



A Socialist Third Way? Rudolf Hilferding's Evolutionary Socialism as Syncopated Note to Early Neoliberalism

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INTRODUCTION

Rudolf Hilferding's 1941 death in Gestapo captivity barely captured any international notice, a strange fate for a man who at one point was hailed as both a top intellectual and politician within Marxist and socialist circles for nearly two decades (Smaldone 1998, p. 3). Indeed, Hilferding's reputation, like the Austro-Marxists and Social Democratic parties in the 1920s and 1930s to which he contributed, has suffered historically, variously condemned as straying too far from Marxism (Zoninsein 1990), too orthodox (Gates 1974), advocating ambiguous and incoherent political practices (Blum 1985; Leser 1976), and responsible for the collapse of the Weimer Republic and the rise of National Socialism (James 1981; Bottomore et al. 1978). Hilferding, as finance minister and adviser to several different coalition cabinets, prominent politician, and prominent

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party intellectual, has received much blame, especially for the latter (Winkler 1990; Gourevitch 1984; Breitman 1976; Gates 1974).

Hilferding's main accomplishment, *Finance Capital*, was hailed by Otto Bauer and Karl Kautsky as a 'Fourth Volume' of Marx's *Capital* itself (Coakley 2000; Zoninsein 1990) and cemented his place as a leading socialist politician in the Second International (Smaldone 1998, p. 40). Even Lenin was influenced by his ideas,¹ though with the success of the radical Soviet revolution in Russia, Lenin denounced Hilferding as an 'ideologically bankrupt leader of the Second International' and as part of the 'miserable petty-bourgeois, who were dependent on the philistine prejudices of the most backward part of the proletariat' (quoted in Smaldone 1998, p. 81), and as an 'ex-Marxist' (Coakley 2000). Stalin denounced the Austro-Marxists in 1913 as 'fellow travelers of the bourgeoisie', expelling them from the Second International (Johnston [1972] Johnston 1976, p. 99). Trotsky himself wrote the stinging criticism that Hilferding 'remained a literary official in the service of the German party—and nothing more' and that his character was 'furthest from that of a revolutionary' (quoted in Smaldone 1998, p. 57). Thus, critics of Hilferding attacked both his theory and his practice, and he has the unique distinction of being simultaneously exhorted as a champion and master of Marxist theory and accused as a vanguard of the bourgeois classes within one decade of his life!

Recently, there has been something of a rehabilitation of Hilferding, the Austro-Marxists, as well as the various failed attempts to re-establish social democracy in the German-speaking world during the 1930s. Hilferding and others are now understood to have done the best they could in a chaotic situation (Smaldone 1988; Wagner 1996). Even Wilhelm Röpke, one of the pioneers of neoliberalism, tentatively defended the German Marxists, conceding that some of the earliest critics of National Socialism were the Marxists, even if they mistakenly viewed it as another form of capitalism (Röpke 1935, p. 88). This was due to the unique Austro-Marxist conception of the state, which was not simply reducible to class and therefore to economic power, but was independent

¹The influence of Hilferding on Lenin's thought is well-documented in academic literature. Lenin himself makes the admission, on the first page of *Imperialism*, where he references Hilferding's magnum opus, *Finance Capital* as '[a] very valuable theoretical analysis of "the latest phase of capitalist development" as the subtitle of Hilferding's book reads' (Lenin 1916, p. 1). For other sources of Hilferding and Lenin's relationship, see Zarembka (2003), Coakley (2000), Smaldone (1998), Zoninsein (1990), James (1981), and Sweezy (1949).

of the economy as a separate, theoretically neutral sphere of contention (Bottomore et al. 1978; Hilferding [1940] 2010, [1910] 1981; Bauer [1927] 1978; Adler [1933] 1978). The renewed interest in Austro-Marxism is not just due to historical revisionism, however, as Hilferding's analyses of the separation of ownership and management, the interlocking of bank capital and financial capital, and the internationalisation of capital and capitalism's ability to stabilise itself by spreading crises deserve deeper consideration in a world of austerity and 'too big to fail'.

While these concerns still linger today, these themes were particularly important for the first half of the twentieth century and were very much 'in the air' on both sides of the Atlantic. Hilferding was a direct contributor to the intellectual milieu of his time particularly from 1910 to 1935. One of the most surprising of his contributions was the emergence of early German neoliberalism as one of the many 'third ways' that tried to navigate between Marxism (i.e. strong socialism) and *laissez-faire* (i.e. strong capitalism). He contributed in two aspects: historically and ideationally. In terms of the former, albeit occasionally discarded in the literature as a minor point, Hilferding expressed some interest in attending the August 1938 Colloque Walter Lippmann in Paris, but he was rejected due to his status as a 'politician' (Denord 2009, p. 47). The second aspect is that many of his ideas of gentle, parliamentary evolutionary socialism, rather than hard, militarist revolutionary or dictatorial socialism, were also quite close to emerging conceptions of the 'Third Way', albeit from the left.

Both aspects will be examined via the theoretical metaphor of the syncopated note, which deviates rhythmically from a musical piece's main theme and serves to accent it by way of contrast.

SYNCOPIATION AS HISTORICAL AND CONCEPTUAL METAPHOR

Syncopation is one of the most 'familiar and widely used concepts in discourse about rhythm, but is difficult to define precisely' (Temperley 2010, p. 371), and it is still a vague and contested term. However, its one important feature is that 'syncopation and emphasis' depend on 'unambiguous differentiation' from the natural flow of the music. Historically, it has been treated as beginning with a weak beat and ending with a stronger one (Gatty 1912, p. 369), though modern music theory approaches have examined the phenomenon more deeply. Generally, the trend is to move away from the more precise definition of types of beats or emphasis and

explore how syncopation helps define the overall feeling or structure of a piece.

