Public Ownership and the Socialisation of Production in the German Revolution of 1918-19*

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Labour's current discussion of 'public ownership' has much to learn from early twentieth-century debates about the 'socialisation' of production and the relationship between economic and political democracy.

The debate about public ownership – the socialisation of the means of production, as I shall call it – is once again in full swing.[1] This provides occasion to reconsider its lineage and justification. The concept of socialisation has a long and complex genealogy, branching across a century of socialist politics: from Karl Kautsky and Karl Korsch in 1918-19, through Sidney and Beatrice Webb and Herbert Morrison in the 1930s, to Tony Benn and Rudolf Meidner in the 1970s, and from there to Mitterrand's 1981 election manifesto and Corbyn's in 2017.

This essay focuses on the origin of the concept in the socialisation programme of the German social democratic party (SPD) during and after the revolution that followed Germany's defeat in the First World War. It focuses on the ideas presented by two key figures involved in formulating the party's approach: Karl Kautsky (1854-1938) and Rudolf Hilferding (1877-1941). Kautsky was an executor of Marx's literary estate, the author of the SPD's 1891 Erfurt Programme, and editor of the SPD newspaper, *Die Neue Zeit*. Hilferding was the famous author of *Finance Capital*, published in 1910, and later minister of finance under the Weimar Republic.

These thinkers were interested in resolving two significant problems that have not received enough attention from champions of public ownership, including from within the Labour Party: the problem of 'statism' – private capitalists being replaced by an unauthorised and undemocratic bureaucracy –

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[1] See Andrew Cumbers, Reclaiming Public Ownership, Zed Books 2012 John Guinan, 'Who's afraid of public ownership?' *Renewal* 21, 2014, pp77-84 Thomas Hanna, Our Common Wealth, Oxford University Press, Oxford 2018 and the helpful overview by John Guinan and Martin O'Neill, 'The institutional turn: Labour's new political economy'. *Renewal* 26, 2018, pp5-16.

and the problem of a 'labour aristocracy' – privileged groups of workers managing dominant firms in ways that undermine the common good. The novel Kautsky/Hilferding proposal for resolving this dilemma was the creation of a 'labour parliament' that would work in parallel with a conventional legislature to manage the diverse complexity of a fully democratised economy.

The November revolution

November 2018 was the centenary of the German revolution, a fateful moment in twentieth century history. The revolution promised Germany a double liberation: from the shackles of Prussian militarism, on the one hand, and from those economic buttresses of militarism, the 'great German industrialists', on the other. Given the centrality of that struggle to Europe's fate, it is no exaggeration to say that a successful popular revolution in 1918 Germany could have spared humanity the horrors of both fascism and the gulag.[2]

The revolution was sparked by spontaneous synergy between revolutionary workers and radicalised soldiers, a few weeks before the end of World War I. Following the Kiel sailors' mutiny of 3 November 1918, spontaneously-created workers' and soldiers' councils began spreading all over Germany; railways carried the revolutionary fire to Berlin, where the sailors telegraphed the onset of revolution to Kronstadt, Barcelona, Paris and Turin. After the abdication of the Kaiser, power fell into the hands of the Berlin executive of the workers' and soldiers' councils. Friedrich Ebert, the conservative leader of the Social Democratic Party (SPD), was appointed the new Chancellor of the German Reich. The appointment was irrelevant: on 9 November, the soldiers and workers were *de facto* rulers of Germany. They had put an end to world war, they controlled the guns and factories of the world's most industrialised economy, and they carried the socialist aspiration for human emancipation. All power had passed to the councils.

On 10 November, some 3000 workers and soldiers gathered at Circus Busch, in Berlin, to decide the future of the revolution. They set themselves two tasks: to break the power of the military and to socialise the conditions of production. Destroying militarism meant doing away with the imperial High Command, and establishing democratic control over the army. Socialising production meant dispossessing the great industrialists – Hugenberg, Stinnes, Siemens, Thyssen – while extending worker control to every nook and cranny of the economy. By way of implementation of these two tasks, the councils decided to delegate executive authority to a Provisional Government of Peoples' Representatives. Headed by Ebert, it united three representatives from the SPD

