

From “Finance Capital” to “Organized Capitalism:” Socialization in Rudolf Hilferding’s Writings Under the Influence of Ferdinand Tönnies



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1 Introduction

Rudolf Hilferding’s ideas regarding the development of capitalism, as presented in his seminal work entitled “Finance Capital” (published 1910) and in his concept of “Organized Capitalism,” developed after the war and finalized in 1927, both describe the transition to socialism. They differ in the instruments used to reach this aim, their understanding of property, and the role of the state.

This paper presents the development to socialism as described by Hilferding in “Finance Capital,” his ideas during his time in the Socialization Commissions in Germany (1918–1920), and his concept of “Organized Capitalism.” Afterward, the ideas of Ferdinand Tönnies regarding socialism and property, along with his enormous influence on Hilferding’s concepts, are presented.

2 Biographical Notes on Rudolf Hilferding

Rudolf Hilferding was born on August 11, 1877, in Vienna, Austria. He enrolled at the University of Vienna in 1896 to study medicine. From 1902, Karl Kautsky, the editor of *Die Neue Zeit* and the “preceptor of Marxism” (Gottschalch 1962, 62) in the German-speaking countries, became Hilferding’s mentor (Hilferding would later declare that Kautsky had “welcomed him like a son” (letter from Hilferding to Kautsky, 19 Oct 1924, International Institute of Social History KD XII 638)). In 1906, with the support of Kautsky, Hilferding became one of two permanent teachers at the newly founded party school of the German Social Democratic Party (SPD) in Berlin. Apart from working at *Die Neue Zeit*, he became the writer for the foreign

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policy section of *Vorwärts*, the party newspaper of the SPD. It was during this time that he published “Finance Capital” in 1910.

After the war, he became chief editor of the party newspaper of the USPD and worked on the re-unification of the German social democratic parties, which took place in 1922. He became the central theorist in the united party and even became the editor of its newly founded theoretical journal, “*Die Gesellschaft*,” since 1924. He was appointed as German Finance Minister in 1923 and in 1928/29. He emigrated in 1933 and was ultimately killed by Nazi-German Gestapo in France in 1941.

3 The Development of Capitalism According to “Finance Capital”

In his work, “Finance Capital,” Hilferding describes the development from capitalist anarchy to a consciously organized economy. In this framework, he implicitly uses a step model: In the beginning, capitalism prevails against the previous, feudal economic order (Greitens 2017, 153ff, 2018, 181ff). This early competitive capitalism was already analyzed and explained by Karl Marx. Before socialism can begin, capitalism enters a second phase (subtitle of “Finance Capital”: A Study of the Latest Phase of Capitalist Development) in which it modifies itself. This process is at the center of “Finance Capital” and can be divided into five steps described below.

Step 1: The capitalism of free competition

- Competitive capitalism exists, as described by Marx.
- Marx’s theory of value applies in this anarchic, capitalist economy.
- The economy is not very concentrated, and the financial system consists of *Geldhandlungskapital* (money-handling capital), which essentially means bills of exchange.

Step 2: Financial System Development

- The formation of limited-liability companies, such as joint-stock companies, enables larger investments and mobilizes capital through the fungibility of the fictitious capital at the stock exchanges.
- A financial system gradually develops to meet the growing demand for capital.
- The concentration and centralization of capital in the industry begins.

Step 3: Concentration in the economy

- Due to economies of scale and scope, concentration and centralization in the industry continues.
- The increasing liquidity needs of the companies place banks—as the provider of this liquidity—in a central role.
- The banks promote monopolization in the industry in order to secure their investments.

- The capital needs of the industry and those within the promoter's business leads to bank concentration to fulfill these demands.
- The importance of the stock exchanges is decreasing, and a bank-based financial system emerges because this type of financial system allows a stricter control of the bank clients.
- The concentration and centralization in the industry raise up to a general cartel.
- The applicability of the Marxian value theory weakens.