One of these approaches seeks to group the temporal sequence of notes, that is, rhythm, by ‘family’, or to group types of rhythm according to broad characteristics, such as whether they reinforce the overall flow of the piece, disturb the beat, or cause breaks in the flow of the piece, for example, rests or ties. This second category, *syncopation*, ‘anticipates the beat and lasts throughout its onset and therefore disturbs the meter’ (Cao et al. 2014, pp. 444, 450, 465). Similarly, it is also ‘defined as the contradiction, though not overturning, of a dominant metric structure by rhythmic stresses’ (Leong 2011, p. 111), in the sense that a ‘*syncopated* note has an onset on a metrical unit of lesser importance than one that occurs prior to the onset of the next note, and so it tends to disturb the meter for the moment’ (Cao et al. 2014, p. 447). Finally, it is also considered as a form of displacement, rather than disagreeing or suppressing. In this manner, ‘syncopation features stresses, events, or pulses in unexpected locations, often coupled with their absence from expected locations’ (Leong 2011, p. 123).

Synthesising these varying definitions, albeit closer to the modern understanding, syncopation is understood here as that which anticipates the beat and lasts throughout the metre but highlights it more strongly through general contrast than interference or outright contradiction would. Translating this into historiographical terms, a syncopated idea, person, or event is that which helps to shape a subsequent event by way of anticipation and contradistinction, but is also historically simultaneous to it. In this sense, it is similar to a critique in that it opposes an idea and, through its opposition, clarifies it; yet it is different in that it also helps contribute to its emergence, if only indirectly. Syncopation is thus a judgement of contribution to the milieu. In other words, a person, idea, or event that is *syncopated* to a second person, idea, or event may be an element from a totally separate intellectual tradition that briefly intersects with the second phenomena at a stage in its development, someone whose work contributes to a minor or secondary point of a theme but not its overall movement, someone whose earlier analysis or description of a phenomenon was intended for one use but co-opted for another, or someone who may have been a founding father of a movement, but who quickly diverged from it.

HILFERDING'S EVOLUTIONARY SOCIALISM AS SYNCOPATED NOTE TO NEOLIBERALISM

The metaphor of Hilferding's evolutionary socialism as syncopated note to the emergence of early German neoliberalism is relevant on two levels: the purely historical and the ideational level. As mentioned earlier, Hilferding sought to participate in the Colloque Walter Lippmann, which was a gathering of German, French, and Austrian, but also some American and British economists, businessmen, and philosophers in August 1938 with the stated purpose of reinvigorating liberalism in light of the Great Depression as well as the dark cloud of totalitarianism that was descending upon Europe. In terms of syncopation, Hilferding's explicit rejection by the organisers of the conference, because he was a 'politician', sheds light on the emerging neoliberal movement. Their use of supposedly neutral policy or economic terminology aside, there are clear political principles, especially anti-socialist in character. This seems curious, given the diversity of intellectual and methodological participants who attended the Colloque, many of whom were politically active before, during, or after the War, and many of whom had socialist leanings or positions that were at least sympathetic towards it, and many of the attendants did not join the core of the growing neoliberal movement and the Mont Pèlerin Society (Reinhoudt and Audier 2018, pp. 53–78). Hilferding's historical involvement with the neoliberals vis-à-vis the Colloque meets the criteria of syncopation in that he was excluded yet did not turn against the movement as such, at least not explicitly. There seems to be no concrete evidence that Hilferding was particularly aware of the attempts to reinvent liberalism by threading the needle between *laissez-faire* and collectivism, and if there was any opposition to such attempts, it would have rather originated from a general rejection of liberalism as bourgeois ideology than specific opposition to any particular ideas, persons, or movements. Hilferding was more concerned with his own personal safety than with any deeper theoretical reflection on the history of the European political economy in the last few years of his life.

However, Hilferding as syncopated note to the emergence of German neoliberalism also occurred ideationally, as a leftist version of the 'Third Way'. This will be elaborated below, after a few clarifying comments on the nature of neoliberalism as a third way.

THE THIRD WAY: THE WALTER LIPPMANN COLLOQUIUM TO GERMAN NEOLIBERALISM

In his lectures on biopolitics and governmentality, Foucault (1994) was one of the first to extensively discuss the August 1938 Colloque Walter Lippmann in Paris, and it has remained an item of interest in the neoliberal scholarship as its possible birthplace ever since (Mirowski and Plehwe 2009). The occasion was to celebrate and discuss American journalist Walter Lippmann's recent book, *The Good Society*, which presented critiques of both *laissez-faire* and a totalitarian collectivist economy and was concerned with issues such as the separation of ownership versus management, large-scale industrial planning (economic calculation), the importance of a legal framework to manage the economy, and appropriate versus inappropriate forms of government intervention in the market economy (Lippmann [1937] 2005). Over the five days of the conference, the participants discussed a variety of topics, from the causes of the decline of liberalism (limitations imposed by imperialism, demographic growth), the nature and causes of crises under liberalism (to what extent they were politically tolerable, whether they were inevitable or could be managed, whether their causes were structural or exogenous), the nature of liberalism, its history, and whether it could be revived. Throughout the conference, there was a vague consensus that the project of liberalism had utterly failed and needed to be completely re-examined, although there was disagreement as to *why* it had failed: Lippmann, Rüstow, and Röpke believed that the problem was rooted in *laissez-faire* itself and that there were necessary interventions for the state to pursue in order to protect the market, whereas Ludwig von Mises contended that political interventions had prevented any genuine *laissez-faire* from truly evolving, and these interventions had crippled liberalism, causing it to fail (Reinhoudt and Audier 2018).

These tensions remained throughout the neoliberal group, with the Germans developing the model of a social, political, and legal order that reinforced, restrained, and complemented the market, whereas the Mont Pèlerin Society and American libertarian movements followed Mises' critiques (Burgin 2012). The German movement, sometimes referred to as ordoliberalism, was centred around the works of Röpke, Rüstow, Walter Eucken, and others, and many of them had been ardent anti-Nazis, returning to Germany after World War II, where they became strong contributors to the political and economic scenes over the next two decades. Röpke shared and developed Rüstow's and Lippmann's criticism of *laissez-faire*

into what he referred to as the 'Third Way', which explicitly rejected both socialism and capitalism (*ibid.*, pp. 81, 143; Röpke [1942] 1992). This approach was suspicious of the concentration of economic power as well as political power, and explicitly sought to offset them against each other, simultaneously constituting the first reference to 'neoliberalism' (or neo-liberalism) in the literature (Gerber 1994; Megay 1970; Oliver 1960; Friedrich 1955). Characteristically, Röpke distinguishes 'capitalism' from the 'market', the latter of which must be embedded in an 'extra-economic', that is to say, social, political, legal, and moral order in its own right, in order to thrive (Röpke 1960, pp. 87–129).

