Finance Capital and
Imperialism: Karl Kautsky and
Rudolf Hilferding

1 Introduction

The final quarter of the nineteenth century saw a number of important
changes in the world capitalist economy and in the political relations
between the Great Powers. Whereas the late 1860s witnessed the closest
ever approximation to universal free trade, the trend thereafter was
towards increased protectionism, together with growing monopolisation
primarily through the establishment of trusts and cartels. World trade
continued to grow more rapidly than industrial output, and between 1870
and 1914 there was a massive migration of people from Europe to the
newly-settled areas of North and South America, Australia and South
Africa. This was accompanied by the exportation of capital on a gigantic
scale, increasing the overseas assets of the European countries from $6.5
billion in 1874 to $44.0 billion in 1913, and by the frantic acquisition of
colonies in the 'Scramble for Africa' and elsewhere. How far this amounted
to a distinct new stage of capitalist development remains controversial, for
there had always been elements of monopoly in capitalist economies and
the fastest growth in both commodity and capital exports came before
rather than after 1875, while the 'imperialism of free trade' had allowed
Britain (especially) to expand its formal and informal empire throughout
the nineteenth century.¹

At the political level, however, there is less reason to doubt that
fundamental changes were taking place. The long decades of peace and
relative international harmony were giving way to an era of mounting
tension, set against a background of increasing economic rivalry as the
economies of continental Europe followed Britain with their own industrial
revolutions. The most graphic evidence of increasing friction is supplied by
the accelerating remilitarisation of Europe. Between 1870 and 1910 arma-
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ments expenditure per capita doubled in Britain, France and Russia, and trebled in Germany; there were further substantial increases over the next four years. By 1914 arms accounted for 3.4 per cent of national income in Britain, 4.6 per cent in Germany, 4.8 per cent in France and over 6 per cent in Austro-Hungary and Russia. By the standards of the late twentieth century these figures are small enough, but in the context of the recent past the increases were huge. If war itself lay in the future, preparations for war were evident on all sides in the quarter-century after 1890.

These developments posed serious problems for German Social Democracy. In practical political terms the movement had to decide its position on such issues as protective tariffs, colonial expansion and the growth of military expenditure. The stronger the SPD’s electoral role, the more difficult it became to avoid taking a stand on these questions. The voting behaviour of the party’s representatives in the Reichstag was a matter of public record, and even abstentions (justified on the grounds that the details of commercial policy were of no concern to the proletariat) were open to exploitation by its enemies. Nor could the related analytical issues be easily ignored. What was the relationship (if any) between political expansion, military belligerence and the economic contradictions of contemporary German capitalism? Did the new imperialism herald a qualitatively different stage of capitalist production? If so what were its implications for economic crises and the class struggle? How could the new stage be characterised, and how would it end? As with the revisionist controversy, the theoretical debate on imperialism was assumed by all who took part in it to have immediate political significance and, to a very considerable extent, they were right. In this chapter we consider the analysis of imperialism offered by Karl Kautsky and Rudolf Hilferding. Later chapters discuss the contributions of Rosa Luxemburg and Otto Bauer (Chapter 6) and of the Russian Marxists, most notably Nikolai Bukharin and V. I. Lenin (Chapter 13).

II Bernstein and Kautsky on Imperialism

Marx had provided very little guidance on these matters, his published writings on imperialism being scanty, fragmented and often contradictory. In addition his journalism (in which form many of the relevant pieces had appeared) was largely unavailable before 1914. As we saw in Chapter 1 Engels added little of substance beyond a denunciation of protectionism and a demand for the general disarming of the leading capitalist powers, which was possible, he claimed, within the existing social framework. There is little suggestion in Marx’s work, and hardly any in that of Engels, that there might be a close connection between economic crises, the concentration of capital, and the impulse to imperialism.
Was the new expansionism, then, nothing more than an aberration due to the political pressures of reactionary and pre-capitalist interest groups, rather than anything more fundamental? This position was consistently upheld by Edward Bernstein, once again reflecting the influence upon him of cosmopolitan British liberals such as Hobson and Brailsford. Like Hobson, Bernstein defended the right of more-civilised peoples to impose progress upon lower cultures. This much he had in common with the right wing of the SPD, where jingoism was rife. But Bernstein denied that colonial policy and national consciousness entailed an illiberal and aggressive chauvinism. On the contrary: for him the protectionist ideas of the Kathedersozialisten were romantic nonsense. The logic of free trade would prove irresistible, and international harmony would increase.

