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History 310

## **Austro-Marxism: Finding Socialism in Modernity**

### **Introduction**

In Otto Bauer's *What is Austro-Marxism?* (1927), he stated that Austro-Marxism was first coined by an American socialist, L. Boudin, to describe a collection of Marxist thinkers including Max Adler, Karl Renner, Rudolf Hilferding, Otto Bauer and others who grew up in the socialist student movement of fin-de-siècle Vienna. Despite these thinkers' common background, Austro-Marxism as a school of thought lacked the unity L. Boudin conferred to it through its name. Even Otto Bauer himself noted that this group of scholars "were united not so much by a specific political orientation."<sup>1</sup> These thinkers cited above all had interests in different areas, for example, Max Adler took on a theoretical approach and tried to apply a neo-Kantian emphasis on subjectivity and human volitions to the Marxist concept of historical progression; Karl Renner focused more on the law and its ability to support the capitalist system; Rudolf Hilferding was known for his discussion on finance capital and his extension upon Marxist economic theories; Otto Bauer focused on the question of nationality and its incorporation into Marxist thoughts. Though this was not to say that there were no communications and references between these thinkers, the various focuses and interests made it hard to characterize Austro-Marxism as a unified movement. In a sense, Otto Bauer's question posed by his title remained unanswered.

Current historiography on Austro-Marxism has also shied away from this question by focusing on individual thinkers. Bulloch's *Karl Renner: Austria*, Smaldone's *Rudolf Hilferding: the tragedy of a German Social Democrat*, and Czerwińska-Schupp's *Otto Bauer 1881-1938*:

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<sup>1</sup> Otto Bauer. 'Was ist Austro-Marxismus?' *Arbeiter-Zeitung*, 3 November 1927, in T. B. Bottomore, and Patrick Goode. *Austro-marxism*. (Oxford [Eng.]: Clarendon Press. 1978.) 45.

*Thinker and Politician* all represent this trend. While their books show the complexity and the development of each thinkers' theories, they do not situate them within a larger intellectual movement. Meanwhile, another trend in the historiography on Austro-Marxism is to focus on the inter-war period and Red Vienna. Helmut Gruber's *Red Vienna: Experiment in Working Class Culture 1919~1934* is one representation. While he provides a comprehensive summary of Austro-Marxist thoughts, this is used mainly as a springboard to discuss how these thoughts affect the policies of Red Vienna. While Red Vienna is definitely a fruitful place for research concerning the practices of Austro-Marxist politicians, it should not be ignored that it was essentially under the social, economic, cultural atmosphere of fin-de-siècle Vienna where Austro-Marxism reached its theoretical maturation.

This paper tries to resituate current historiography on Austro-Marxism within the context of fin-de-siècle Austro-Hungarian Empire and argues that these thinkers were united by their shared experiences of using a Marxist vocabulary to understand and respond to their increasingly unfamiliar modern world. Two intersecting changes that preoccupied the thoughts of Austro-Marxists were the fall of liberalism and the rise of nationalism. In Carl E. Schorske's *Fin-de-Siècle Vienna: Politics and Culture*, he characterizes this modern world as moving away from liberalism and rationality while embracing the psyche, the fragmented, and the disintegrated. He argues that:

“Vienna in the fin de siecle, with its acutely felt tremors of social and political disintegrations, proved one of the most fertile breeding grounds of our century's a-historical culture. Its great intellectual innovators... all broke... their ties to the historical outlook central to the nineteenth-century liberal culture in which they had been reared.”<sup>2</sup>

While Schorske demonstrates how fin-de-siècle intellectuals and artists saw modernity as disruptive and “a-historical”, this view of modernity is incompatible with a Marxist tradition that

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<sup>2</sup> Carl E Schorske. *Fin-de-siècle vienna: Politics and culture*. (New York: Knopf: distributed by Random House. 1980.) xviii.

situates social and economic developments in a larger history of the dialectic transition from feudalism to capitalism and eventually to socialism. This paper argues that by subscribing to the Marxist theories of the stages of development, Austro-Marxists strived to present a socialist answer to the disrupted and fragmented modern life and provide a sense of political direction and conviction regarding the new social and economic developments. By viewing socialism as the eventual end goal, Austro-Marxists deliberately eschewed a pessimistic understanding of modernity and instead saw it as presenting new opportunities through which socialism could one day be reached.