Röpke represents two important shifts: a suspicion of capitalism and a desire to embed and constrain it as part of a greater social order, and an acceptance of active, democratic politics to maintain such an order. These two points—a rejection of the antagonism between the social and the economic, as well as the active role of the political in reconciling these two, will be points where Hilferding's evolutionary socialism converges as a leftist third way, and which the rest of the paper will be dedicated to elaborating more explicitly.

TROUBLE BREWING IN VIENNA: HILFERDING'S INTELLECTUAL ENVIRONMENT

Hilferding was born to a Polish Jewish bourgeois family that had immigrated to Vienna and considered themselves to be liberals, secular, and German. Vienna, a diverse and culturally rich, tumultuous capital city of an equally diverse and tumultuous Austro-Hungarian Empire, was increasingly divided due to class divisions, nationalism, and rising anti-Semitism. In his youth, Hilferding chose to become a social democrat, rejecting aesthetic escapism and Zionism to focus on practical matters. He entered the University of Vienna, where he was drawn to economics, studying under many influential thinkers of his time, including Eugen von Philippovich as well as the founders of the Austrian School Friedrich von Wieser and Eugen Böhm-Bawerk. He also studied under Carl Grünberg, one of the most prominent Marxists at the university, as well as Ernest Mach, a leading positivist philosopher (Smaldone 1998; Wagner 1996). Many of his fellow students would also become prominent Austrian scholars in politics and economics: Ludwig von Mises, Otto Bauer, and Josef Schumpeter (Michaelides et al. 2007; Mises 1978). A particularly formative event for

many of these students was the famous 1905 seminar held by Böhm-Bawerk, in which he strongly criticised Marxism. Otto Bauer was Marx's principle defender and drew admiration from both sides of the debate for his intellect (Shulak and Unterköfler 2011; Michaelides et al. 2007; Caldwell 2004; Mises 1978).

At the time, university reforms were being implemented, with the Austro-Hungarian Empire adopting the German university system, giving professors greater freedom (Mises 1969). During this time, neo-Kantianism and critiques of the German Historical School (Köhnke 1991; Wiley 1978; Mises 1969) were undermining traditional, orthodox 'Hegelian' Marxism, such as that preached by Karl Kautsky, the so-called pope of Marxism (Steele 1992), and other German orthodox Marxists (Bottomore et al. 1978). In short, this volatile mix of cultural, political, and intellectual diversities created the ideal conditions for a rethinking of Marxism, the breeding ground of Austro-Marxism.

THE GAUNTLET IS THROWN: THE 1905 BÖHM-BAWERK SEMINAR, HILFERDING'S ANTICRITIQUE, AND THE 'AUSTRIANISATION' OF MARXIST CAPITAL THEORY

The closing decades of the nineteenth century saw Marxist theorists battling with many difficult theoretical and practical problems, the most significant of which was the theory of capital and economic crises, as well as the labour theory of value. The success of the marginalist revolution and its subjective theory of value as well as the inconsistencies in Marx's own thought revealed by the publication of the third volume of *Capital* (1894) (Howard and King 1989, p. 108) forced many Marxists to re-evaluate the social labour theory of value as well as the theory of capitalist crises; money also became a topic of heated debate (Michaelides et al. 2007; Evans 1997, Milios 1994). Marx had argued that crises resulted from the contradictions inherent in the anarchic nature of capitalist production, particularly the social production of commodities versus their private consumption (Smaldone 1988). However, how crises arose was not entirely clear, and three models were present in the Marxist literature: crises due to over-accumulation of capital, underconsumption of capital, or the decline of profits (Milios 1994). Ukrainian socialist economist Mikhail Tugan-Baranovsky remained committed to Marxism for ethical reasons, but recognised that Marxist economics had to be reworked, admitting that the

marginal-utility and labour-production economic theories were opposites, and sought a way to make them compatible with each other (Howard and King 1989, pp. 109–10; Nove 1970).

Tugan-Baranovsky attempted to resolve both issues by injecting subjectivism as well as an organic theory of capital into Marxism. In order to understand how multiple sectors in a capitalist economy were connected, he advanced theories of cyclical growth based on the proportionality of investment/malinvestment of capital depending on which industries proved the most profitable. He contended that crises occurred when the equilibrating process among sectors was disrupted (Howard and King 1989, pp. 102–3) and that both the under- and over-production theories were thus incorrect, as the real issue was that the market in capitalism continuously expanded and restructured itself (Milios 1994; Nove 1970). This theory is quite similar to the Austrian School's understanding of capital, value, and economic crises as malinvestment of capital, which, as it were, represented the strongest influence on his thinking (Howard and King 1989, p. 109).

Tugan-Baranovsky's work was known to revisionist German socialists in the 1890s, and after his work was translated from Russian in 1900, it was taken very seriously in the German-speaking world indeed (*ibid.*, p. 96). Tugan-Baranovsky was to become perhaps the largest influence on Hilferding's own theory of finance capital, and in 1902 he wrote a review of Böhm-Bawerk's *Karl Marx and the Close of His System* (1896) (Smaldone 1998, p. 27), but Hilferding was also able to drink from the river at its source, so to speak, and participated in Böhm-Bawerk's seminar in 1905. The experience of writing his 'anticritique' of Böhm-Bawerk and attending the seminar surely provided much of the material for his *Finance Capital* (1910).

Böhm-Bawerk's critique of the Marxist labour theory of value is still regarded as one of the strongest challenges to Marxism,² and much of

²The power of his critique is still considered by contemporary Marxist thought. In his introduction to Hilferding's response, titled *Böhm-Bawerk's Criticism of Marx*, Sweezy acknowledges that it was a major impetus for the energy of reformist socialism at the turn of the twentieth century. One student of the history of the debates recounted in 1939 that:

Böhm-Bawerk anticipated nearly all the attacks on Marxism from the viewpoint of those who hold the political economy to centre on a subjective theory of value. On the whole, little has been added to his case by other critics; their important contributions are outside the theories he chose to contest. (Sweezy 1949, p. x)

Mises' (Steele 1992) and Hayek's (1931a, b) own critiques are simply elaborations or qualifications of it. The gist of his argument was that there is a fundamental contradiction at the heart of Marxism: that labour as the source of all value directly contradicted the idea that the unique composition of capital per industry created different profit rates.