Step 4: The emergence of finance capital

- Banks are merging into one monopolistic bank. Thereafter, finance capital, as a centralized power over the whole economy, has emerged.
- The rule of the capital magnates takes control over the economy.
- The value theory is no longer relevant. The economy is consciously organized, but in antagonistic form by the capitalists.
- "The tendency of finance capital is to establish social control of production, but it is an antagonistic form of socialization, since the control of social production remains vested in an oligarchy." (Hilferding 1910, 367)

Step 5: The overthrow of capitalism toward socialism

- A political revolution changes ownership and puts the conscious organization in the hands of the proletariat.
- "Finance capital, in its maturity, is the highest stage of the concentration of economic and political power in the hands of the capitalist oligarchy. It is the climax of the dictatorship of the magnates of capital. (...) it makes (...) the internal domination of capital increasingly irreconcilable with the interests of the mass of the people, exploited by finance capital but also summoned into battle against it. In the violent clash of these hostile interests the dictatorship of the magnates of capital will finally be transformed into the dictatorship of the proletariat." (Hilferding 1910, 370)
- "The socializing function of finance capital facilitates enormously the task of overcoming capitalism. Once finance capital has brought the most important branches of production under its control, it is enough for society, through its conscious executive organ—the state conquered by the working class—to seize finance capital in order to gain immediate control of these branches of production. (...) Even today, taking possession of six large Berlin banks would mean taking possession of the most important spheres of large-scale industry, and would greatly facilitate the initial phases of socialist policy during the transition period, when capitalist accounting might still prove useful." (Hilferding 1910, 367f)

The driving forces in this process are the following kinds of transformation:

- (1) the monetary and financial system development, and
- (2) the concentration and centralization in the industry.

1. Monetary and financial system

Hilferding describes the development of a bank-based financial system. This does not only mean the institutions of the financial sector itself but he has a broader understanding of financial systems. Hilferding begins with a monetary theory given that money is of fundamental importance in the organization of an economy. Additionally, he stresses the importance of the new types of companies, limited-liability companies, and their corporate governance structures (Hilferding 1910, 120ff). Market liquidity at the stock exchanges is the prerequisite for the liquidity of the fictitious capital and thus for the mobilization of capital. Nevertheless, these market-based institutions are not that dominant in Germany, as in England. In particular, the stock exchanges initially developed in a complementary way to banks; however, they lose their relevance when the banks become dominant. With the development of the bank-based financial system, the settlement of all financial transactions and the provision of liquidity are monopolized by banks, until the banks ultimately take control over the entire economy.

2. Concentration and centralization in the economy

In competitive capitalism, the capitalists are subjected to the pressure of competition. The concentration and centralization of capital, especially with the new limited-liability companies, lead to larger freedom of action for the capitalist. The businessman is reduced to the owner and the managers are the ones leading the large companies (Hilferding 1910, 154).

In finance capital, the two transformations come together. The tendency to establish a general cartel and the tendency to form one central bank coincide and their amalgamation leads to the power of finance capital (Hilferding 1910, 319).

Hilferding describes many reasons why the banks wield so much power over the industry. Two groups of arguments are central to this discussion. First, the banks control the liquidity of the companies and the supply of credit money and the higher liquidity of bank assets (shares, loans, etc.) compared with the less liquid industrial assets like machinery is key. Second, Hilferding describes the construction of corporations as a tool to obtain power over companies with a relatively small amount of own capital (Hilferding 1910, 138ff).

4 Hilferding in the “Socialization Commissions”

After the war, Hilferding changed his concept of “Finance Capital” to a concept, which he called “Organized Capitalism” in order to adapt his idea to the political changes that occurred after 1914.

In fact, he was not alone in proposing this kind of ideas. After 1910, there were numerous discussions among German economists (e.g., Plange, Jaffe, Schulze-Gaevernitz, Alfred Weber) and similar discussions took place in the SPD, especially after 1916 (Krüger 1983, 82ff, 158ff). There was a broad consensus that the war had

changed the direction of socialism, and the increasing administrative capacities and the growing role of the state in the economy during the war influenced the discussion (Krüger 1983, 220; Wagner 1996, 102).

In an article entitled “Arbeitsgemeinschaft der Klassen?” published in October 1915, Hilferding began to formulate his concept of “Organized Capitalism” by mentioning this term for the first time. In this article, he still rejected the state as an instrument to achieve socialism (Hilferding 1915, 70; Smaldone 2000, 84ff).