Austro-Marxists adopted a similarly optimistic attitude in regard to the rise of nationalism. Realizing the disrupted forces of nationalism and its fragmented effects on the Austro-Hungarian state and society, Austro-Marxists responded by offering a Marxist interpretation of nationalism that focused on its ability to incorporate the masses into politics and cultural productions that used to exclude them. Rather than seeing nationalism as a disrupted and backward force that reverted the progress of liberalism as many scholars did, Austro-Marxists saw nationalism as part of the progress that would transform the exclusive liberal society to a humanitarian socialist society. Through this light, national organizations were understood as the building blocks that could organize and facilitate the transition from capitalism to socialism.

However, as Austro-Marxist thinkers demonstrated, the existence of these new opportunities was not enough in itself to transform the society. Central to these thinkers' conception of the transition from capitalism to socialism was the role of the modern state. The changing economic, social, and cultural realities allowed these thinkers to view the state as a potentially rational and effective tool that could facilitate the process of socialization while also ensuring these changes happened in a peaceful and non-disruptive way. From this emphasis on the

state, this paper draws two conclusions. First, this focus suggested an intellectual shift where traditional Marxist emphasis on the economic base was substituted by a growing emphasis on the superstructure; it was in the superstructure where conscious actions and concrete possibilities towards socialism were made available. Second, it demonstrated Austro-Marxists' desire for stability and direction, for an apparatus that could guide and anchor modern changes in the path towards socialism.

### **New Economic Reality and the Insufficiency of Marxist Thoughts**

One component of modernity that Schorske stresses in his analysis is the collapse of liberalism. This section examines this collapse from an economic perspective. It looks at the transformative economic circumstances of late 19th century Austro-Hungarian Empire and argues that it was to these economic changes that Austro-Marxist thinkers responded and based their theories on. It further demonstrates the increasing insufficiencies of Marx's theories to explain these modern economic phenomena, which opened up new possibilities for Austro-Marxist thinkers to expand and even diverge from Marxist analysis for creative solutions.

Austro-Hungarian Empire's engagement with economic liberalism was brief. After Austro-Hungarian Compromise of 1867, the Cisleithanian half of the government adopted December Constitution and initiated a series of liberalization reforms and entered into a period of economic growth that was commonly known as *Gründerzeit* (1867~1873). However, such a prospect for further economic prosperity ended with the crash of the Vienna Stock Exchange on 9 May 1873. The crash and the ensuing economic disorders were vital blows to laissez-faire policies and ended the ideological optimism people placed on liberalism. Rather than promised progress, the supposedly rational market and reasonable individual decision-maker brought economic ruins and disruptions. From this demoralization of economic liberalism emerged a new socio-economic

model that focused on state interventions, cartelization, and centralization. During this process, the banking sector with its financial power and its ability to invest long-term in industries became an increasingly important organization that could interfere in capitalist expansions and to avoid economic crises.<sup>3</sup>

After the crash of 1873, Austrian economic policies both from a state level and from the level of individual firms and banks increasingly emphasized centralization, cooperation, and intervention. Marx in *Capital* predicted this trend of centralization of the capital in the hands of the few by stating, “It is concentration of capitals already formed, destruction of their individual independence, expropriation of capitalist by capitalist, transformation of many small into few large capitals.”<sup>4</sup> However, the new economic developments to a degree deviated from Marx’s interpretation of centralization. In Marx’s understanding, centralization was the inevitable result of free competition which pushed out smaller businesses, “competition rages.... It always ends in the ruin of many small capitalists, whose capitals partly pass into the hands of their conquerors, partly vanish.”<sup>5</sup> However, in the late 19<sup>th</sup>-century Austrian economy, centralization occurred as measures taken to avoid this competition. Small businesses did not vanish. Instead, they were relegated to a different role that served to preserve in their best capacity the harmony and the stability of the larger economic structure. Karl Renner in his *Problem of Marxism (1916)* realized this issue when he argued that “Alongside the concentration of wealth and factories a third form has developed. Wine-producing peasants can maintain their small property and small-scale enterprise, and concentrate simply upon one of a few functions such as the supply of auxiliary

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<sup>3</sup> David F Good. *The Economic Rise of the Habsburg Empire, 1750-1914*. (University of California Press, Berkeley, 1984) 186-236.