Böhm-Bawerk argued that either goods sell at prices in direct proportion to their labour values and that in this case rates of profit will permanently differ based on the capital or labour intensity of the productive process, or that rates of profits are equalised by competition and thus prices never converge with labour values (Steele 1992, p. 138; Böhm-Bawerk [1949] 1896, p. 28). In short, the equalisation of profit rates from capital within the capitalist economy indicated that it had to be more than just the quantity of labour, that contributed to the production of value, for example competition and scarcity. The process of the adjustment of profits within a capitalist system can only occur through competition, and only in non-capitalist societies where the workers control their own means of production is price solely determined by value. He concluded that Marx could no longer maintain that labour was the sole determinant of value after he began his third volume and that he was left with the option to either sacrifice the consistency of his system or its logic, and that Marx chose the former, seeking to mitigate its contradictions by exploring competition. However, Marx did his best to belittle or avoid competition and instead employed a static model in which competition was merely the reference to the movements of supply and demand in the long run and that prices reach their 'true value' only in competition (*ibid.*).

Hilferding's response to Böhm-Bawerk followed Tugan-Baranovsky in absorbing some elements of the Austrian school, both in thought and in practice (Darity and Horn 1985; James 1981). Sweezy contends that it was not so much a *defence* of *Capital* as it was an 'anticritique', that is, a retaliation against Böhm-Bawerk's attack (Sweezy 1949, p. xxiii). This demonstrates that although Hilferding rejected the Austrian School, which he referred to as a 'psychological' school of economics (Hilferding [1920] 1949), he was clearly prepared to go beyond orthodox Marxism.

Hilferding first engages Böhm-Bawerk on a philosophical level: his criticism of Marx is invalid, Hilferding argues, because the subjectivist school proceeds from the individual and the individual's subjective understanding of value, whereas Marxism departs from the point of society (Hilferding

[1920] 1949). As society exists as a whole, it does not simply exchange commodities, and thus the true basis of value in society is labour which reflects the social structure and relationships (*ibid.*). Economics must be a historical and a social science that concerns itself with the transition of goods to commodities, that is, when the economic system becomes a system based on exchange. Consequently, the purpose of Marxist economics is to uncover the 'laws' which govern the motion of capitalist society, that is, how the exchange of labour value and commodities in society is produced by and reproduces the social relationships in that society (*ibid.*).

Fundamentally, Marxist economics approaches the economy from a totally different angle than the Austrian subjectivist school, which from its very founding philosophy seeks out precisely ahistorical laws of economics, whether under Menger's Aristotelianism or Mises' apriorism (White 2003). As such, Austrian economics and Marxist economics ultimately hailed from paradigms so divergent that, if one attempted to transpose one into the other, a contradiction ultimately emerges (Lavoie 1985).³ Therefore, Böhm-Bawerk asks the wrong question when he makes the argument that skilled labour cannot be understood as a single multiplication of unskilled labour, for it is the society which determines value, rather than purely economic processes. It was Böhm-Bawerk's confusion of price with value, due to his Austrian economic theory, that drove him to mistakenly view Marxism as contradictory (Hilferding [1920] 1949).

In his criticism of Böhm-Bawerk, Hilferding repeatedly emphasises the importance of social relationships, and while Hilferding thought he remained within the Marxist tradition (James 1981) and that he was merely expanding Marx's work on monopolies (Arestis and Sawyer 1994; Hilferding [1910] 1981), he diverged from Marx in the theory of money and competition (Zoninsein 1990). Hilferding, as Tugan-Baranovsky, had converged with Austrian models of money, particularly Menger's view of money as a socio-historical creation (1892), as well as Böhm-Bawerk and Mises' understanding of capital as heterogeneous (Boettke 2008; Böhm-Bawerk [1884] 1890; Mises [1912] 1981).

³Lavoie (1985) argues that this was one of the strongest elements in the complex and confusing 'socialist calculation debates' that occurred in the 1920s. Neither party was able to fully understand each other, and as such, the debate essentially was never completed, but merely faded into the background as more important political and economic concerns, for example, fascism, emerged and this impasse to a very real extent has defined the course of modern economics.

While much of Hilferding's treatment of financial economics was shaped by the Austrian understanding of money, he was also profoundly influenced by neoclassical economics' conception of perfect competition. This also significantly broke with the orthodox Marxist belief that competition would eventually result in monopolisation and concentration (Steele 1992, pp. 272–74). Zoninsein (1990) claims that Hilferding's theoretical work on 'monopoly capitalism' was due to replacing Marxist understanding of competition with the neoclassical one, which, in agreement with the Austrian School, contended that monopolies were aberrations of the market system that occurred due to state interference (Reinhoudt and Audier 2018; Lippmann [1937] 2005; Gerber 1994; Darity and Horn 1985; Mises [1920] 1979; Megay 1970).

Hilferding's position in his anticritique of Böhm-Bawerk represents a synthesis of these approaches. He wrote:

For society is the only accountant competent to calculate the height of prices, and the method which society employs to this end is the method of competition [...] it is society which first shows to what degree this concrete labor has actually collaborated in the formation of value, and fixes the price accordingly [...] This is the conception in accordance with which the theory of value is regarded, not as a means "for detecting the law of motion of contemporary society" but as a means of securing a price list that shall be as stable and as just as possible. (Hilferding [1904] 1949, p. 147)

In other words, a simple labour theory of value is not enough, and Hilferding essentially transforms Marxism from a labour theory of value, to a social theory of value, where society itself is the mechanism by which prices are determined, rather than the market. The Marxist economist was to determine what proper balance of social arrangements, that is, 'competition', created 'stable and just' conditions, that is, a 'price list'. He had reached the conclusion that understanding the economy as a self-enclosed historical product was insufficient, and that more emphasis was needed on the interrelation between contemporary political and economic practices (Daly 2004, p. 6). This challenged orthodox Marxism in that the state was not purely a phenomenon that passively acted according to laws as if following a schedule of historical development, but that it could play an active role. If the political was aligned with society as the 'accountant' that was competent enough to create a just order, then the economic sphere would naturally follow suit.