The economic development of nations will intensify their enmity: what nonsense! As if nations were petty shopkeepers competing for a limited clientele such that a gain for one necessarily represented a loss for the others. A mere glance at the development of the commercial relations among the advanced countries demonstrates the fallacious character of these ideas. The most industrially developed countries are simultaneously competitors and customers of one another; likewise, their trade relations expand simultaneously with their mutual competition ... the era in which peoples attempted to subjugate one another is finished in Europe, and the same will more and more tend to be true in Asia. We have entered a new epoch, an epoch in which international law will prevail.5

This essentially liberal optimism was clear, consistent and fully in accordance with Bernstein’s overall conception of capitalist development. Karl Kautsky’s ideas on imperialism never attained a similar coherence. Fruitful but profoundly contradictory, Kautsky’s writings contain the germ of every significant view expressed by anti-revisionist theorists before 1914, as well as anticipating the non-Marxist model of imperialism advanced by Joseph Schumpeter.6 As early as 1884 Kautsky argued that colonies were a prerequisite for capitalist expansion, and that Germany’s lack of them was one of the main reasons why she had failed to industrialise at the same time as Britain.7 In the seventeenth and eighteenth centuries colonial possessions had been essential both for the primitive accumulation of capital and as a source of markets. The latter function (realisation) was now much the more important, Kautsky maintained. Workers received in wages less than the value of their product, and capitalist consumption was insufficient to fill the gap. Hence capitalists must find ‘a market outside the sphere of their own production’ which could offer the prospect of continuous growth. Their first target was the domestic peasantry, but its purchasing power was restricted by its steady impoverishment. Accordingly, ‘as a sales market the colonies have become a condition of existence for capitalism’.8 This
position was later to be argued vigorously by Rosa Luxemburg (see Chapter 6 below).

The 'social imperialists' within the SPD were to use a similar analysis to support the expanding German empire, either with ill-concealed nationalistic fervour or on the slightly devious argument that anything which accelerated the development of capitalism also brought socialism nearer. Kautsky however denied that the French seizure of Tongking (the occasion for this article) would be of any lasting benefit for French capitalism. Rather the reverse: it would encourage competition from the emerging Chinese bourgeoisie, and with it the growth of a national liberation movement of the type already apparent in India, Japan and the Islamic world. The result would be the 'breakdown of the modern colonial system', which would 'make the continuation of the present industrial system impossible', and lead inexorably to socialism.

There are echoes of this essentially Luxemburgist analysis of imperialism in The Class Struggle, the widely-read exposition of the SPD's Erfurt Programme which Kautsky published in 1892 (see Chapter 4 above). But his earlier triumphal conclusion is now tempered with pessimism. Territorial expansion is essential for the growth of markets, he argues; colonial policy encourages militarism; and this turns Europe into an armed camp. There are but two ways out of this intolerable state of things: either a gigantic war that shall destroy some of the existing European states, or a union of them all in a federation. This final suggestion re-emerged fifteen years later as the concept of 'ultra-imperialism' (see Chapter 6 below), and was to provoke the wrath of Lenin (see Chapter 13 below).

In these early writings Kautsky seems to be in no doubt that overseas expansion is a rational policy for the capitalist class as a whole. By 1897–8 his position had changed. In a long article on 'Colonial Policy Old and New', Kautsky distinguished 'labour colonies' based on European settlement from 'exploitation colonies' where plunder of the large native populations was the rule. The latter offered little but cheap imports. Only the labour colonies could provide a useful outlet for exports from the colonial power, and the outcome of the American War of Independence had demonstrated the futility of attempting to monopolise their markets. Pre-industrial classes (merchants, usurers, state functionaries) could benefit from exploitation colonies, but industrial capitalists needed customers with purchasing power. Where merchant capital had been monopolistic and militaristic, industrial capital sought peace and order and became (as in the case of Britain) actively anti-colonialist. Kautsky interpreted the contemporary reversion to mercantilist policies of protection and colonial plunder as a product of political reaction, carried out by classes opposed to economic development. It was the policy of bureaucrats, state pensioners and 'high finance' rather than of industrial capitalists. Kautsky concluded that German capitalists had gained nothing from the colonisation of
Africa, and would fare no better in China. Free trade on the British model was much more sensible.\(^{12}\)