[2] The two most accessible introductions to the German Revolution are Pierre Broué, The German Revolution 1917-1923, Haymarket Books, London 1973 and A.J. Ryder, The German Revolution of 1918, Cambridge University Press, Cambridge 1967. For an introduction to the historical background, see E. Hobsbawm, The Age of Extremes, Vintage Books, London 1994. This section draws upon Nicholas Vrousalis, 'Erfurt plus Councils: the distinctive relevance of the German Revolution', Socialist History 55, 2019, pp27-46

and three from the USPD – the Independent Social Democratic Party, which had split from the SPD in 1917 over the party's parliamentary votes in favour of additional credits for Germany's doomed war effort.[3]

The socialisation dilemma

Confronted by the titanic task of socialising the German economy, Ebert appointed Karl Kautsky and Rudolf Hilferding, two stalwarts of social democracy, to a Socialisation Commission that also included, for a time, Joseph Schumpeter. Kautsky was immediately confronted by a dilemma between what he called a 'bureaucratic autocracy' and a 'labour aristocracy'.[4] Deeply affected by the creeping bureaucratisation of the Russian revolution, Kautsky wanted to guard against taking power from the capitalists, only to pass it on to the state. But he also worried about entrusting exclusive ownership and control of the means of production to isolated islands of producers, who could proceed to maximise profit against the requirements of the general good. Kautsky assumed that capital-intensive industries, if left unregulated, would remain inefficient and inimical to the welfare of the rest of the producers and the bulk of consumers, through a combination of monopoly/monopsony power and rent-seeking.[5]

Karl Korsch, the libertarian-communist jurist, offered a similar diagnosis of socialisation. In an essay published in early 1919, Korsch cautioned against two distinct forms of expropriation of capitalist private property: nationalisation and what I will call syndicalism.[6] Both socialisation programmes, says Korsch, will 'indeed eliminate private property, but only to replace it with some kind of *special property*'.[7] Under nationalisation, on the one hand, the 'labourer does not immediately achieve any share in the control and benefits of production, but rather remains as before a wage labourer. This is due to the replacement of the capitalist private owner with functionaries of the state, the community, or the consumer cooperative.' Under syndicalism, on the other hand, 'the labouring participants in production achieve control over the entire process of production and over its yield... The capitalism of the private capitalist would only be replaced by a producer-capitalism, a special ownership of certain groups of producers'.[8]

Kautsky and Korsch agreed that socialists must guard against two distinct sources of oppression, quite independently of capital: a state bureaucracy and

[3] For a comprehensive study of the democratic, militant, and mercurial six-year career of the USPD, see David W. Morgan, The Socialist Left and the German Revolution: A History of the German Independent Social Democratic Party, 1917-1922, Cornell University Press, Ithaca 1975.

[4] Karl Kautsky, The Labour Revolution, Routledge, London 2013, p183.

[5] Kautsky, The Labour Revolution, p205. The anti-syndicalist sentiment pervades his critique of G.D.H. Cole's model of guild socialism.

[6] Karl Korsch, 'What is socialisation?', Frankie Denton and Douglas Kellner (trans.). New German Critique, 6, 1975, pp60-81.

[7] Korsch, 'What is Socialisation?', pp67-8.

[8] Ibid, p69.

a labour aristocracy. They also agreed on the way out of this dilemma. If only socialisation could be injected with enough anti-bureaucratic antibodies, the producers would produce in the interest of the 'totality'. Korsch thought that this required 'industrial autonomy.'

According to Korsch, industrial autonomy required three levels of socialisation: state, region and workplace. The state would own the means of production *as a whole*, but regional representatives of workers would have considerable autonomy over their allocation, subject to legal limitations constraining them to consider the interests of consumers. Similarly, plant representatives were to have considerable autonomy over the allocation of means of production to plants from regional representatives, subject to legal restrictions pertaining to the interests of consumers. Finally, *within* plants, workers' committees would have considerable autonomy from each other, subject to similar restrictions. Moreover, state experts, consumers and employees received representation in the administration boards of the socialised enterprises.

When socialisation fails

These ideas were never implemented. The Socialisation Commission itself was a diversionary tactic; Ebert's real aim was to pacify popular demands for industrial democracy, without exacting meaningful concessions from the German capitalists. At the end of 1918, the Commission issued a preliminary statement, recommending the socialisation of highly monopolised industries, such as coal and iron. At the same time, the All-German Congress of the workers' and soldiers' councils, meeting in Berlin on 16 December 1918, agitated for the socialisation of 'appropriate' industries, with an emphasis on mining. In the grip of this revolutionary fervour, workers' councils all over Germany set up boards aiming to take control of the mines from local capitalists.