Hilferding's interpretation of Tugan-Baranovsky and his response to Böhm-Bawerk thus anticipated the rise of neoliberalism as well as the market socialist position, as both challenged the idea that the state and society were simply reflections of the system of production. Neoliberalism was explicitly opposed to *laissez-faire*, and market socialists and revisionists were opposed to orthodoxy for the same reason: the state was assumed to play a passive role vis-à-vis natural, historical, or economic forces, and thus neither classical liberalism nor orthodox Marxism created a positive political theory of the state.⁴ Walter Lippmann called for a new, positive theory of the state because he felt that in an era of economic depression and uncertain, rapid industrialisation and urbanisation and tensions within the Western political system (both the instability of colonialism and the post-Versailles peace) liberalism needed to supply it or else it would be swept away by more radical ideologies, that is, totalitarianism. Although Hilferding could not have anticipated the rise of totalitarianism, he certainly addressed many of the same issues that Lippmann reflected upon some 25 years later, such as the increasing problems of industrial capitalism, the rise of nationalism, and the decline of the Austro-Hungarian Empire.

As a synocopated note, Hilferding not only helped prepare the milieu for later thinkers' critiques of capitalism and imperialism⁵ but also sustained his own vision through his personal pragmatic politics as a member of the Social Democratic Party. In his life as a politician, his evolutionary and parliamentary socialism converged with the general feeling of searching for a third way. However, his parliamentary politics emerged from his mature economic thinking, presented in *Finance Capital* (1910) as well as

⁴This is, essentially, Foucault's entire thesis in his lectures on neoliberalism as the political technology that enables the rise of biopolitics: that the government was not merely a reflex of the economic system, and, while its possibilities were shaped by the material constraints of the time, they were also shaped by the ideological space as well, that is, that it was the rise of political economy as a science which enabled the formation of governmental reason with regard to the economic space (Foucault 1994).

⁵It was Hilferding's conjunction of neoclassical and marginalist economics that would make *Finance Capital* so penetrating and important. Caldwell (2004) and Foucault (1994) posit that the debates of the neoliberals with socialists, Marxists, and fascists—which the neoliberals broadly referred to as collectivists, statist, or interventionists—proved to be the 'road to Damascus' necessary for their full maturation, and Kirzner (1988) and Lavoie (1985) describe the dialogue as one reason for an increased self-understanding on the part of both the Austrians and the socialists. Furthermore, Hilferding's analysis reveals two tensions within the neoliberal cadre: that of competition and of markets (Izzo and Olga 1997).

from the political theories of Max Adler in the 1920s and 1930s. Both will be briefly addressed in the following.

FINANCE CAPITAL

Finance Capital was hailed by Otto Bauer and Karl Kautsky as something of a fourth volume of *Capital*, which confirmed Marx's prediction of the concentration of capital, but asserted that it leads to a qualitative change in the nature of capitalism itself, as a new phase. However, it also demonstrates Hilferding's mature thinking about money (Trevor 1997) where his anticritique of Böhm-Bawerk inspired him to reinvent Marx's theory of value as a 'critical social theory'. This reframed the labour theory of value and the 'laws of motion' of capitalism as social, rather than natural laws (Wagner 1996, pp. 28, 32). This allowed for a Marxist theory that was more subtle and flexible than doctrinaire orthodoxy, but also made it vulnerable to being diluted by broader theories and approaches. Another consequence was that the political and economic systems were more autonomous and their relationship more complex. He asserted that the defence of the labour theory of value was no longer essential to the labour movement, and that much of the technical-economic theory was a distraction from working, political solutions (*ibid.*, pp. 37–39). He was also concerned that capitalism was no longer simply capitalist versus worker, but that competition also existed among capitalists (Smaldone 1998, p. 24). In this sense, Hilferding moved away from the traditional Marxist understanding of competition as anarchic, closer to what the Austrian School would consider as *rivalrous*, that is, that competition is not a detriment to markets, but rather that it *constitutes* markets and is something natural rather than an aberration.⁶

⁶ Much of Böhm-Bawerk's criticism of Marx is clarified by Lavoie's (1985) explanation that a major difference between socialist and Marxist economics, as variants of classical economics, and the Austrian School is that the Austrians view competition as rivalrous, that is, that market interactions are fundamentally a clash of human practices in continuous disequilibrium. The market system thus does not always stabilise in a manner beneficial to society—if at all—and it actually may be quite disruptive in the long run. The Marxists establish a long-term equilibrium, and from this point, they view rivalry and competition as anarchistic and detrimental to society, rather than as inherent to complex production (*ibid.*, pp. 22–7). As such, competition and its role are only grudgingly acknowledged by Marx where 'anarchism' rather means dis-coordination than total chaos; thus, while Marx acknowledges competition, he views it as an outgrowth of the capitalist system that is necessarily alienating and detrimental (*ibid.*, pp. 36–9).

The introduction of competition among capitalists required the development of new economic phenomena in order to reconstruct capitalism, both analytically and in practice. This latest phase of capitalism produces a new form of capital, *finance capital*, which unites banking capital with industrial capital, though banks are superior in the relationship (Arestis and Sawyer 1994; Lachmann 1944). This is due to the control that banks exercise over the flow and quantity of money. As the means of production become increasingly complex and specialised, more and more exchange is needed, but the medium of exchange needs to become more and more general, until a universal form is reached: money. *Finance Capital* thus comports with the theory of the origin of money hypothesised by Menger (1892), but Hilferding goes further and agrees with Ernest Mach that money has effectively become the ego of society, to which all other things can be reduced and fetishised. Money is now the symbol of society itself, and the state's primary function is henceforth that of the guarantor of money (Hilferding [1910] 1981, p. 31).

As Tugan-Baranovsky, Hilferding was convinced by 'bourgeois' economics' description of modern capitalism, though he continued to disagree with it normatively. Though the Austrians had a more neutral outlook on money, Hilferding contends that it has several negative consequences: it separates use value from exchange value and facilitates the equalisation of profit rates through the shifting of the base of society from labour to monetary and industrial capital. This further conceals the inequality of labour. Hilferding believed that the theory of labour was no longer a fixed concept, but more of a general approach to economic history and that the process of equalisation of profit rates was the true driver of capitalism. The anarchic and competitive nature of capitalism, along with necessary human error, led to uncertainty, which was compensated for by holding large portions of money or capital in reserve in order to compensate for delays in commodity circulation, that is, the necessity of liquid reserves while waiting for payment (Hilferding [1910] 1981).

