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An old idea of “human economy” and the new global finance capitalism

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In our time we experience profound and fast changes due to technological revolutions and political-cultural reorientations. These changes have become specially pronounced since the 1990s of the last century, marking the end of the “short 20th century”. They have transformed what Eric Hobsbawm called the “golden age” of the welfare state into our present neoliberal ways of thinking and organizing social and economic affairs. The early 20th century was an era of great changes in a technological as well as in a political-cultural sense, too, with a decisive influence on the way we learned to perceive social and economic affairs; this, in turn, had its impacts on the then emerging science of sociology.

It may be legitimate, therefore, to recall ideas from the early decades of the 20th century that since then have disappeared from our conception of social science, but may regain significance in our own situation in an age of transformation. These ideas addressed human life and humanity’s higher development as the prime targets of our actions, social policy as the main task of the state, human beings as the goals and the means of the economy. Social science was intended to have a fundamental role in bringing about changes in accordance with these aims, requiring actions on the basis of widely diffused theoretical knowledge and practical ethics.

Introducing an early dissident sociologist

These ideas were fairly widespread among social thinkers of the first decades of the last century. One of them, however, Rudolf Goldscheid (1870–1931), expressed them most emphatically. Goldscheid was a Viennese of Jewish extraction, youngest son of a very wealthy family, who unfolded impressive intellectual and organizational activity in many fields. He was active in more or less all humanitarian and social movements of his time like the peace movement, the ethical movement, the feminist movement, monism, the human rights movement, the Pan-European-movement, as well as in philosophical and social science circles, some of which he himself initiated. He founded the Sociological Society in Vienna in 1907 and remained one of its leaders and the financial promoter and spiritual head of it until his death in 1931. He played a very active part in the foundation of the German Sociological Society as well and was one of its leading figures, although he kept himself in the background (Fleischhacker 2000). Both in this association and in the famous dispute over values in the “Verein für Socialpolitik” he represented a standpoint opposed to that of Max Weber and their conflict resulted in the retreat of the latter, although in the long run Weber’s position was to become the prevailing conception of social science.

In a study of the early sociologists in Germany (Käsler 1984, 38) Goldscheid was mentioned among those of some prominence, but he never entered into the canonized history of sociology. The reason thereof was that the intellectual movements and social science conceptions he adhered to and actively promoted, were later on considered as “dissident” (Groschopp 1997) or as obsolete compared to the “modern” understandings of social science: He advocated a monistic view of science that derived from the encyclopaedic conception of enlightenment, a teleological approach to social science as ethics and a view of social evolutionism that placed great hopes on scientific findings to guide actions promoting the “higher” development of mankind. Science according to Goldscheid had to be oriented towards human progress as a “scientia militans” (Goldscheid 1905) based on values derived from evolutionary biology as well as on an emphasis on the will as the force underlying action. This conception of science which had retained strong elements of enlightenment thinking was abandoned finally in the course of the first decades of the 20th century, to be replaced by academic social science devoid of values as directing forces of scientific research.
Goldscheid’s social thinking, however, had quite a reputable backing by the philosophical tradition in the Habsburg Empire ranging from Bernard Bolzano to Ernst Mach. Naturalism, monism and ethics as an exact science were also the roots of what later should become the “Vienna Circle of Philosophy” (Stadler 1997). As to the natural sciences he was influenced by biological evolutionism with a neo-lamarckian orientation and by the experimental psychology of Wilhelm Wundt and William James. His sociology was largely Comtean with elements from John St. Mill and complemented by a sense of social criticism based on Karl Marx. He was a socialist and a friend of the philosophical head of Austromarxism, Max Adler, but his socialism was similar to the movement of ethical socialism, his aim the “social-politzation” of the state.