<sup>4</sup> Karl Marx. *Economic Manuscripts: Capital Vol. I - Chapter Twenty-Five: The General Law of Capitalist Accumulation*. 1887. Accessed May 20, 2019. <https://www.marxists.org/archive/marx/works/1867-c1/ch25.htm>.

<sup>5</sup> *Ibid*

materials or the sale of products, or upon one part of the production process.”<sup>6</sup> The centralization depicted by Karl Renner was one motivated by stability and cooperation rather than competition as in Marx’s case. Capitalism was taming its own competitiveness.

The difference in their conception of centralization revealed further divisions between classical Marxist theories and the new economic developments. In Marx’s case, one essential element of capitalism was its dynamism, its constant revolutionization of the production relationship due to the inherent contradiction between labour and capital. This never-ending dynamism created crises during which the possibilities of capitalism’s self-destruction opened up. However, the late 19<sup>th</sup>-century economy was dominated by attempts to tame the dynamism of the market through various bureaucratic and organizational means. If capitalism itself became more and more risk-averse, where should one locate the inevitable capitalist crisis in the new economic atmosphere? Moreover, Marx saw the state as an inherent reflection of the capitalist production relationship, as an instrument of class rule. However, in the economic transformation discussed above, the state gradually took on a different role. Rather than behaving as a night-watchman for the liberal social order, the state began to interfere in the economy whether through protectionist policies or social legislations. The minimum discussion of the state in Marx’s conception of the capitalist economy was insufficient to explain the growing power of the state in the realm of economy. Renner explained this insufficiency of Marx as the result of the fact that “Karl Marx’s whole productive period falls within the liberal epoch of society, the starting point of which is that people and commodities are free and the state does not interfere in their movements...[it is] five

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<sup>6</sup> Karl Renner. ‘Probleme des Marxismus’. *Der Kampf*. 1916, in T. B. Bottomore, and Patrick Goode. *Austro-marxism*. (Oxford [Eng.]: Clarendon Press. 1978.) 98. The reason why I incorporated Renner’s piece despite the fact that it was written during the Great War was that he identified many of the economic changes in the late 19<sup>th</sup> century, he saw the Great War as mainly accelerating the pace of these changes.

years before his death, did the free trade ideology suffer its first blow...Capitalist society, as Marx experienced and described it, no longer exists!”<sup>7</sup>

While realizing the insufficiencies of Marx’s theories to explain an increasingly unfamiliar economic reality, Renner, however, also wanted to preserve the Marxist ideology, especially on the inevitability of the transition from capitalism to socialism. He argued that while Marx’s stages of the historical development still held true, Marx did not discuss “[the] transitions or intermediate stages, in which the already existing state powers have a role to play... He could not survey the road between [capitalism and socialism].”<sup>8</sup> Marxism should not be disregarded, instead it needed an update. This necessity for Renner to explain his belief in the orthodox Marxist theories demonstrated the increasing division within Marxism itself as new developments of capitalism challenged the validity of Marxist thoughts. His explanation revealed a general dilemma that was confronting Austro-Marxist thinkers at the time, namely, how to incorporate contemporary economic realities into Marx’s economic theories, and where to locate the new role of the state in the transition from capitalism to socialism? While these seemed to be two separate questions, the next section will examine Hilferding’s *Das Finanzkapital* where he tried to answer these questions and argue that it is the specific role Hilferding assigned to the state that allowed him to stay true to Marxist theories while incorporating these new developments of capitalism.

### **Rudolf Hilferding’s *Das Finanzkapital***

Hilferding in his *Das Finanzkapital* strived to provide “a scientific understanding of the economic characteristics of the latest phase of capitalist development [whose] most characteristic features are those processes of concentration which, on the one hand, ‘eliminate free competition’ through the formation of cartels and trusts, and on the other, bring bank and industrial capital into

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<sup>7</sup> Ibid, 90.