At the “Allgemeine Kongreß der Arbeiter- und Soldatenräte” in December 1918, Hilferding gave a speech about the question of socialization. “Socialization (...) will have to extend to all areas where capitalist concentration, cartels and trusts have already prepared the organized socialist economy”.¹ Hilferding wanted to gradually hand over the control over the large corporations to the community (Hilferding 1918, 98f). Nevertheless, the sectors must be “mature enough” for socialization, and their goods must be of high economic importance. He added, “The connection between industrial capital and bank capital, which has become increasingly close in Germany, has brought all economic power in a small number of major banks. (...) With the socialization of the coal and iron and parts of the heavy industry, we are not only getting the power over industrial capitalism, but also the power of bank capitalism”.² Indeed, due to the critical situation in the supply of credit in November 1918, Hilferding was against the socialization of banks. The capitalist should be compensated for expropriation, and the whole transition from capitalism to socialism would take a long time (Hilferding 1918, 105; Stephan 1982, 96f).

In the same year, Hilferding became a member of the Socialization Commission, which had been established in November 1918. Under the chairmanship of Karl Kautsky, representatives of the SPD, the USPD, and independent experts met. Among them was Joseph Schumpeter, whom Hilferding perceived as a very radical individual (Somary 1959, 171). By February 1919, majority and minority opinions were passed. Hilferding sided with the majority opinion that there should be no return to the pre-war form of capitalism, but also no radical change to state capitalism. Furthermore, they argued that certain sectors should be socialized and democratic elements must be introduced into the economy (Gottschalch 1962, 171). However, the government did not seriously consider the Commission’s proposals, so the Commission finished its work in April 1919 (Smaldone 2000, 106ff).

After the Kapp putsch, a second Socialization Commission was convened by the government in May 1920. The discussions increasingly took the character of an

¹Hilferding (1918, 98): “Die Sozialisierung wird sich (...) auf alle Gebiete erstrecken müssen, wo bereits durch die kapitalistische Konzentration, durch Kartelle und Trusts der organisierten sozialistischen Wirtschaft vorgearbeitet ist”.

²Hilferding (1918, 100): “Die Verbindung zwischen industriellem Kapital und Bankkapital, die sich in Deutschland immer enger gestaltet hat, die erst bewirkt hat, daß in einer Anzahl von Großbanken alle Fäden der ökonomischen Herrschaft zusammenlaufen, diese Verbindung wird dadurch gelöst, die Macht der Großbanken über die Industrie wird auf diese Weise in einem hohen Grade erschüttert. Wir treffen mit der Übernahme von Kohle und Eisen und eines Teils der schweren Industrie nicht nur die Macht des industriellen Kapitalismus, sondern auch die Macht des Bankkapitalismus”.

Enquete Commission (Euchner 1988, 177). Furthermore, the disagreement between Hilferding and Walter Rathenau dominated the negotiations (Stephan 1982, 109f).

5 The Strategy of “Organized Capitalism”

As chairperson of the Program Committee that was responsible for the 1925 Party Program of the re-united SPD and in his address at the 1927 Party Conference, he finally introduced his concept of “Organized Capitalism.” In contrast to Sombart’s “Late Capitalism”,³ Hilferding defined his concept as follows: “Organized capitalism means (...) the fundamental replacement of the capitalist principle of free competition by the socialist principle of planned production. This planned and consciously controlled economy is a far better basis for the possibility of conscious influence by society, (...) the influence of the single organization of society that is conscious and vested with coercive force, the state”.⁴ In his view, industrial, commercial, and banking capital—united in the form of finance capital—are striving toward uniformity, the transition from the capitalism of free competition to organized capitalism.⁵ He added,

Leadership of the enterprise is no longer a private affair for the owner, but a matter for society. (...) For individual businesses, corporate concentration (...) means the elimination of free competition. It has been the capitalist doctrine that only the power of free competition can promote the economy and implement the necessary technological innovation and progress. The principal argument against socialism has always been: You do away with the private initiative of free competition and have nothing to put in its place. Consequently, your economy will not work, because it takes no account of the ambition and self-interest of the private owner (...). It is very interesting to see how those concerned with the development of modern business administration are now looking for ways in which this free competition of private self-interest can be replaced by methodical planning and a scientific approach.⁶

³Hilferding (1927, 215).