Within four years his views had changed once again. In his pamphlet *Commercial Policy and Social Democracy*, first published in 1901 and reissued in a revised version ten years later, Kautsky anticipated Hilferding and Lenin by pointing to the connection between the formation of cartels, industrial capitalists' demands for protection, and the growth of militarism which threatened to spark off a world war. His focus was now on an intense struggle for markets in a situation of chronic overproduction. Unlike earlier tariff systems, he argued, the new protectionism would prove to be permanent. It was based, not on infant industry considerations, but on the need to secure higher prices on the cartelised home market than were available abroad. The revenues from tariffs were used to finance arms spending, thus increasing the demand for steel and related products and giving one important section of the German bourgeoisie a vested interest in both protectionism (even for agriculture) and militarism. Cut-throat competition overseas and competitive expansion in search of new markets leads to growing international tension. The proposed international customs unions were entirely Utopian, since their members would be at different stages of development and thus unwilling to cooperate peacefully. And the existing world division of labour was under mounting pressure from newly-industrialising areas whose challenge had been financed by capital exports from the original advanced countries, whose dominant position they would soon attack. Once all the world's agricultural areas had been annexed, Kautsky concluded, war between the industrial countries would become inevitable. It could be averted only by the advent of socialism.\(^{13}\)

### III  Hilferding on Finance Capital

The erratic, unsystematic and often contradictory nature of Kautsky's writings on imperialism owed something to the context: in the everyday political life of the SPD consistency was less valuable than the establishment of a firm line on the issues of the moment. It must not be forgotten, either, that these were intrinsically difficult questions on which historical precedent offered little guidance, and that Kautsky did not enjoy the benefit of hindsight. Above all he was neither trained nor especially adept as a political economist, and was unable to develop the rigorous analysis necessary for the construction of a coherent Marxist theory of imperialism.

The first serious attempt to provide such a theory was made by Rudolf Hilferding. In an early article on the changing function of protective tariffs, Hilferding had gone beyond Kautsky's position in *Commercial Policy* to argue that:
in the modern system of protective tariffs, the action of the capitalist class seems no longer to be handicapped by the multiplicity of diverging individual interests; it is much more organised, united, conscious action, which uses political [staatlich] means with enormous power to increase its profit . . . [and] introduces the final phase of capitalism. To combat the fall in the rate of profit, this law of motion of capitalism, capital does away with free competition, organises itself and through its organisation is put in a position to increase its influence through state power, placing it immediately and directly in the service of its interest in exploitation.14

The consequences were an increasingly aggressive colonial policy, a further intensification of the class struggle, and 'the strongest stimulus to overproduction'.15 This fell well short of a comprehensive analysis of imperialism, which had to await the publication (some four years after its substantial completion in 1906) of Hilferding's major work, Finance Capital. The book begins with an account of the Marxian theory of money and credit. Hilferding interprets credit as a means of keeping to a minimum the quantity of 'idle money' which is not used for productive purposes. Bank credit has significant advantages over commercial credit in economising on the use of money. Hence merchants lose much of their former influence and the banks become increasingly prominent as suppliers of credit to industry. There is also a change in the nature of bank credit, away from the supply of short-term finance ('circulating credit', as Hilferding terms it) to the provision of funds for long-term investment projects ('capital' or 'investment credit'). This gives the banks a growing interest in the firm's long-run prospects, in addition to its immediate solvency. It also leads to an important shift in the distribution of aggregate surplus value. The share of interest increases at the expense of entrepreneurial profit, reflecting the growing power of the banks in the economy as a whole.16