<sup>8</sup> Ibid, 91.

an ever more intimate relationship.”<sup>9</sup> Like Renner, Hilferding recognized the changing economic trends and tried to incorporate them into Marxist theories of capitalist development. The main issues that concerned him were the dynamism of capitalism, its crises, and where to locate them in the modern economy. This section will argue that this insistence on capitalist crisis and its inevitable doom allowed Hilferding to diverge from Marxist thoughts considerably. This section traces two interconnected divergences. First, rather than focusing on production, Hilferding looked towards modern finance as the new locus through which capitalist contradictions were manifested. Second, this emphasis on finance, in turn, allowed Hilferding to assign a more active role to the state in the process of socialization. The state could now use its financial power to proceed in the direction of expropriation without the necessary violence and disruptions predicted by Marx. The state became not only a reflection of economic reality but a conscious organization that had the power to change it.

In order to understand where Hilferding diverged from Marx’s understanding, it is important to first look at where Hilferding affirmed Marxist theories. His analysis of the development of the bank confirmed Marx’s theory of capital accumulation and the dynamism of capitalism. In Hilferding’s argument, the bank became central in the modern economy because it was an essential tool to maximize surplus-value and expand the market. He claimed that

“bank has performed two functions: (1) it has facilitated the process of making payments, and by concentrating them and eliminating regional disparities, it has enlarged the scale of this process; (2) it has taken charge of the conversion of idle capital into active money capital by assembling, concentrating and distributing it, and in this way has reduced to a minimum the amount of idle capital which is required at any given time in order to rotate the social capital.”<sup>10</sup>

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<sup>9</sup> Rudolf Hilferding, *Das Finanzkapital. Eine Studie über die jüngste Entwicklung des Kapitalismus*, Vienna, Wiener Volksbuchhandlung, 1910 (*Marx-Studien*, vol. III), Vorwort, trans. Tom Bottomore (Routledge & Kegan Paul, London, 1981) Accessed May 20, 2019. <https://www.marxists.org/archive/hilferding/1910/finkap/index.htm>

<sup>10</sup> Ibid. V. Kapitel: Die Banken und der Industrielle Kredit.



Before the banks dominated the credit market, it was the bill of exchange between individual capitalists that served as a form of credit. The limitations of the bill of exchange came from its circulatory and local nature. It only served as a transference of money from one individual capitalist to another, it did not “economize” money. Furthermore, this form of exchange is essentially limited within the strata of the capitalist; “productive capitalists are mutually providing each other with credit.”<sup>11</sup> With the development of the bank, however, it was not only the capitalist who deposited idle money within the bank but people from all classes. This totalizing effect banks had on the economy allowed Hilferding to see the growing dominance of the banks as a logical consequence of the expansive nature of capitalist development.

In his discussion of the banks, Hilferding also bears in mind Marx’s assumption that “as the scale of production expands, fixed capital becomes much more important.”<sup>12</sup> In this case, bank credit was not limited as tools that only facilitated capital circulation. Instead, banks increasingly invested in fixed capital, namely “the value of the means of production.”<sup>13</sup> Hilferding then argued that this investment had led to two trends. First, banks in order to support this demand needed to expand themselves. Investments in fixed capital represented long-term investments, and the interest did not flow back to the bank right away. This entailed greater risk and necessitated that only large banks could engage in these enterprises. Second, these long-term investments also implied the growing interest of banks in the well-being of the industries in which they invested. This interest became the basis of the close ties that were established between the banks and industries, and the banks by transforming bank credits into industrial capital had more control in this relationship. It was this process of transformation that gave rise to finance capital, “the capital

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<sup>11</sup> Ibid.

<sup>12</sup> Karl Marx. *Economic Manuscripts: Capital: Volume Two. Chapter 8: Fixed Capital and Circulating Capital*. 1893. Accessed May 20, 2019. <https://www.marxists.org/archive/marx/works/1885-c2/ch08.htm>.

<sup>13</sup> Ibid.

at the disposition of the banks which is used by the industrialists.”<sup>14</sup> Combining these two trends, Hilferding envisioned a future where

“With the development of banking, and the increasingly dense network of relations between the banks and industry, there is a growing tendency to eliminate competition among the banks themselves, and on the other side, to concentrate all capital in the form of money capital, and to make it available to producers only through the banks. If this trend were to continue, it would finally result in a single bank or group of banks establishing control over the entire money capital.”<sup>15</sup>

These conclusions largely affirmed the Marxist traditions. Rather than arguing that the new trends betrayed Marx’s speculation, Hilferding saw these developments as the logical extension of Marxist theories of the stages of capitalism. Banks did not represent capitalism’s self-conscious effort to tame its own dynamism, instead they were the products of this very dynamism. However, some of the divergences between Hilferding and Marx were also revealed through his analysis. Rather than focusing on the process of production as Marx did, Hilferding shifted the conversation by looking at the circulation of finance capital. In this process, the locus of capitalist activities and dynamism shifted from the factories to the banks.