⁴Hilferding (1927, 218): “Organisierter Kapitalismus bedeutet also in Wirklichkeit den prinzipiellen Ersatz des kapitalistischen Prinzips der freien Konkurrenz durch das sozialistische Prinzip planmäßiger Produktion. Diese planmäßige, mit Bewußtsein geleitete Wirtschaft unterliegt in viel höherem Maße der Möglichkeit der bewußten Einwirkung der Gesellschaft, das heißt nichts anderes, als der Einwirkung durch die einzige bewußte und mit Zwangsgewalt ausgestattete Organisation der Gesellschaft, der Einwirkung durch den Staat”.

⁵Hilferding (1924, 2).

⁶Hilferding (1927, 217): “Führung des Unternehmens ist nicht mehr Privatsache des Unternehmers, sondern gesellschaftliche Angelegenheit. (...) Die Konzernbildung, das Zusammenfassen von immer mehr Betrieben in eine oberste Spitze bedeutet für die einzelnen Betriebe die Ausschaltung der freien Konkurrenz. Es ist kapitalistische Lehre gewesen, daß nur der Zwang der freien Konkurrenz die Wirtschaft fördern, die notwendigen technischen Erneuerungen und Fortschritte durchsetzen kann. Das Hauptargument gegen den Sozialismus ist immer gewesen: Ihr schaltet die private Initiative der freien Konkurrenz aus und wißt nichts an die Stelle zu setzen. Infolgedessen wird eure Wirtschaft nicht gehen, weil sie den Ehrgeiz und Eigennutz des Privateigentümers der Produktionsmittel nicht in Rechnung stellt. Nun ist es sehr interessant zu sehen, wie in der Entwicklung der modernen Betriebswissenschaft nach Methoden gesucht wird, um diese freie Konkurrenz des privaten Eigennutzes durch wissenschaftliche, planmäßige Methoden zu ersetzen”.

In his view, company management becomes an objective and strictly scientific affair. Moreover, for Hilferding, the question is how business, on the one hand, and state organization, on the other hand, ought to interact to enable the democratic state to bring about the conscious organization of the economy for the general interest (Hilferding 1927, 218, 221). Indeed, Economic Democracy⁷ is the subordination of private economic interests to the interests of society.⁸

But the antagonistic, conflictual foundation of such an economic organization necessarily entails struggle. The more advanced the organization becomes, and the more consciously the economy is regulated, the more intolerable does the usurpation of economic power (...) by the owners of the concentrated means of production become (...). The consciously regulated character of the economy comes into open and undisguised conflict with the antagonistic ownership principle (...). The conflict is resolved by the transformation of the hierarchically organized economy into one that is democratically organized.⁹

As in politics, where the privilege (justified by birthright) of the rule of the king and the aristocracy is overthrown, the control of the large corporations—a power that is linked with property—can be changed (Hilferding 1924, 5). Nevertheless, the creation of economic democracy is an enormously complicated, lengthy historical process, which proceeds not by means of revolution but through a prolonged organic development: in other words, by evolutionary means (Hilferding 1924, 3). Here, property is central to the changes that must occur, that is, only a change in the rules of ownership can create the transition to a new community, to socialism.

With this theory, Hilferding found great support within the SDP until the economic crisis of 1928/29 and was thus able to unite the left- and right-wing social democrats for a few years (Smaldone 2000, 146f). With the concept of “Organized Capitalism,” Hilferding has created a theoretical basis on which the SPD was able to combine its pragmatic policy with its Marxist ideology in the 1920s.