Taking his cue from Böhm-Bawerk's work on the heterogeneity of capital ([1884]1890), Hilferding recognises that not only is there an uneven distribution of the spread of capital throughout various sectors in the economy, but also there are both qualitative and quantitative changes in the capital structure (Blumen 2008). Furthermore, the Austrians point out that the process of production itself also requires the use of capital as an intermediate good (Hayek 1931a, b). The speculative nature of capitalism, which locks capital out of circulation as an emergency reserve, the

usage of capital as an intermediate good, and the heterogeneous nature of capital combine to create economic crises that are due to disproportionality in the capital structure, and hence in prices (Michaelides et al. 2007; James 1981). However, Hilferding's understanding of credit money transforms this whole argument, wherein banks, which do not suffer from the same problems regarding the circulation and production of their capital, are in a unique position to effectively smooth out capitalist crises by providing a more efficient reserve of money capital, freeing up capital and increasing circulation (Hilferding [1910] 1981).

Banks, therefore, stabilise and expand the amount of capital in circulation, activate idle capital, and, due to the unique nature of banking capital, are able to absorb money and interest capital from all segments of society, further increasing the power of capitalists (*ibid.*), and to reach across international borders. Along with the increasing power of banks and banking capital, Hilferding believes that the rise of modern corporations goes beyond the original scope of Marx's analysis (*ibid.*, pp. 114–16) and that stock capital is 'fictitious capital' which does nothing else but increase the profits and power of its shareholders. Hilferding notes that corporations allow for a disproportionate expansion of the power of capitalists, for under a normal firm one would have to have complete ownership to exercise sovereignty over the capital, but under a corporate format one must only be a majority shareholder.

As such, stock capital allows for a maximisation of external capital for the minimum of one's own capital, which allows for interlocking corporate director boards. Banks, therefore, have greater security in corporate investments as they translate into stock, which grants ownership. Furthermore, given that corporations are legal entities and independent of the size of individual shares of capital that compose them, it is much easier for a corporation to expand than an individual enterprise. In its capacity to assemble capital, the corporation is thus similar to banks, except that it employs fictitious capital instead of shares, rather than money capital (*ibid.*, pp. 118–22).

In the modern era of capitalism, banks are thus the driving force of the economy, and Hilferding argued that they would continue to accelerate the concentration of capital in an ever-decreasing number of individuals through a process of cartelisation (Smaldone 1998, p. 44). Cartelisation also does not stop the anarchy of production or crises, but rather shifts the burden of the crises onto smaller firms, which furthers cartelisation as larger firms continuously absorb smaller firms until a giant grand cartel

forms, where a central bank controls the entire economy (Hilferding [1910] 1981). Against this backdrop, Hilferding believed that the very nature of capitalism had changed: finance capital and shareholder anonymity had displaced the capitalist entrepreneur, and the merging of banks with industrial capital had eliminated free competition through market organisation (Botz 1976). Hilferding also thought that technology would facilitate a new restructuring of capitalism, allowing cartels to produce more profit, and that capitalism would not fail due to the reduction of socially necessary labour time given the rise of machines (Michaelides et al. 2007), thus breaking with the Marxian assertion that labour is the sole source of value (Darity and Horn 1985).

Hilferding's conclusion broke with the Marxist view of crises, believing that perhaps a breakdown of capitalism was not inevitable, but that a general cartel would be able to remove the anarchy inherent in the capitalist system and that this would allow for a transition directly into socialism (Smaldone 1998; Wagner 1996; Hilferding [1910] 1981). Hilferding believed that cartelisation of the banking industry effectively colonised the state and produced imperialism,⁷ a scenario in which the state would work to continuously increase the economic sphere of influence to facilitate further capital concentration and production (Smaldone 1988). However, Hilferding believed at the same time that the worker movement would not benefit from warfare and thus sought how to organise 'for the revolution' rather than organise 'the revolution' (ibid.). There was thus a significant tension within Hilferding's thought: while he believed that there was an increasing tendency towards warfare due to finance capital, he deemed this unnecessary and instead supported parliamentary practices.

This new understanding of money, capital, and competition broke down the notion of monolithic, antagonistic social groups and cleared the way for conceptualising a political sphere distinct from both the social and the economic. Furthermore, the understanding of money as a social product guaranteed by the political, rather than as a reflex of the economic system, also cleared the path for an active state and an active monetary policy. Finally, Hilferding's concern with cartelisation and the damaging effects of unrestrained 'economic' phenomena, for example, the

⁷This line of thought was a significant influence on Lenin's own *Imperialism* ([1919] 2010), but Lenin took it further, reasoning that banks used financial capital to control industries through direct manipulation of credit and interest rates in addition to ownership of stock ventures (Lachmann 1944).

fetishisation of money, created the impetus for the distinction and demarcation of the economic from the political and from the social. Other contemporary groups, such as the Fabians and the Georgists, were also concerned with such issues. Lippmann, Röpke, Hayek, and Mises were all sympathetic to socialism in their youth, and even though they all ultimately abandoned it, they recognised that unbridled capitalism could be destructive.⁸ Finally, all of them—albeit to varying degrees—argued against a pure *laissez-faire* system as had developed in the nineteenth century, paving the way for an active state. One major difference remained: none of the neoliberals themselves were active politicians. To complete this comparison, it is therefore necessary to return to the reason why Hilferding was supposedly banned from attending the Colloque Walter Lippmann: his political practice.