In fact the typical 'industrial capitalist' is no longer an owner-manager, Hilferding maintains, but a shareholder in a joint-stock company. The rise of corporate capitalism is an inevitable consequence of the economies of large-scale production, which entail that the expansion of the firm be 'freed from the bonds of individual property'.17 Big business requires investments far beyond the resources of any individual or small group of partners. This capital is mobilised by the banks, who extend credit to productive enterprises in exchange for shares. Now shareholders are in effect money-capitalists, not entrepreneurs, and their dividend incomes resemble interest payments rather than entrepreneurial profits. Hilferding notes that the rate of interest is invariably less than the rate of profit on productive capital, and shows how this differential offers the opportunity of huge capital gains for company promoters. He takes as an example an unincorporated
enterprise with a productive capital of £1 million, an average rate of profit of 15 per cent, and hence an annual profit flow of £150,000. How much would the firm be worth if floated as a company on the stock exchange? Prospective shareholders will demand a dividend yield somewhat higher than the rate of interest (which Hilferding assumes to be 5 per cent). With the addition of a small risk premium, the required yield becomes 7 per cent. The capitalised value of an asset yielding £130,000 per annum at 7 per cent is £130,000/0.07 = £1,857,143 (Hilferding allows £20,000 per year for directors’ fees and other expenses). This is the amount that investors will be prepared to pay for the newly-floated company. The difference between the value of the shares and the value of the productive capital (£857,143) accrues to the promoters as ‘promoter’s profit’. Algebraically,

\[ P = \frac{100Y}{d} - \frac{100Y}{r} \]

where \( Y \) is the yield of the enterprise, \( P \) is promoter’s profit, \( d \) is the dividend and \( r \) is the rate of profit. Promoter’s profit is ‘neither a swindle, nor some kind of indemnity or wage. It is an economic category *sui generis*’.18

The weakness in Hilferding’s argument is obvious: he simply takes the difference between the rate of interest and the profit rate for granted, and offers no explanation of its origins or persistence. There is also a certain tension between the central role which promoter’s profit plays in his analysis and his claim that the rate of profit tends to fall while the interest rate remains constant, which would reduce the scope for capital gains derived from the difference between them.19 Setting these problems aside, the significance of promoter’s profit is unmistakable. The banks’ advantages in mobilising capital mean that it is typically they who dominate company flotations, taking their rewards in the form of share capital and continually increasing their stake in productive industry. The growth of joint-stock companies thus reinforces the existing pressures for the centralisation of capital. The same process goes on within the banking sector itself, tending towards the formation of a single ‘central bank’ which will ultimately control capitalist production as a whole.20

These developments go hand-in-hand with a challenge to free competition, already severely weakened by the growth of fixed capital requirements in many branches of industry. The banks sponsor cartels, trusts and mergers with the object of suppressing competition and pushing up the rate of profit on their investments. These monopolistic gains are capitalised into promoter’s profit, which is then used to buy up further capacity in order to strengthen the cartel. The more secure the price ring appears, the greater the incentive for the banks to increase their stake in the industry concerned.21 There are three stages in the history of capitalism, Hilferding
concludes. At first 'usurers' capital' predominates. Then, in the classical phase, industrial capitalists establish their independence of the money-lenders. Finally there dawns the epoch of finance capital, which he defines (some 225 pages into the book) as 'capital at the disposal of the banks which is used by the industrialists'.

In chapter 15 of *Finance Capital* Hilferding summarises some of the most important economic and political peculiarities of this 'ultimate' stage of capitalist development. Monopoly undermines the operation of the labour theory of value by transferring profits from competitive to cartelised industries, giving rise to a dual economy in which the rate of profit is systematically higher for big business than for smaller enterprises. Investment slows down in both sectors:

in the cartelized industries, because the first concern of a cartel is to restrict production, and in the non-cartelized industries because the decline in the rate of profit discourages further capital investment. Consequently, while the volume of capital intended for accumulation increases rapidly, investment opportunities contract. This contradiction demands a solution, which it finds in the export of capital, though this is not in itself a consequence of cartelization. It is a phenomenon that is inseparable from capitalist development. But cartelization suddenly intensifies the contradiction and makes the export of capital an urgent matter.

In principle there are no limits to the process of cartel formation. It is possible to conceive of one giant cartel covering the entire economy, converting prices into 'a mere accounting device' and constituting 'a consciously regulated society, but in an antagonistic form'. Under such conditions social polarisation would reach its apogee, as

property, concentrated and centralised in the hands of a few giant capitalist groups, manifests itself in direct opposition to the mass of those who possess no capital. The problem of property relations thus attains its clearest, most unequivocal and sharpest expression at the same time as the development of finance capital itself is resolving more successfully the problem of the organisation of the social economy.