To a certain extent, Hilferding deviates from his concept of “Finance Capital,” through which he argues that the state depends on the interests of the “finance capital” and carries out its will. In “Organized Capitalism,” the democratic state is oriented toward the common good (Könke 1987, 62f). Hilferding rejects a (second, which would mean a Bolshevik) revolution, a political overthrow, and wants to effectively

⁷The concept of Wirtschaftsdemokratie [economic democracy] is linked to Fritz Naphtali. In the programmatic document *Economic Democracy*, published by the *Deutsche Gewerkschaftsbund* [Confederation of German Trades Unions] (1928), edited by Fritz Naphtali, Hilferding is mentioned as a prominent contributor. Naphtali acknowledges Hilferding’s theory of “Organized Capitalism” as a basic principle; Naphtali (1928, 11, 21ff).

⁸Hilferding (1927, 221): “Die Wirtschaftsdemokratie ist die Unterordnung der wirtschaftlichen Privatinteressen unter das gesellschaftliche Interesse”.

⁹Hilferding (1924, 3): “Aber gerade die antagonistische, gegensätzliche Grundlage einer solchen Wirtschaftsorganisation erzwingt den Kampf. Je fortgeschrittener die Organisation, je bewußter die Regelung der Wirtschaft, desto unerträglicher wird der Masse der Produzenten die Usurpation der Wirtschaftsmacht und des gesellschaftlichen Produkts durch die Besitzer der konzentrierten Produktionsmittel. Der bewußt geregelte Charakter der Wirtschaft gerät mit der “zufällig”, aus der früheren Epoche des unorganisierten Kapitalismus überkommenen gegensätzlichen Eigentumsgrundlage in offenbaren, nicht mehr zu verhüllenden Widerspruch. Er wird beseitigt durch die Umwandlung der hierarchisch organisierten in die demokratisch organisierte Wirtschaft”.

transform the economy over a longer period by means of a democratic state. Hilferding was very much in opposition to the influence from Moscow on the SPD (Könke 1987, 63).

With this revision, Hilferding only adapts his theory to the political changes in Germany from the monarchy to a democracy, in which the SPD serves as the largest political party (Stephan 1974, 137f). Unfortunately, all optimistic ideas turned out to be an illusion: the Weimar state was not a stable democracy. The argumentative core of “Finance Capital”, from the theory of money, the importance of the banks, and the cartel formation, remains completely untouched by these adoptions. In fact, on the contrary, the continuity of his theoretical constructions is astonishing.

6 The Influence of Ferdinand Tönnies on “Finance Capital”

Tönnies was of high importance for Hilferding’s intellectual development (Greitens (2018) 377ff). His personal library (Hilferding 1957) includes three works by Ferdinand Tönnies, “Gemeinschaft und Gesellschaft” [Community and Civil Society] (1922 edition), “Das Eigentum” [Property] (1926), and “Soziologische Studien und Kritiken” [Sociological Studies and Critiques] (a compilation of texts written and edited by Tönnies 1925). The importance of the first two works for Hilferding will be discussed below (Greitens 2013, 29f).

Hilferding quoted Tönnies’ definition of the term *Gesellschaft* [society] from his first edition of “Gemeinschaft und Gesellschaft” (1887) for one of his articles in “Die Neue Zeit” (Hilferding 1904, 106). In this article, Hilferding talks about the economic theory of Karl Marx. The terms *Gemeinschaft* and *Gesellschaft* can be found throughout Hilferding’s article. In that cited work, Tönnies distinguished between the natural and organic connection between humans in a *Gemeinschaft* and the mechanical connections among them in a *Gesellschaft* (Tönnies 1887, 17, 233).

The theory of *Gemeinschaft* is based on the idea that in the original or natural state is a complete unity of human wills (Tönnies 1887, 22).

The theory of *Gesellschaft* takes as its starting point a group of people who, as in *Gemeinschaft*, live peacefully alongside one another, but in this case without being essentially united—indeed, on the contrary, they are here essentially detached. (...) Nothing happens in *Gesellschaft* that is more important for the individual’s wider group than it is for himself. On the contrary, everyone is out for himself alone and living in a state of tension against everyone. (...) Nobody wants to do anything for anyone else, nobody wants to yield or give anything unless he gets something in return that he regards as at least an equal trade-off. (Tönnies 1887, 52)¹⁰

As the relationship of exchange becomes a paradigm of society, Tönnies connects this idea to a value theory based on work (Tönnies 1887, 54ff). Tönnies directly refers to Marx at only three points, but the whole “theory of society” is a specific interpretation of Marx (Rudolph 1991, 310). Tönnies’ definition of *Gesellschaft* is