The January 1919 parliamentary election upset these initiatives. The two socialist parties garnered only 45 per cent of the vote; and the SPD joined a coalition with middle-class parties. After a wave of strikes – and the bloody repression of the Spartacist uprising throughout Germany – the workers managed to force through a watered-down system of co-determination for a limited number of industries.

No part of Kautsky's socialisation plan was implemented, with the exception of the coal industry. Coal itself was nationalised under the aegis of a National Coal Council, composed of state officials, workers, consumers and capitalists. The reticence of the SPD leadership, coupled with its neglect of the workers' councils, had reinstated the pre-war capitalist oligarchy.

Why did socialisation fail?

Critics of Kautsky's tactics, including Korsch, claimed that the Kautskian socialisation programme was doomed from the start, and not just because of SPD

obstructionism. The programme was intrinsically at fault, they claimed, for its *gradualism* and its *reformism*. I discuss each putative fault in turn.[9]

'Gradualism', in this context, meant the sector-by-sector socialisation of production. Left critics, in the German revolution and since, have argued that gradualist socialisation is an oxymoron. Their argument goes something like this. The capitalist state lives off taxes and the national debt, which live off capitalist profit and business confidence. Profitability is therefore necessary for the livelihood of state officials, including police and army officers. So the ascendancy of a socialist government *within* a capitalist state will threaten profitability, which will precipitate a capital strike, which is likely to alienate both voters and state officials. And since restoring profitability requires austerity and other pro-capital policies, ascending socialist parties are necessarily reduced to either administering capitalism or facing reaction by alienated voters and state officials.

Left critics of reformism, meanwhile, have doubted the possibility of socialisation through exclusive reliance on parliamentary means. Socialisation requires a solid, vibrant, and self-confident *extra-parliamentary* popular movement. This confidence is sustainable only if those in whose name and interest socialisation is carried out possess real power, in their own organisations.

What should we make of these two critiques of Kautsky's socialisation programme? The anti-gradualism critique can be safely dismissed, as both its premise and its inference are false. In respect of the premise – that the election of socialist governments precipitates successful capital strikes – there is mixed evidence.[10] There is, moreover, no evidence that this was the case in 1918-19 Germany. But suppose the premise is true. The inference – that, short of a revolution, the reversal of a capital strike requires austerity and a pro-capital policy – is also false. Rather, a sincerely committed socialist government will engage in tit-for-tat: those capitalists who restrict operations in response to socialist victory will get expropriated. Kautsky mooted this policy in early 1919 and defended it in 1924.[11] Since the policy was actively blocked by the SPD leadership, we have no evidence that it would not have worked.

The anti-reformism critique of Kautsky is more compelling. Kautsky knew that the kind of pressure required for socialisation would not issue from parliament, party, or union; its main sources were the workers' councils. It followed that even a gradualist socialisation programme required an institutionalised system of workers' councils to exert pressure from below. Yet Kautsky gleefully assumed that the councils should acquiesce in their subordinate political role and eventual self-abolition.[12] This, it turned out, was hardly the road to

[9] This section borrows from Nicholas Vrousalis, 'Council democracy and the socialization dilemma', in Council Democracy: Towards a Democratic Socialist Politics, James Muldoon (ed.), Routledge, London 2018, pp89-107.

[10] C. Fiorio, S. Mohun, R. Veneziani, 'Social democracy and distributive conflict in the UK, 1950-2010', UMass Amherst Economics Department Working Paper Series, 2013.

[11] See Kautsky, 'Richtlinien für eine sozialistisches Aktionsprogramm' and Kautsky, The Labour Revolution.

[12] See Kautsky, 'National assembly and council assembly', in John Riddell (ed.), The German

power.

The road to powerlessness

Following the National Assembly election of January 1919, the SPD joined a coalition with liberal and Catholic parties. In February 1919, Hilferding, by now a USPD parliamentarian, presented a proposal for enshrining the workers' councils into the institutions of the newly-founded Weimar Republic. The proposal would entitle them to bring bills before the Assembly and to call referenda if the Assembly rejected them; it amounted to nothing less than elevating the workers' councils to a *de facto* second chamber. One month later, Hilferding's proposal became official USPD policy. In theory, the institutionalisation of the councils could reignite working-class agitation from below; it could also lend grassroots support to any attempted decapitation of the conservative SPD leadership, should the opportunity arise.