This insistence on the dynamism of capitalism became problematic when Hilferding started to examine capitalist crisis. The Marxist belief that capitalism’s over-accumulation would one day lead to its downfall translated to Hilferding’s view that capitalist crisis would continue to exist even if the economy became more centralized and regulated. He argued that, contrary to popular belief that saw centralization and cooperation as the solution to capitalist crisis, “Cartels do not diminish, but exacerbates, the disturbances in the regulation of prices which lead ultimately to disproportionalities, and so to the contradiction between the conditions of utilization and the

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<sup>14</sup> Rudolf Hilferding, *Das Finanzkapital, XIV. Kapitel: Die kapitalistischen Monopole und die Banken Verwandlung des Kapitals in Finanzkapital*  
<https://www.marxists.org/archive/hilferding/1910/finkap/index.htm>.

<sup>15</sup> *Ibid.*

conditions of valorization.”<sup>16</sup> Hilferding further argued that the prevailing illusion that cartelization and centralization could avoid crises came from the ability of cartels to modify the effect of the crises by shifting the main burden to non-cartelized industries. The small non-cartelized businesses would take the main brunt of capitalist crises and cushion the effects felt by the larger centralized businesses. Even though cartelization could mitigate crises, it could not prevent them. Their positionality within a capitalist economy meant that cartels could never avoid the contradictions within capitalism, “the anarchy of production is not abolished by reducing the numbers of individual units while simultaneously increasing their strength and effectiveness.”<sup>17</sup>

Another way that cartelization and centralization increased crises was through imperialism. Hilferding argued with greater accumulation of capital in the hands of the bank; the banks would want to invest these capitals to the developing countries. However, instead of pursuing free trade, these new investments needed the state’s active intervention in the receptive country for protection. These demands for protection in turn translated to oppressive imperial policies where state dominance was imposed over the colonial territories to ensure local stability. While Hilferding saw the formations of imperial territories as capable of diverting over-accumulation of capital in short terms, he argued that imperialist policies would lead to greater conflicts in future when “the struggle for markets for goods becomes a conflict among national banking groups over spheres of investment for loan capital... economic competition is confined here within relatively narrow limits, so that the economic struggle quickly becomes a power struggle in which political weapons are employed.”<sup>18</sup> What Hilferding suggested here was with the state’s intervention in the economy, capitalists could use political and military power to maximize their profit in international

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<sup>16</sup> Ibid. XX. Kapitel – Die Änderungen im Krisencharakter Kartelle und Krisen.

<sup>17</sup> Ibid.

<sup>18</sup> Ibid. XXII. Kapitel – Der Kapitaleexport und der Kampf um das Wirtschaftsgebiet.

competitions leading to imperialist wars between great powers. Thus, while imperialism solved short-term economic crises, in the long run, it led to capitalist powers' mutual destruction.

However, just as fervently as he argued that capitalist crises were inevitable, he also proposed a contradicting argument that the tendency of finance capitalism was to escape from capitalism's dynamism. Hilferding at times entertained the readers with a future when economic centralization would reach its zenith and create "a general cartel which carries on whole of production, and thus eliminate crises," even under a capitalist society where "property, concentrated in the hands of a few giant capitalist groups [manifested] in direct opposition to the mass of those who possess no capital."<sup>19</sup> Under this speculation, centralization not only did not exacerbate capitalist crisis but served as a way out of it. The growing dominance of the banks within industries further made "the emergence of a banking crisis more difficult."<sup>20</sup> Comparing these two contradictory theories, one could argue that this contradiction was a reflection of the divisions pointed out by Renner between modern capitalist development and Marxist theories, between a capitalism that was reforming itself and a capitalism that was doomed to failure.

In order to reconcile the two contradicting theories he proposed on the nature and tendency of capitalist crises, Hilferding argued that in these two scenarios the state was essentially playing two different roles which led to two different economic outlooks. He explained that whether centralization and cartelization would lead to more crises or fewer crises depended on who was in control of the "conscious executive organ -- the state."<sup>21</sup> If it was the capitalists who controlled the state and used the state to facilitate the process of centralization, to maximize profits, and to expand capitalism overseas, the centralization process remained essentially "an antagonistic form

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<sup>19</sup> Ibid. XX. Kapitel – Die Änderungen im Krisencharakter Kartelle und Krisen.