¹⁰These sentences are quoted in Hilferding (1904, 106).

used for Hilferdings understanding of anarchistic capitalism (Hilferding 1910, 27ff). From *Gesellschaft*, which is defined by the exchange of goods, Tönnies moves to the topic of “money.” For him, a bill of exchange is only valid “if the receiver is sure of being able either to pass it on, or of giving it back to the giver (or issuer). (...) It is private money, which Society guarantees by enforcing the liability of the debtor or his ‘guarantors’” (Tönnies 1887, 61).

Hilferding adopts the motif of a “guarantee by society” (*gesellschaftliche Garantie*)—it is apparent that, following Tönnies, he views a legal guarantee with enforceability (Hilferding 1910, 62).

Behind Tönnies’ construction lies a dialectical line of argument, in which the era of community is followed by an era of society. Tönnies’ projected end of society is not followed by barbarism, but instead by a “new community,” with the labor movement as its driving force (Rudolph 1991, 309). In 1919, Tönnies states that the goal of this labor movement is the restoration of the community (Rudolph 1991, 309). For Tönnies, communism means common property, whereas socialism means that the state owns the property. Furthermore, communism is community-based, whereas socialism is a kind of society (Kozyr-Kowalski 1991, 329). This is explicated and specified by Tönnies in his work, “Soziologische Studien und Kritiken.” (Tönnies 1925, 58ff).

Hilferding’s idea of a socialist society is defined by Tönnies as follows: “In a more perfect version of *Gesellschaft* every commodity would be produced in the correct amounts and sold at its proper value by one single unified capitalistic concern which had complete foreknowledge of normal demand” (Tönnies 1887, 79).

Tönnies’ concepts of “community” and “society” and his idea of a new community as the goal of socialism are therefore fundamental to Hilferding’s description of the development from capitalist anarchy to a consciously organized economy in “Finance Capital.”

7 Tönnies’ Understanding of Property and Socialization

In 1926, Tönnies published his book entitled “Das Eigentum” [Property]. This was triggered by a referendum on the expropriation without compensation of the German royal houses, which had reigned until 1918. This vote, which was initiated partly by the SDP, was held on June 20, 1926, but did not receive sufficient backing. It is against this background that the property question arose again for Tönnies.

In the first instance, “property” refers to abstract protection of ownership against arbitrary rule, and this benefits the poor as well as the wealthy (Tönnies 1926, 8f) (“Ownership of other means of production is still regarded as sacred and irreplaceable”¹¹). Property, however, has always attracted criticism and this has changed the understanding of this concept. Tönnies’ example is the prohibition of the slave trade:

¹¹Tönnies (1926, 12): “Das Eigentum an anderen Produktionsmitteln gilt noch als heilig und unersetzlich”.

(Tönnies 1926, 10f) “Recently, however, it has often been predicted that ownership of land and real estate as ‘capital’ will, like slavery, be replaced to history in the foreseeable future—perhaps in about half a century.”¹²

Why do capitalists regard private property as something sacrosanct and inviolable? (Tönnies 1926, 12). Tönnies names the following three theories justifying the ownership of property in a society:

- Property is of the very essence of man and is derived from work he has performed.
- It is an unspoken contract between all participating members of society and, thus, a convention.
- By virtue of its laws, the state’s protective will and its power create property. Therefore, the state also has the authority to change the rules governing properties.

According to Tönnies, all three theories are mutually compatible and fit to the present social order (Tönnies 1926, 13ff). In the community (as Tönnies understands it) private property is based on common property, which has arisen through a rule of distribution (e.g., through the father of the house or the village community) and is also restricted (Tönnies 1926, 16f). Historically, property has become ever more free and unrestricted, thanks to the state, which is itself influenced by social forces. The state sees its principal task as being the protection of free property (Tönnies 1926, 18).

