest in its possible economic roots. The difficulty of establishing the precise nature of the Chinese economy and the Chinese state has given fresh relevance to Hilferding's thinking on "state capitalism" and "totalitarian state economy."

Finally, there is the retreat from neoliberal globalization already evident in national responses to the Trump presidency and the COVID-19 pandemic, which will go much further as the consequences of global warming become even more apparent. This suggests that his concern with the economic role of the state and the possibility of a peaceful transition to socialism was indeed prescient. Almost eighty years after his death, Rudolf Hilderding still has lessons to teach us.

There are two good intellectual biographies of Hilferding in English, William Smaldone's *Rudolf Hilferding: The Tragedy of a German Social Democrat* (1998) and F. Peter Wagner's *Rudolf Hilferding: Theory and Politics of Democratic Socialism* (1996). Tom Bottomore, the book's editor, contributed an excellent introduction to the English translation of *Finance Capital*(1981). Further discussion of the major economic themes in Hilferding's work can be found in the two volumes of M. C. Howard and J. E. King, *A History of Marxian Economics* (1989, 1992) and in J. E. King, *The Alternative Austrian Economics: A Brief History* (2019).

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