In his first great work on “The Ethics of the General Will” of 1902 he argued that science is always based on an anthropocentric perspective and, therefore, causal knowledge must be complemented by a teleological orientation, hence by a conception of ethics. This study was at the same time a critique of the state and the separation between morals and politics. He criticized the autocratic and imperialistic state of his day and the “rentabilistic”¹ form of the economy he saw developing in his days. The failure of the state and its elite to provide the means for the masses to lead lives worthy of human beings physically, socially and intellectually and of the church which condemned this failure and sided with the mighty both in the state and the economy, made it in his view necessary that the masses take action to improve their own condition.

In his second major work entitled “Higher Development and the Economy of Man” of 1911 he expostulated his conception of human sociocultural evolution and introduced the notion of “Menschenökonomie” which literally means “economy of man.” By no means, however, did he intend to subject human resources to the logic of return on capital investment. Instead he saw man and mankind as the objective of economic activities, thus, striving for a “human economy”.

The third phase in his work started during the First World War and was connected with the analysis, critique and reform of the financial background of the state which he developed mainly in his “State Socialism or State Capitalism” (1917). In the writings of this period he formulated what he called “Finanzsoziologie”, which dealt with the social dimension of public finance, and was to become the field for which he is remembered up to the present day. In the following we shall take a closer look at his works on the “economy of man” and on public finance because they are of relevance from the viewpoint of economic sociology.

The “economy of man” and human development economics

Since the subtitle of Goldscheid’s book on “Higher Development and the Economy of Man” was “Foundations of Social Biology” the few comments that there are on it, usually concentrate on his biological-eugenic perspective. By some (Kurz 1999) this was misunderstood in the sense of social darwinism, by others criticized for taking an outdated Lamarckian standpoint. However, the main intention of Goldscheid was not directed towards a discussion of biological theories or even to give social science a biological basis; he was primarily interested in human development and the active response of human beings towards the conditions of their environment. Contrary to the passive adaptation of organisms assumed in evolution theory, he introduced the notion of “active adaptation” of human beings. Man changes his environment according to his needs or his purposes and, in this way, creates the possibility of “higher development” in sociocultural sense.

In his theory of sociocultural evolution he combined conceptions of systemic interrelatedness and of synergy with a voluntarist emphasis on action. Active adaptation involving intellect and will power was for him the characteristic of human evolution which by promoting culture would eventually also improve the biological-physiological condition of the human organism. Human evolution in his opinion is, therefore, based on action and not on selection. He discarded selectionist eugenics and instead advocated “social eugenics” by which he meant changing the environmental conditions according to human needs. He called for adequate provisions for bettering the unfortunate living conditions of the masses in his time, but also for enabling higher development of all mankind including the peoples of the underdeveloped regions of the world.²

Since humanity’s needs of survival and material betterment are very basic preconditions of the development of mankind, the economy is of fundamental importance for human evolution. Goldscheid criticized economics for neglecting to attribute value to human beings and for their reduction of man to the price of his labor in the labor market. He demanded the recognition of the value of

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1. rentabilistic
2. underdeveloped regions of the world

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экономическая социология, the european electronic newsletter  Volume 7, Number 1 (October 2005)
human beings both with respect to their function as the most important resource of the economy and to their position as the ultimate aim of all economy.

Goldscheid developed his conception of “economy of man” as a necessary complement to the economy of goods (Fleischhacker 2002). This enabled him to view man as an economic resource which must be used sparingly and productively. He criticized the enormous waste of human life which was according to him reflected in his days both in the decrease in population growth and in the poor state of the health and the education of the masses. As man is the most important resource of the economy the exploitation of human energy and the reduction of life expectation are not only inhuman, but uneconomical. Goldscheid approved of Frederick W. Taylor’s conception of “scientific management”, but he would certainly not have accepted what later turned into “Taylorism” as a tool to exploit workers in the interest of profit-oriented efficiency.