MARX WITHOUT HEGEL: AUSTRO-MARXISM AS NEW POLITICS AND NEW PRACTICE

From its very inception, Austro-Marxism was a political programme that was multidisciplinary and pragmatic; the trinity of Karl Renner, Max Adler, and Hilferding met at the Fabian circle *Zukunft* and shared a commitment to democratic socialism but also their opposition to both Kautsky's orthodoxy and Bernstein's revisionism (Bottomore et al. 1978; Leser 1976). Max Adler, the chief philosopher of the group, attempted to revise Marxism with neo-Kantian ideas and transform it into an ethic of socialised humanity (Adler [1925] 1978; Bauer [1937] 1978) as well as a 'sociology of revolution'. These positions nicely dovetailed Hilferding's separation of the political, the social, and the economic (Wagner 1996; Hilferding [1910] 1981, [1904] 1949; Sweezy 1949; Adler [1933] 1978), clearing

⁸A key point of ordoliberalism/German neoliberalism is the tension emerging from the view that the foundation of the market system was competition, whereas society thrives on unity and the elimination of competition (Hartwich 2009; Boarman 2000; O'Leary 1979; Röpke [1942] 1992). As such, several of the neoliberals were concerned with the construction of liberalism and the construction of a *good society*, which extended far beyond the simple economic relations that Mises concerns himself with, and in their humanist critiques (Boarman 2000; Friedrich 1955), they share many points with socialists and Marxists. However, unlike Marxists, they believe that this tension is a question of balancing the social and economic spheres or putting them in their proper order, for example, the *Ordnungsökonomik*, rather than something that is fundamentally fatal to the political and economic systems.

the way for parliamentary Marxism instead of the revolt of the proletariat. It was quite close to the Marburg German Social Democrats who advocated creating a 'foundation for evolutionary socialism and parliamentary democracy', with a corresponding political strategy of gradualism (Wiley 1978, p. 174). He concluded that 'The Marxist as theorist does not stand in contradiction with the Marxist as politician [*sic*]' (Adler [1928] 1978, p. 138). Adler wanted to avoid both a violent revolution and bourgeois parliamentarianism by distinguishing political from social revolution: the job of the Marxist was to educate the population and help it develop a desire for revolution, which would lead to the social reorganisation of the means of production, through a strong Social Democratic Party.

The other major philosophical influences on Hilferding were his professors Ernst Mach and Carl Grünberg, who took positivism in different directions. Mach divorced the ethical strands in neo-Kantianism from positivism to establish a foundation for critical science (Bottomore et al. 1978, pp. 15–16). Grünberg disentangled historical materialism from philosophical materialism and was also active in the workers' movement and championed attempts to create a truly scientific Marxism to defeat bourgeois economics (Wagner 1996). On the other hand, Grünberg did not believe in meta-historical laws of motion, but that every historical period was moved by unique historical laws that had to be discovered (Held 1980), thus sharing the socio-historical relativism of Mach except for his 'evolutionary' emphasis.

Thus, to Hilferding, Marxism was more of *an orientation to the world*—a critical historical-materialist model for social science—and not a dogma to be followed, while he personally cited Marx's own opposition to 'the planting of a dogmatic flag'. Hilferding believed that 'the effective power of Marx's thought stemmed not from any particular claim that he had made, but from the spirit in which he had worked' (Smaldone 1998, p. 17). This flexible perspective is the key to understanding Hilferding's pragmatic, parliamentary politics in which he would have to accept 'non-socialist fiscal policies' for which he is so often blamed (Smaldone 1998; Winkler 1990; Gourevitch 1984; Breitman 1976; Gates 1974).

HILFERDING'S EVOLUTIONARY SOCIALISM AS PRAGMATIC POLITICAL PRAXIS

The final point of reflection on Hilferding's synecopation to early neoliberalism is that he did not want to overthrow the political system of his time but rather sought its reformation, namely by reinventing both the political doctrine and the institutions to support it. While neoliberalism would go on to reshape the world via a series of international think tanks and policy research centres, in its beginnings it was supported by Walter Lippmann, who was no stranger to the political elite, as well as many economists and politicians who helped rebuild West Germany's political and economic systems after the war. The Austro-Marxists and Social Democrats whom Hilferding supported pursued an approach that was not too dissimilar, maintaining a network of newspapers, party schools, labour unions, and political parties. That neoliberalism succeeded while moderate socialism failed is not a reflection on the socialists' lack of effort. With the rise of National Socialism in Germany and Austria, the Great Depression, and the continued economic strain due to punishing war reparations, the moderate socialists in central Europe simply found themselves in an impossible situation. It is nonetheless worthwhile to examine how Hilferding attempted to pragmatically navigate the increasingly difficult situation he found himself in, as a kind of 'stress test' for the feasibility of democratic and parliamentary socialism, with lessons still relevant today.

The Austro-Marxists argued that the break-up of the old monarchies after World War I had brought about a balance of class power and that hence the state was now neutral (Leser 1976). Accordingly, much of their efforts became focused on trying to educate the masses in order to establish a working-class consciousness *for* the revolution rather than organise *the* revolution (Smaldone 1998). By 1906 Hilferding was known for being a sound theorist of Marxism and took a position as a teacher at the German Social Democratic (SPD) Party School, giving up his life as a physician and fully committing himself to politics. At the time, the SPD was undergoing a difficult period of internal debates, with Bernstein adopting a revisionist position, Kautsky taking the more orthodox stance, and Rosa Luxembourgh advocating for a more revolutionary approach, and Hilferding's talents as a public speaker, public intellectual, and commitments to pragmatic politics and parliamentarianism allowed him to become something of a moderating force among the factions (Smaldone 1998; Wagner 1996). Hilferding's first major political contribution was his work on the general

strike which he sought to incorporate as part of the socialist political parliamentary repertoire derived from the position of the working class in society, rather than as an extra-parliamentary tactic. In his view, the strike should be used to uphold and protect the suffrage of the workers and the legality of the workers' movement itself. However, using it carelessly or too frequently would only unite the other parliamentary factions against labour (Smaldone 1998, pp. 25–6; Wagner 1996, p. 53).

Hilferding's advocacy of the general strike was complementary to his view of parliamentary democracy, for, while the capitalist classes rule but do not necessarily govern, the parliament is still an overall reflection of the capitalist structure itself (Wagner 1996, p. 52). Hilferding recognised that parliamentary democracy had the *potential* to achieve parity of all class and social democracy, but did not *guarantee* this and that there was a growing paradox in Austria and Germany in the sense that there was a concentration of both state and economic power as well as parliamentarianism, which meant that whichever class or political party governed had increased power (Hilferding 1905). Thus, it was possible for social democracy to grow in numbers but actually lose power because of governing coalitions of liberal or reactionary anti-proletarian parties, and Hilferding consequently declared that the general strike had to be used based on the specific political context and that, while it should always be used to retain the gains made by the workers' movement, its use depended on the concrete social context of the country. Due to the differing composition of political and class interests in Austria and Germany, there could be no single universal blueprint for the general strike (*ibid.*).