<sup>20</sup> Ibid.

<sup>21</sup> Ibid. XXV. Kapitel – Das Proletariat und der Imperialismus

of socialization, since the control of social production remains vested in an oligarchy.”<sup>22</sup> Therefore, the economy would still be subjected to capitalist crises and imperialist wars. It was only when the proletarians gained control of the state and took advantage of the economic developments for the greater social good could centralization become a process of positive socialization where

“the state conquered by the working class [could] seize finance capital in order to gain immediate control of these branches of production... [so that] there is no need at all to extend the process of expropriation to the great bulk of peasant farms and small businesses, because as a result of the seizure of large-scale business, upon which they have long been dependent, they would be indirectly socialized just as industry is directly socialized.”<sup>23</sup>

The increasingly interventionist power of the state allowed Hilferding to imagine a socialist future devoid of revolutionary and potentially violent expropriation. Socialization could be gradual and peaceful under the aegis of the state-supervised centralization of finance capital.

Hilferding’s conception of the state shifted Marxist focus on social and economic revolution to an emphasis on political revolution. In his discussion, Hilferding relied on the assumption that under modern capitalism, political revolution would directly lead to social transformation. Underlying this perception was a view that the modern state with its overarching financial power could directly restructure economic and social life rather than being a passive reflection of the economic and social base as Marx would more likely argue. Furthermore, it also relied on a perception that saw the state as a “class-neutral” tool that worked to the advantage of whoever was in control. Modern economic changes, whether they were the rise of finance capital, the increasing trend of cartelization, or the development of the banking sector, were presented by Hilferding as new opportunities that allowed the state to function as an effective tool for socialization. However, as Hilferding hinted in his discussion of crisis, the power of the modern

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<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

state was a double-edged sword; depending on how it was used and who used it, it could lead to either peaceful transition to socialism or the continuation of capitalism in the form of imperialism and war.

In a sense, Hilferding presented a largely optimistic view towards modernity and where it was heading. By posing two diverging paths at the end of his *Das Finanzkapital*, Hilferding revealed the new possibilities of modern capitalist developments. While economic modernity did not eliminate the fundamental dynamism of capitalism and its crises, it did pose new peaceful ways for socialist transition to proceed. What should be noted in Hilferding's discussion was his somewhat naive belief on the linear progress of history that capitalism was heading towards socialism and socialism only. Whether it was through peaceful transition or violent self-destruction as manifested in imperialism and war, Hilferding at this point did not see an alternative to a socialist future. This optimism was going to change after the Great War when fascism became an increasing threat; war did not necessarily lead to socialist revolution but instead could also lead to fascist takeover. However, this general view towards modernity as presenting new opportunities for social changes and allowing the state new roles in initiating these changes remained intact.

### **The Organizational Worldview**

In Hilferding's analysis of the changing economic realities, there was a shift of focus from the individual to the organizational. His discussion on cartelization, on centralization, and on state intervention could all be cited as examples where economic decisions were made by an organization, by a board of trustees, by a ministry of commerce rather than by an individual industrialist. While Hilferding was distinct in his economic approach, he was not the only one within the Austro-Marxist circle that increasingly subscribed to an organizational view of the society. This section examines how other Austro-Marxist thinkers understood modern society and

culture in terms of organizations. It will first analyze Otto Bauer's definition of the organizational worldview and how it related to modern life, then it will apply this definition to Bauer's understanding of the nations. Through this process, this section argues that Bauer's historicization of this organizational worldview allowed him to historicize the concept of nations and challenged the essentializing view advocated by nationalists. Through this historicization, Bauer was able to place nations within a dialectic narrative of the stages of history and speculated a socialist future where national diversity and autonomy could be guaranteed by a cohesive and unifying state.