There follows a long and involved discussion of economic crises, in which the two central themes are disproportionalities between the various sectors of the economy (which may or may not take the form of a failure of consumption to grow in line with the expansion of production); and the decline in the rate of profit which results from the increase in the organic composition of capital. (On disproportionalities see Chapters 9 and 10 below.) The exact relationship between these two causal factors, however,
remains unclear. As to the specific character of crises under finance capital, Hilferding makes few concessions to the revisionists. The development of credit and the concentration of banking capital does allow greater spreading of risk and weakens commodity speculation. Monetary and banking crises are therefore less severe than in the previous stages. But on the central issue – whether industrial crises are ameliorated by the growth of cartels – Hilferding’s position is identical with that taken by Luxemburg and Kautsky (see Chapter 4 above). Cartels hinder the price and output adjustments which are required to re-establish prosperity. They thus exacerbate disproportionalities and ‘divert the main burden of a crisis to the non-cartelized industries’ instead of making crises in general less damaging.

This represents something of a digression from the main argument, which is resumed in the final five chapters of the book. Here Hilferding analyses what he describes as ‘the economic policy of finance capital’. The function of tariffs has changed, he argues, from the temporary encouragement of infant industries to providing permanent support for both monopoly pricing in the domestic market and the aggressive dumping of surplus output overseas. Similar practices in competing nations furnish a further stimulus to capital exports organised by the banks, which offer the only means of avoiding the tariff barriers established by rival nations. This adds little either to Kautsky’s treatment of commercial policy or to Hilferding’s own earlier writing on the subject. More original—and in some ways the centre-piece of the entire work—is chapter 22, where Hilferding traces the connections between the export of capital and ‘the struggle for economic territory’. Because of economies of scale a large market is crucial to capitalists’ survival; this is why small countries like Belgium support free trade. For larger nations one solution is the establishment of global cartels. This, however, contradicts the strong pressures towards increased competition between national cartels, each able to call upon the support of its own nation state. International cartel arrangements thus represent ‘a kind of truce rather than an enduring community of interest’.

The outcome is a growing politicisation of economic relations. Capital export extends the market and thus helps to smooth out crises; it also increases real wages in the advanced capitalist countries. But it is limited by the availability of wage labour in the backward areas. This can be overcome only through the violent elimination of pre-capitalist production, by the introduction of forced labour, and by immigration from regions with large labour reserves. All these measures, however, require a degree of state intervention, so that imperialist domination over the poor countries is a necessary consequence of the export of capital. So too is increasing rivalry between the advanced nations. ‘The policy of finance capital has three objectives,’ Hilferding concludes: ‘(1) to establish the largest possible economic territory; (2) to close this territory to foreign competition by a
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wall of protective tariffs, and consequently (3) to reserve it as an area of exploitation for the national monopolistic combinations. Hence colonial ambitions induce political conflicts. A prime example, Hilferding suggests, is the disparity between the rapid growth of German capitalism and the relatively small size of its economic territory, which leads to heightened tension between Germany and England and raises the spectre of 'a solution by force'. There are, however, countervailing tendencies, most notably the large English and French investments in Germany which promote a common interest between the capitalists of the three countries. Everything depends upon the power relations between the respective nations. Hilferding concludes that 'the greater the disparities of power the more likely it is, as a rule, that a struggle will occur.'

He himself makes no firm predictions as to the eventual outcome, but expects there to be violent upheavals. 'Capitalism can pursue no policy other than imperialism.' The bourgeoisie has become anti-liberal and anti-cosmopolitan, endorsing the expanding power of the state and opposing Cobdenite pacifism. Militarism, oppression, racism and oligarchic rule: this is the ideology of imperialism. '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.' Big business, the landowners and the petite-bourgeoisie are united in support of imperialism. Only the proletariat—and, much more precariously, the 'new middle class' of salaried and professional workers—are opposed to it, for only they would gain from the alternative policy of higher wages and an expanding home market. Finance capital makes the dictatorship of the capitalist lords of one country increasingly incompatible with the capitalist interests of other countries, and 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.

Finance Capital ends with these stirring words.

IV Reactions to Hilferding

Within the mainstream of German social democracy the appearance of Hilferding's book was hailed as a most significant event. For Otto Bauer, the leading theoretician of the Austrian party, Finance Capital was even closer in spirit to Marx's than to Engels's writings, and read like another volume of Marx's Capital. Manchester liberalism was dead, Bauer main-
tained. Socialists needed to attack their new enemies, and Hilferding had provided an excellent starting-point. Kautsky too described the book as 'a completion of Capital', which vindicated the Marxian method and both supplemented and revised volumes II and III.