However, the more the state power, despite its indisputable dependence on the socially significant class, sees before it the great mass of its people who have no, or scarcely any, share in the ownership of land and capital (...) the more the relationship of the state power to property will necessarily change. Free property is confronted by the free state power, which gathers all previous common powers to itself and claims to replace them by representing the rationalized concept of the common will. Even apart from the increasing influence of the working and propertyless class, the idea of ‘state socialism’ is coming forward through financial need and realistic thinking about the conditions necessary for the preservation and promotion of the state as an interest of all of the people. This idea (of ‘state socialism’) is reflected in the aim, on the one hand, to make the state itself to a large extent the owner of the land and of its resources and of the major means of production and communications, and on the other hand, to emphasize the degree to which all private property is determined by the institution of the state and of the legislative will.¹³

¹²Tönnies (1926, 12): “Neuerding aber ist mehrfach vorausgesagt worden, daß das Eigentum an Boden und an realem “Kapital” dereinst—etwa binnen eines halben Jahrhunderts—ebenso der “Geschichte” angehören werde, wie heute tatsächlich das Sklaveneigentum”.

¹³Tönnies (1926, 18f): “Je mehr aber die Staatsgewalt, wenn auch noch in unbestrittener Abhängigkeit von den gesellschaftlich maßgeblichen Schichten, die große Masse ihrer Untertanen sich gegenübersteht, die am Eigentum des Bodens und des Kapitals keinen oder geringen Anteil haben (...) umso mehr wird notgedrungen das Verhältnis der Staatsgewalt zum Eigentum ein anderes. Dem freien Eigentum stellt sich die freie Staatsgewalt gegenüber, die alle bisherigen gemeinschaftlichen Mächte in sich versammelt und ersetzen will, indem sie den rationalisierten Begriff des Gemeinwillens darstellt. Auch abgesehen vom zunehmenden Einfluss der arbeitenden und eigentumslosen Klasse entwickelt sich durch finanzielle Bedürfnisse und sachliches Denken über die Bedingungen des Erhaltung und Förderung des Staates als eines Interesse des Volksgesamtheit, die Idee des “Staatssozialismus”, die sich darin ausprägt, daß sie einerseits den Staat selber in weitem Umfang zum Eigentümer des Bodens und seiner Schätze wie der großen Produktions- und

For Tönnies, it is in money that the consciousness of property is crystallized (Tönnies 1926, 20).

The state has been instituted by him [the capitalist] and his business friends to protect life and property, to enforce contractually agreed performance. He is also paid for this and does what it is committed to doing—the ‘night-watchman’ theory. However, a collective entity as powerful as the state (...) cannot be prevented from developing its own will and its own thinking, even against owners of property,—and this is more likely to happen the more powerful the non-property-owners become. (...) the lawgiver has the right (...) to make changes to it and distribute it as he thinks fit if the great majority of citizens instruct him and empower him to do so.¹⁴ The consciousness, then, of being able, through the state and property, to control and change the entire economic order is not a new political consciousness (...). Expropriation is an institution of the law as currently in force that is still untouched by the influence of the working class.¹⁵

Tönnies is not in favor of revolution. For him, property is socially determined and thus adaptable. This is the view of property that also underlies Hilferding’s thinking in his notion of “Organized Capitalism.”

8 The Influence of Ferdinand Tönnies on Hilferding’s “Organized Capitalism”

In his work, “Finance Capital,” Hilferding only uses the term “property” in a few places: with reference to shares, the concentration of enterprises, the stock exchange and when speaking of fictitious capital. His conclusion is as follows: “The dependence of industry on the banks is, therefore, a consequence of property relationships.” (Hilferding 1910, 305). True, Hilferding assumes in 1910 the need for a revolution in order to achieve the socialist society, but it is a political revolution, and there is no economic collapse.

However, nowhere does he attempt a legal or social categorization of the concept of “property.” Even when he describes the revolution, such a concept does not appear.

Verkehrsmittel machen will, anderseits die Bedingtheit alles Privateigentums durch die Institution des Staates und des gesetzgeberischen Willens (...) hervorhebt”.