In *The World View of Organized Capitalism (1924)*, Otto Bauer, based on Hilferding's analysis of changing economic realities, examined how these economic changes created new political and cultural ideologies. He argued that the moving away from economic liberalism also entailed a cultural shift from a liberal way of thinking. The transition from competitive capitalism to a more organized capitalism "overcomes both individualism and universalism... The autonomy of the individual is destroyed. The individual person develops and is effective only in the various organizations to which he belongs."<sup>24</sup> With the destruction of a liberal self rose a new organizational self whose personality could only be obtained and function within various organizations. By examining this destruction of self, Bauer reached a conclusion of the modern world as:

"a world [that] contains nothing but complexes of elements... [where] individuals [are] sharply marked off from each other, but neither is there a planned and organized whole... where the individual is no longer sovereign but is the creation and instrument of organizations, while organization is not yet the well-articulated embodiment of the totality but is simply an instrument for individuals, not yet a socialist community, but a joint-stock company or cartel, a co-operative or trade union."<sup>25</sup>

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<sup>24</sup> Otto Bauer. *Das Weltbild des Kapitalismus*, 1924, in T. B. Bottomore, and Patrick Goode. *Austro-marxism*. (Oxford [Eng.]: Clarendon Press. 1978.) 213.

<sup>25</sup> *Ibid.*

Like Hilferding who saw within modern economic developments new opportunities for socialism, Bauer also saw modernity as providing new organizations and elements which, albeit their current divisions, with time and correct developments could be unified into a socialist totality. While seeing organizations as an essentialized component of modern life, Bauer also traced their historical roots and corresponded these cultural developments with the economic development of capitalism. This historicization provided a sense of continuity which allowed Bauer to view modernity and its transformation of the individual self into the organizational self not as social disruptions but rather as congealing the individual elements into larger building blocks for a socialist future.

While Bauer's *The World View of Organized Capitalism* was published in 1924, his ideas on organizations and their historical trajectories were already present in his *Die Nationalitätenfrage und die Sozialdemokratie* published in 1907. Bauer in this work argued that nation was essentially "the totality of men bound together by a community of fate into a community of character."<sup>26</sup> By focusing on the community of character, Bauer affirmed the significance of organizations as the place through which modern men obtained their identities. However, rather than seeing these national communities as eternally fixed in characters, he argued that these communities were the precipitation of a common destiny, of a shared history that could be altered depending on subsequent developments. Through the historicization of nations, Bauer was able to establish a link between the development of the nations and the history of the mode of production while channeling nationalistic frustration into a critique against capitalism. He claimed that during tribal communism, different nations were sharply demarcated from each other while all members of the nations were able to fully participate in their national culture. However, with the

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<sup>26</sup> Otto Bauer, *Die Nationalitätenfrage und die Sozialdemokratie*, 1907, in T. B. Bottomore, and Patrick Goode. *Austro-marxism*. (Oxford [Eng.]: Clarendon Press. 1978.) 107.



development of private ownership and individual production, “the unitary nation divides into members of the nation and those who are excluded and become fragmented into small local circles.”<sup>27</sup> Bauer argued that national identity in the capitalist era became a class privilege which largely excluded the proletariats. However, with the latest development in capitalism, Bauer saw a new trend where “the tendency to national unity on the basis of national education gradually becomes stronger than the particularistic tendency of the disintegration of the old nations... these [national] circles are again drawn together and will eventually be absorbed into the unitary socialist nation of the future.”<sup>28</sup> In a sense, rather than seeing modern nationalism as a centrifugal and disintegrative phenomenon, Bauer understood it as the process in which the masses who were devoid of national identity due to capitalist exploitations became reintegrated into the national culture. This reintegrated masses in turn became the basis of the socialist society. Unlike Marx who largely predicted that nations would disappear under socialism, Bauer predicted that it was only under socialism could nations reach their fullest and most distinct expressions and provide “every individual with cultural objects of the whole nation.”<sup>29</sup> What Bauer did in his discussion of the nations was to incorporate nationalist promises of autonomy and community within a Marxist discourse and to reveal the interconnection between national and class struggle.

At first glance, one might argue that Bauer’s concept of nation was very similar to contemporary nationalist discourse, especially Pan-Germanists led by Georg Ritter von Schönerer, who also mixed nationalism with a critique against liberal capitalism. In fact, Otto Bauer, like many other Austrians, had flirted with the concept of Pan-Germanism in the immediate post-war

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<sup>27</sup> Ibid. 108.

<sup>28</sup> Ibid. 108.