The opportunity did arise. In March 1919, there was a general strike in Berlin. The revived Berlin workers' councils raised the old Erfurtian flag: they called for a coalition of the parties of the left, without the SPD leadership. The general strike was a perfect avenue for diverting picket traffic into labour militancy; all it required was socialist unity. However, reticence and vacillation from the USPD Left, combined with lack of leadership among the ranks of the USPD centrists, allowed the SPD-led government to regain control of the strike.

Similar sectarianism blocked socialisation a year later. In early 1920, the National Assembly debated a 'works councils' bill. The bill was a watered-down version of employer-employee 'co-determination', assigning a minor and insignificant role to the workers' councils. Both the USPD and the KPD, the newly-founded Communist Party of Germany, opposed it. A strike was called for 13 January. When a shot was fired – allegedly from the demonstrators' side – troops fired back, killing a number of strikers. Weeks of recriminations followed. The Army High Command saw this as an opportunity to restore the old order. On 13 March 1920, Wolfgang Kapp, a monarchist parliamentarian, marched into Berlin. He was accompanied by the swastika-clad soldiers of the Ehrhardt Brigade, a military volunteer unit professing allegiance to Hindenburg and the old Prussian imperial dynasty. Kapp's chancellorship lasted for four days. On 14 March, the unions and all the left-wing parties of Germany called a general strike. More than ten million workers heeded the call, bringing the country to a standstill. The putsch collapsed on 17 March. Fresh elections were called for 6 June.

The magisterial Kapp putsch strike was – still is – the most successful strike in European labour history. Worker militancy and malcontent were visibly on the rise; the strike blazed another democratic trail to socialism. This time, the socialist flag was raised by Carl Legien, the leader of the confederation of trade

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Revolution and the Debate on Soviet Power, Pathfinder Press, London 1999, pp153-4.

unions. He called for a 'pure labour government' between the two socialist parties, the SPD and the USPD. This was an opportunity to sideline the old SPD leadership and revive the revolution's twin tasks of anti-militarism and socialisation. The USPD Left, implacable in its hostility to the SPD, once more vetoed the call. The final blow against the revolution was struck three months later: in June 1920, the middle-class parties won a majority in the Weimar Assembly. The Republic thus entered into renewed and irreversible wedlock with militarism.

Kautsky's socialisation programme was therefore undermined by the intransigent, anti-revolutionary reformism of the SPD leadership, with some help from the sectarianism of the USPD Left. In practice, Kautsky's *politics* hardly grappled with the socialisation dilemma. To the question of the appointment of the heads of large public enterprises, for example, he invariably favoured appointment by parliament – in consultation with the trade unions – not the councils. This was the 'labourism' decried by Ralph Miliband in Prussian garb.[13]

The idea of a labour parliament

Kautsky was a master theoretician, but a poor tactician. Yet despite his tactical infirmities, Kautsky *did* propose an institutional solution to the socialisation dilemma. In December 1918, he argued for the institutionalisation of dual power between the National Assembly and the workers' councils, each performing different roles: roughly, parliament would control the state, councils would control the factories. More precisely, the councils were to deal with investment planning, finance and socialisation; they were also to have veto power over all socialisation-related decrees brought forward by the parliament. It was this idea that Hilferding enshrined in the USPD's 'Revolutionary Programme' of early 1919.

Interestingly, a similar model of parliamentary dyarchy was proposed by Sidney and Beatrice Webb, in their *A Constitution for the Socialist Commonwealth of Great Britain*, published in 1920. This book, commended by Dennis Robertson for possessing 'something of the gaunt but imposing efficiency of a modern railway station in some fantastic Eastern city', envisaged the creation of a *social parliament*, to run in parallel with the existing political parliament. [14] The Webbs believed that a democratic society respectful of individual liberty can only maintain control over a complex division of labour by electing a social parliament to run the economy. Socialisation, on this model, falls into the visible hands of the social parliament, which observes rules of subsidiarity and municipal control similar to those mooted in Korsch's discussion of industrial autonomy.

[13] See Ralph Miliband, Parliamentary Socialism, Merlin Press, London 2009.

[14] Dennis H. Robertson, 'Review of A Constitution for the Socialist Commonwealth of Great Britain by Sidney Webb and Beatrice Webb', The Economic Journal, 31(121), 1921, pp61-65.