¹⁴Tönnies (1926, 24): “Der Staat ist von ihm und seinen Geschäftsfreunden eingerichtet, um Leben und Eigentum zu beschützen, um die kontraktlich bedungenen Leistungen zu erzwingen, auch er wird dafür bezahlt und tut, wozu er verpflichtet ist—die “Nachtwächter-Theorie”. Indessen kann nicht verhindert werden, daß ein so gewaltiges Kollektivgebilde, wie der Staat notwendig sein muß—von vielen denkenden Menschen getragen—seinen eigenen Willen und sein eigenes Denken entwickelt, auch gegen die Eigentümer entwickelt,—um so eher wird dies geschehen, je mehr die Nicht-Eigentümer Macht gewinnen. Dann erst erfüllt sich (...), daß die Staatsgewalt, als die von allen autorisierte, nur durch Gesetze das Eigentum erhält, und daß folglich der Gesetzgeber nach seinen Zwecken es zu verändern und zu verteilen das Recht, weil die natürliche Macht, hat, wenn die große Mehrheit der Staatsbürger ihm den Auftrag gibt, ihn ermächtigt”.

¹⁵Tönnies (1926, 27): “Das Bewußtsein, durch den Staat und das Eigentum, also die gesamte Wirtschaftsordnung zu beherrschen und verändern zu können, ist nicht ein neues politischen Bewußtsein, wengleich es in neuen Trägern neue Gestalten annahmen muß. Die Enteignung ist eine Institution des geltenden, vom Einfluß der Arbeiterklasse noch unberührte Rechts”.

After the war, when he found himself in a responsible position in a democracy, and as such, an analysis of this kind became necessary.

It is only in the concept of “Organized Capitalism” that Hilferding, not at least under the influence of Tönnies, differentiates his concept of “property,” as described earlier. These modifications are also reflected in Hilferding’s changing understanding of the state. In “Finance Capital,” power over the economy leads to the control of the state power: “Economic power also means political power. Domination of the economy gives control of the instruments of state power. The greater the degree of concentration in the economic sphere, the more unbounded is the control of the state” (Hilferding 1910, 370). Hilferding argues that, after the war, it is possible for the state to be conquered by the working classes by democratic means and used by them for their own purposes. Hilferding moves away from the subordination of the state to the economy in favor of the idea of reciprocal influence: “In reality, there is a functional link between state and economy; there is only one economy in the state, and this is only the way it is because it is in this state, just as, conversely, the character of the state is determined by the economy.”¹⁶

In “Organized Capitalism,” he is thinking of a restructuring process over a fairly long period of time. When revising his views, however, Hilferding understands the switch to democracy in a purely theoretical sense. His idea of socialism—a consciously regulated society moving toward the new community—which is already discernible in “Finance Capital,” becomes clearer.

9 Conclusion

Astonishingly, there is an unbroken continuity in Hilferding’s economic theory from “Finance Capital” in 1910 until 1933. The experiences of the revolutionary years did not make Hilferding change his fundamental theoretical positions. Only the question of how socialism can be achieved, whether revolutionary or democratic, has changed.

As Hilferding was in strong opposition to the Bolsheviks, he, instead of despairing on the failure of the revolution, interpreted the new political situation positively and adapted his theory with the new concept of “Organized Capitalism” into one that posits a democratic and gradual transformation instead of a revolution. He now regards the state as a political instrument with which to build socialism. There is no need to theorize if economic planning can be done, as management is a strictly scientific function and already done under the regime of finance capital. Along with this continuity, Hilferding was not able to include new approaches focusing on the

¹⁶Hilferding (1921, XIV): “In der Realität besteht zwischen Staat und Wirtschaft [ein] funktioneller Zusammenhang; es gibt nur eine Wirtschaft im Staate, die nur so ist, weil sie in diesem Staate ist, wie andererseits die Beschaffenheit des Staates durch die Wirtschaft bestimmt ist”.

demand side of the economy, which made him lose his influence in the SPD with the Great Depression.¹⁷

Through Hilferding, Tönnies also had a strong influence on the party programs of the Social Democrats in the 1920s. With his ideas on community and society, as well as his elaboration on property rights and socialization—representing a widespread discussion during that time—he has significantly influenced Hilferding and his concepts.

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¹⁷e.g. his role in the conference of the Friedrich-List Gesellschaft in September 1931 (Borchardt and Schötz 1991).

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