Hilferding's position on the general strike was in effect a political compromise with forces within and outside of the social democratic movement and demonstrated his commitment to socialist democracy as the voice of parliamentary politics on behalf of the international workers' movement *in addition to* his view for pragmatic politics. Hilferding did not believe that the labour unions were acting as a cartel for labour as a commodity and that the labour movement could enter into parliament and transform bourgeois parliamentarianism into social-democratic parliamentarianism (James 1981). Within the social democratic movement, there was unease concerning the question of the strike, with revisionists fearing that overuse of the strike would impede any attempts at coalition building, while the orthodox feared that the usage of the general strike at the wrong time or too often would endanger the gradual transition from liberal capitalism to social democracy and thus should only be a defensive tactic. The Bolsheviks

and radicals, for their part, were willing to use the strike as a means of breaking down the capitalist social order and igniting the revolution (Smaldone 1998; Wagner 1996).

The themes of commitment to working-class unity, social-democratic parliamentarianism, the balance of class forces, gradualist economic and social revolution, and willingness to compromise would comprise Hilferding's view of politics, his role as a Social Democratic politician, and in his multiple terms as finance minister. His adoption—or at least toleration—of marginalist, non-Marxist economic analysis would actually converge with several of the 'orthodox' economic policies of his time and would lead the Social Democratic Party into several failed coalitions that tried to shore up failing democracy in Germany and Austria (Smaldone 1998; Wagner 1996; Breitman 1976), while he favoured deflationary or at least anti-inflationary economic policies as well as supporting the gold standard (Darity and Horn 1985; Gourevitch 1984; Gates 1974).

The difficulty that Social Democrats faced was trying to balance what was politically feasible versus what was economically sustainable for their gradualist vision of social, economic, and political change. They believed that if they were unable to retain their position in parliament, then they could not ensure that there was progress towards socialism. However, in order to maintain their position in parliament, they had to make compromises or were vulnerable to crises and the capricious whims of public opinion, which made them—more often than not—reinforcers of the status quo.

Breitman contends that Hilferding

had a tendency to oppose limited correctives for the problems of the business cycle. In theory, they preferred more far-reaching plans for changes in the relationship between the state and the private sector, which were supposed to reduce the competitive friction and waste they saw as inherent in capitalism. Since their own approach was usually politically unfeasible, they contented themselves with the observation that greater economic concentration at least seemed to be preparing the way for a socialist economy. Anything that resembled a gift to business, or any policy that threatened to unleash another inflation was suspect. Therefore, the socialist economists offered few positivist proposals. (1976, p. 375)

The opposition towards the adoption of demand-stimulus or deficit-financing models, such as Keynesianism, in a world of increasing economic

desperation and shifting public debate and electoral fortune, would be a parallel Hilferding shared with the neoliberals, as before Lippmann converted to a strong advocate of Keynesianism, he was also suspicious of debt-financing and retaining the gold standard (Goodwin 2014). Röpke (1933, 1937) and Hayek (1931a, 1932a, b) also advocated for the importance of sound monetary policy, particularly the gold standard, and were especially suspicious of doctrines of 'forced savings' or any other effort by the government to impact the value of money and credit, and hence the business cycle. With the onset of the Great Depression, those who argued for more conservative, traditional monetary policy lost the public debate, and Hilferding's position as finance minister in coalition governments was never stable or long lasting. Similarly, with the exception of German reconstruction, the neoliberals were often left out in the cold and on the margins of academia for the next quarter of a century until the Keynesian consensus in mainstream economic thought began to break down in the 1970s.

While the neoliberals found themselves in the political wilderness, the situation in Germany and Austria would soon become a question of life or death for the moderate socialists. The SPD found itself in a period when there were a variety of 'socialist' parties and ideologies, especially within Germany. One of the most devastating legacies of World War I was the division of the international labour movement into Christian centrist socialism, National Socialism, democratic socialism, communism, Bolshevism, anarcho-socialism, and others. The split between Hilferding and Lenin simply exemplifies how Hayek's view in *The Road to Serfdom* ([1944] 2007)—that socialism is better at breaking down the old liberal order than defending against fascism—seems to be on the whole true, at least in the case of Germany and Austria. His argument was that socialism had effectively become a victim of its own success, that there were so many different varieties of socialism that none of its representatives could hold power or stabilise for long (ibid., p. 146). The SPD and Austro-Marxists found themselves in the impossible position of being too embedded in the state and locked in a tight competition for labour and working-class votes to effectively react to the rising National Socialist threat. Ironically, Hilferding's political strategy of gradual electoral coalition building, educating and building political consciousness among the working classes, and pursuing stable monetary policy had left them perfectly vulnerable to an external, extra-parliamentary threat.

The rise of totalitarianism concerned both the neoliberals and the moderate socialists, though the neoliberals, by and large, escaped unscathed, with Röpke and Rüstow fleeing into exile in Turkey or Geneva, Hayek and Mises fleeing to Great Britain and the United States, and Eucken remaining in hiding in Freiburg for the entire duration of the war. Hilferding never had a chance to see the rise of moderate, parliamentary social democracy flourish in Europe, briefly fleeing to Paris only to be caught, dying in Gestapo captivity in 1941.

CONCLUSION

Rudolf Hilferding's ideas anticipated many of those harboured by the early neoliberals, especially those in Germany. His concerns about cartelisation and the dangers of the unbound competition were resolved by a rethinking of Marxist theories of money, competition, economic crises, and pragmatic, parliamentary politics. His belief in the neutrality of the state and the separation of the economic, political, and the social spheres created an active and pragmatic, albeit somewhat conservative and vague, theory of Marxist politics that tried to balance theoretical updating with the issues and needs of its time and an effective political practice. This anticipates and parallels the early neoliberals' search for a way to update liberalism to overcome its contemporary crises and to develop political theories and corresponding practices for an active state, rather than *laissez-faire*. Indeed, if not in substance nor in form, but in general orientation towards the social world, there are many parallels between Hilferding and the early neoliberals as co-seekers of an elusive Third Way that are worth exploring.

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