Unlike Kautsky and Korsch, the Webbs dismiss the necessity of a vocational chamber – they advocate *municipal* socialism, not *council* socialism. But their problematic is similar: how do you take power *from* the market without being taken *by* that newfound power? The socialisation dilemma implies that you can be taken in two ways: either unelected state officials run things – the statism horn of the dilemma – or decisions are exclusively delegated to the workers of individual firms and their representatives – the syndicalism horn. A second chamber could, in principle, eschew both horns. There is a nascent Madisonianism to the socialism of Kautsky and the Webbs; having witnessed the dangers of concentrating all power in one big soviet, they opted for a socialist version of the US constitution's separation of powers.

Lineages of a contemporary dilemma

Readers of Labour's landmark 2017 report *Alternative Models of Ownership* will recognise these debates. The report mentions state-owned enterprises and quotes the first post-1945 French nationalisation programme: 'where for the newly nationalised electricity and gas corporations, the 12 person board was made up of four appointees from the state, four from technical and expert groups (including two to represent the consumer interest) and four trade union representatives'.[15] Kautsky proposed this tripartite form of representation (state/experts, unions, consumers) in 1919; it was briefly implemented in Austria in the aftermath of World War I. Unfortunately, the proposal does not extricate socialists from the clamps of the socialisation dilemma.

To explain why, it is instructive to consider a more recent attempted realisation of Kautsky's programme. The attempt took place in Sweden, half a century after the German revolution.

In 1975, the Swedish Social Democrats were in their thirty-ninth consecutive year in government. Olof Palme, as prime minister, inherited a booming, fully-employed economy. The boom led to inflation, which meant that capitalists were eating into productivity gains and accruing an increasing share of national income. With the blessing of the government, Rudolf Meidner, an economist at the Swedish Trade Union Federation, designed a socialisation plan aiming to deprive capitalists of their newfound power. Under Meidner's plan, profitable firms would be obliged to issue new stock for every krona of profit, paid directly into employee insurance funds. The funds were to be collectively owned and managed by the trade unions, under the aegis of the Trade Union Federation.

Under the Meidner plan, the unions would come to control majority shares in all major Swedish traded companies, within about thirty-five years. This would eventually bring them residual rights and control over management. Meidner's mix of gradualism and reformism, it would seem, out-Kautskyed Kautsky! However, the Meidner plan was never implemented, as Palme lost the

[15] Labour Party, Alternative Models of Ownership, The Labour Party, London 2017, p31.

1976 election. Interestingly, it was criticised, left and right, for giving too much power to the unions. The fear was that union officials would prioritise their own interests, and the interests of their members, over other producers and consumers. This criticism echoed Kautsky's earlier concerns about a labour aristocracy.[16]

The moral of the Meidner story is that the tripartite model of representation (state/experts, unions, consumers) does not suffice to rescue socialists from the twin dangers of statism and labour aristocracy. If the heads of employee insurance funds, public corporations, investment banks, etc, are appointed by the state, then we're likely to get statism. If they are appointed by experts and unions, then we're likely to get a labour aristocracy. And if they are appointed by experts and unions and state, then we'll get the infelicities of both.

Socialisation: socialist, not corporatist

Socialism, in general, is the abolition of all manner of ruling class. It follows that socialist – as opposed to corporatist – socialisation must be thoroughly immunised against statist, technocratic and parochial labour interests; it must be injected through and through with anti-power antibodies. A vibrant and democratic labour parliament could provide such antibodies. The heads of public corporations, for example, could be appointed, bottom-up, by a parliament comprised of working people elected from regional, municipal and local councils. At least Kautsky, Hilferding, and Adler thought this to be an eminently desirable corrective to statism, syndicalism and their related maladies.

If Labour wins the next general election, John McDonnell will find himself in a situation similar to Kautsky's. In fact, McDonnell's socialisation problem is, in some respects, harder. For the UK has no extra-parliamentary, extra-party grassroots organisation like the German workers' councils of 1918. It therefore lacks even the rudiments for the construction of a labour parliament. But the UK also, and concomitantly, does not suffer the woes of 1918 Germany: its straggling army barely holding together; its imperialist enemies – Britain included – demanding annexations and indemnities; its population on the verge of starvation; its ruling class congenitally opposed to democracy; its capitalists prepared to usurp power by any means. In this relatively propitious set of circumstances, Labour has a rare opportunity to write a new chapter in the history of socialisation.

Further reading

Nicholas Vrousalis, 'Erfurt plus Councils: the distinctive relevance of the German Revolution', *Socialist History* 55, 2019, pp27-46.

[16] For a summary of the proceedings around and after the Meidner plan, see Leif Lewin, Ideology and Strategy, Cambridge University Press, Cambridge 1989.