<sup>29</sup> Ibid. 111.

period when he negotiated with Weimar government for an accession of Austria into Germany.<sup>30</sup> However, it was important not to disregard some of the differences that separated Bauer's theories from nationalism. One of the differences was Bauer's trivialization of the problem of territory. Diverging from the popular discourse of the nation-state, Bauer argued that common territory was not a necessary condition for the development of the nations. He argued that "only insofar as a common territory is a condition of a community of culture, is it also a condition of the nation's existence. In the age of printing, the post and telegraph, railways and steamships, that is much less the case than it was formerly."<sup>31</sup> Instead of viewing territory as an essential factor in the construction of the nation, he saw territory as mainly having a facilitative effect which was less influential in an increasingly globalized world. Second, he also de-emphasized the role of language, one of the main battlegrounds on which national groups in Austro-Hungarian empires fought. He cited Spain and its previous colonies as an example that even when there was a common language, it did not necessarily construct a nation. Deviating from both language and territory as the basis of the nation, Bauer saw nations in terms of characters, of personalities. He argued that nations were not where people owned their political allegiance to, again countering the argument for a nation-state. Instead, nations were the sources of people's cultural development, their consciousness. By describing nation as a conscious-forming organization, Bauer attempted again to link the national struggle with the class struggle. He argued that the foreign nations themselves were not the enemies, instead it was the capitalist order that restrained the development of national culture and repressed national consciousness.

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<sup>30</sup> Norbert Leser. "Austro-Marxism: A Reappraisal." *Journal of Contemporary History* 1, no. 2 (1966): 117-33. <http://www.jstor.org/stable/259926>.

<sup>31</sup> Bauer, 105.

This effort to historicize nations and to understand nations in terms of characters and consciousness paved the way for Bauer's discussion on how nation would look like under a socialist state. Bauer speculated that under socialism, the bourgeois idea of the nation-state would disappear and in its stead was a state that could both guarantee the autonomy of the nations and also ensure the unity of the state. He called for "a federal state in which the communities of the individual nations are once again incorporated" but "the principle of nationality changes into that of national autonomy, from a rule for the formation of states into a rule of state constitution."<sup>32</sup> Bauer very much wanted to preserve the multinational structure of the Habsburg Monarchy, albeit in a democratized version that would guarantee national rights and equality. Each nation would then have the right to "legislate and to administer itself."<sup>33</sup> The state, on the other hand, served largely as a central fiscal organization that regulated the economy between nations, as a "social structure of a higher order [that could supervise] the international division of labour."<sup>34</sup> In a sense, Bauer's theory of a socialist state could be seen as a combination of his organizational theories and Hilferding's theory on the modern state. In this conception, the state became a conscious economic organization that had the financial power to exert control over the economy while also guaranteeing the autonomy and rights of national organizations in which individuals developed their identity and consciousness. Through the state, the various disparate organizations that Bauer discussed in his *The World View of Organized Capitalism* both preserved their distinctions and were united within a socialist economic totality.

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<sup>32</sup> Ibid, 116.

<sup>33</sup> Ibid, 117.

<sup>34</sup> Ibid, 117.

## Conclusion

The rise of the Austrofascism in the early 1930s ended Austro-Marxism as a school of thoughts. However, its theories had continuing impacts on Marxist thoughts and political practices. In the 1970s and 80s, Eurocommunism, for example, took up many of the Austro-Marxist theories on the possibilities of a peaceful and democratic socialist transition.<sup>35</sup> This paper wishes to shed more light on this otherwise rarely examined topic and to analyze it in its historical context of fin-de-siècle Austro-Hungarian Empire. This paper reaches two intertwining conclusions on Austro-Marxism. First, it argues that Austro-Marxists through its effort to incorporate modern developments in the Marxist stages of history largely adopted an optimistic view towards modernity. They saw modernity as opening up new opportunities and creating new building blocks through which socialism could one day be achieved. Second, it argues that this optimism was invested by various Austro-Marxists in the state. The state became not only a herald for change, as Hilferding demonstrated, but also a glue that united the different organizations together in their stride towards socialism, as Bauer showed. What connected their view on modernity and their concept of the state was a desire for change without disruption, for continuity without stagnation.

I have adhered to the honor code in this assignment. Jerry Shang

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<sup>35</sup> Mark E. Blum, and William T. Smaldone. *Austro-marxism: The ideology of unity*. (Leiden: BRILL. 2015.)

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