In fact Finance Capital has proved to be the most influential text in the entire history of Marxian political economy, only excepting Capital itself. It is difficult to think of any significant theme in Lenin's theory of imperialism, for example, that does not feature, usually prominently, in Finance Capital. There is the central concept of finance capital, seen as the 'highest stage' of capitalist development; the growth of monopoly in place of free competition; the repudiation of free trade by the capitalists and their increasing reliance upon tariffs to bolster their cartels; the emphasis on capital exports and colonisation, together with the mounting international tension that they generate; and finally the apocalyptic tone of Hilferding's conclusion. All these can be found, in simpler language and considerably less depth, in Lenin's Imperialism. Bukharin, too, relied heavily upon Hilferding (see Chapter 13 below). And virtually all subsequent Marxian analysis of the economic contradictions of capitalist society have drawn on Hilferding's work. He seems to have been the first since Marx to connect the falling rate of profit with economic crises (and also, indirectly, with the export of capital). His treatment of disproportionalities and his detailed scrutiny of Marx's reproduction models stimulated both the very different theory of capitalist breakdown which Rosa Luxemburg was soon to formulate, and—in conjunction with his concern for the supply of labour power as a fundamental problem for an expanding world economy—Otto Bauer's impressive critique (see Chapter 6 below).

Thus Finance Capital changed the landscape of Marxian economics, overshadowing the previously dominant texts. Kautsky and Engels had offered restatements of established Marxian truths; what was novel in their work was rarely well-developed. Hilferding provided not only new concepts, new analyses, and a new vocabulary, but an attempted synthesis. Nevertheless the defects of his book are readily apparent. He achieved neither a single coherent account of economic crises nor a clear explanation of their relationship with the longer-term contradictions of advanced capitalism. He had neither a theory of economic breakdown nor a refutation; although the germ of his subsequent concept of a largely crisis-free 'organised capitalism' can be found in Finance Capital (see Chapter 14 below) the book contains no unequivocal prognoses. Hilferding's treatment of capital exports is also imprecise. It is hard to judge whether he regarded the principal incentive for the export of capital to be the need to overcome foreign tariff barriers; differences in the organic composition of capital (and hence in the rate of profit) between advanced and backward areas; the restriction of domestic investment opportunities because of growing car-
telisation; or the new facilities offered by more highly developed financial institutions. 38

In addition to these analytical weaknesses, there are difficulties with the historical dimension to his argument. Hilferding generalised far too easily from his own German experience. The economic power of the German banks in the period before 1914 was paralleled (if at all) only in the contemporary USA, and even there not for long. There was never an equivalent phenomenon in Britain or France, where finance capital in Hilferding's specific sense did not dominate industrial production, and where the concentration of economic power was much less pronounced. This objection was raised against him almost immediately by Eduard Bernstein, whose review of Finance Capital accused Hilferding of hypostatising concepts such as 'capital' and 'bourgeoisie', which were represented as monolithic defenders of imperialism. This, Bernstein argued, was a crude over-simplification. Not only was the concept of finance capital itself wholly irrelevant to Britain, but even in Germany there were conflicts of interest and divisions of opinion which Hilferding glossed over. The large competitive sectors of German industry were proponents of free trade, along with the giant Siemens group and many financiers. Capitalists continued to display strong anti-imperialist tendencies, Bernstein concluded. Far from being played out, Cobdenism was still the banner of capitalist progress. 39

As already noted, Karl Kautsky's reaction to Finance Capital was sympathetic and generous. But Kautsky took the opportunity of his review to present his own most recent ideas on the theory of crisis and imperialism, which revealed significant differences between his thinking and that of Hilferding. Underconsumptionism was again to the fore although—as Kautsky admitted—it had played little part in Finance Capital. 40 Kautsky invoked Marx's numerical models of reproduction to show that equilibrium growth was not independent of increased consumption. Marx's numbers assume a definite rise in consumer expenditure: specifically, they require that capitalists' consumption expand faster than that of the workers (and this would be true a fortiori if allowance were made for an increasing rate of exploitation). To this extent, Kautsky concedes, Malthus was right, although his remedy for deficient aggregate demand is unworkable. Capitalists in general would indeed benefit from the employment of more unproductive labour (servants, for example), but individual capitalists are forced by competitive pressure to live more frugally. Hence luxury consumption rises more slowly than other categories of expenditure. Much the same is true with respect to the economics of military spending. Although purchases by soldiers increase consumer demand, Kautsky argues, the process is not without contradictions. Competition forces capitalists to keep wages down, although they are in desperate need of working-class
purchasing power. Similarly with arms spending: so far as militarism is financed by taxes on profits, capitalists will resist it. The result is chronic underconsumption.41

The second aspect of Kautsky's argument stresses the need for proportionality between agriculture and industry, which he regards as no less important than balance between departments I, II and III of the Marxian reproduction models. Agriculture sets the limit to industrial growth in its dual capacity as supplier of raw materials and as consumer of manufactured products. Kautsky maintains that it is the primary motive for massive overseas expansion. This too, was contradictory. In the initial stages, new markets were opened up for European manufacturers. Subsequently, however, these markets were destroyed by rural depopulation. Most recently the industrialisation of the agricultural areas themselves has further constricted the market opportunities which they offer for the advanced capitalist nations. The more vigorously capitalism seeks out new customers, the more rapidly it tends to eliminate its own sources of purchasing power.42

Thus Kautsky's views on imperialism at this point were quite distinct from those of Hilferding, who was suspicious of underconsumptionism, said nothing about the purely economic aspects of military expenditure, and ignored the question of agriculture-industry balance. The two men did however agree in regarding finance capital as necessarily 'the most brutal and violent form of capitalism',43 both domestically and in the international arena. If such phrases meant anything at all, they implied (like Hilferding's allusion to the impending 'violent clash of... hostile interests') that war was inescapable unless the socialist revolution came first, and that socialism would be the inevitable consequence of a major war. As late as 1909 Kautsky had regarded the latter prospect with equanimity:

In 1891, Engels still thought that it would be a great misfortune for us if a war broke out bringing a revolution with it and putting us into power prematurely. Since then the situation has changed considerably. The proletariat is so strong today that it can contemplate a war with more confidence. We can no longer speak of a premature revolution.44

Typically, three years later Kautsky changed his mind. He now argued that war would be a 'frightful disaster' for the working class, but that peace and disarmament were perfectly feasible within the framework of the existing social system. If this meant that Social Democracy was showing the capitalists where their best interests lay, so be it; a similar lesson had been taught in the previous century, when the factory owners had discovered that they, too, gained from legal controls on the length of the working day.45

Two developments were responsible for this volte-face. First, Kautsky's
genuine horror of war on humanitarian grounds had intensified as its likelihood increased; more and more he came to see it as something to be avoided at almost any cost, instead of as an inescapable, even a welcome, harbinger of socialism.46 There was a second, less creditable reason. The SPD had lost ground for the first time in its history in the ‘Hottentot election’ of 1907, when colonial issues came to the forefront and jingoism revealed the extent of its hold over sections of the German proletariat. The party’s centre of gravity began to shift rightwards, and by 1912 the leadership was making secret approaches to some of the bourgeois parties for an electoral alliance on a platform of peace and disarmament.47 Kautsky now turned on the party’s left wing who (he believed) regarded militarism as an inevitable consequence of capitalism, which could no more be suppressed within the system than the wage–labour relation could be done away with this side of the socialist revolution. He denounced the analogy as absurd. The left was confusing products of capitalism (militarism and colonial rivalry; excessive hours of work) with necessary conditions for the continued existence of capitalism (expanding markets; the creation of surplus value). Like overwork, militarism did have economic causes. But, Kautsky maintained, it could be overcome by a sufficiently powerful political campaign against it. The success of cartels demonstrated the possibilities for inter-capitalist cooperation. ‘What has been increasingly true for two centuries for the relationship between enterprises is now becoming true of the relationship between capitalist states.’ If North American railway companies could agree not to start a price war, why should not Germany and Britain sign an arms treaty?48 With this question Kautsky had lined up with Bernstein against the catastrophist section of the SPD. In the following chapter we consider the response of the left to his analysis.

Notes

The German Contribution, 1883–1914


7. Anon [K. Kautsky], ‘Tongking’, Die Neue Zeit, 2, 1884, pp. 156–64. (We are grateful to Dick Geary for bringing this article to our attention.)


32. Ibid, p. 333.


41. Ibid., pp. 801–4.
42. Ibid., pp. 839–46.
43. Ibid., p. 768.