In order to press his point that it is in the interest of the economy to make sparing and considerate use of human energy he employed expressions like “efficient production of man”, “organic capital” or “human material”, etc., which caused his “Menschenökonomie” to be misunderstood as an “economistic” approach. Despite the language used his intention was quite different, because it was not oriented at improving efficiency for the sake of profits or material gains for their own sake. The input of human resources must serve the goal to develop the human conditions of life for the individual as well as for mankind in order to actively promote human evolution. In a sense he could be called a forerunner of “human resource development”, were it not for his quite different view of the goals.

Goldscheid’s conception of the economy was production-oriented, in which needs and values, not individualistic utility and prices were the basic elements. It had more similarity with a Smithian conception than with the individualistic theory of his time which led to the microfoundations of economics. Smith had assumed interests and needs as the driving force of the economy, and in how these would lead to the common weal. The “Wealth of Nations” still had some roots in the ancient and late medieval idea of the economy of the “whole house”, or the “economia” of Aristotle as confronted with “chrematistike”. Goldscheid did not see the logic of the market and the price mechanism at the core of his resource-based conception of the economy. He criticized market economics for hiding the fact that economic action in real life is goal-oriented and presupposes valuation behind a cover of logics, rationality and self-steering dynamics. While apparently the mechanism of the market is an objective and rational way to allocate resources and to distribute goods and money, it is in fact deeply connected with values and ideologies. To uncover these so that one can see clearly what aims are followed by a certain conception of the economy, was one of his intentions.

Goldscheid was averse to all ideas proposing self-steering dynamics, whether it derived from evolution theory or from neoclassical economics. For him it was actions of man that accounted for the state of the world and its transformation. The intentions, interests and the will of actors were in his view the forces that guide the economic process and in this sense he was advocating individualism. But the individual strivings must be reoriented by education to follow aims beneficial for the common good which meant making individuals understand that their individual – long-term – interests are the same as those that are good for humanity as a whole.

The “sociology of finance” and state capitalism

With regard to the “road to socialism”, Goldscheid did not place any trust in a self-steering tendency towards socialism, but in revolutionary political action. But at the same time he saw clearly that political action is not enough, because the masses can achieve command of the state, but in order to keep it they must have the control over the economy. Therefore, a fundamental reorganization of the relation between the state and the economy is necessary as well. Since political power is always dependent on economic power, while the latter provides great influence by itself, economic power was in his view a precondition for the effectiveness of political regulations and measures.

Humanitarian measures or social policies cannot rely on good will or ideology alone; they must be understood as the best strategy in an economic sense. In Goldscheid’s understanding social policy should not be the “charitable little sister” of economic policy or power politics, but the main aim and purpose of the state. If the new state of the people was to pursue human and social development aims, it must have command of economic power.
Goldscheid showed that the emergence of the modern state was accompanied by depriving it of property of its own and reducing it to the framework for private capital interests. The mere “tax state” owns nothing and is, therefore, dependent on those who hold economic power. The state that is set up to act as trustee of the people, must be transformed from a tax state into a proprietor of the productive capital of the country. Thus, only through a “re-capitalization” of the state can the people maintain political power. Goldscheid’s concrete proposal was that the state should take over about a third of the stocks of the major corporations in the most profitable sectors of the economy. He did not want to abolish private property in productive resources altogether; instead, state capitalization should form a complement to private ownership. What he aimed at was a powerful state politically controlled by the people that could realize its aim of social policy, but he did not envisage bureaucratic control of the economy. Being well acquainted with the “Theory of Economic Development” by Schumpeter with whom he had an exchange of ideas on the tax state, he was aware of the importance of the entrepreneurial spirit, but he was convinced that the leaders of industry would be willing to employ their talents in the interest of the people as well.

This, in short, is the argument of Goldscheid’s third major set of works which he wrote during the last years of World War I and in its aftermath and which contained the ideas he advocated as one of the advisors of the Socialization Commission, a body which was set up in the aftermath of the revolutionary events following the First World War to work out programs for transferring private enterprises into state ownership. Although proposed for the practical purpose of political and economic reorganization, his intentions went beyond these immediate concerns. The political and economic control of the state was not to be an end in itself, but would have to prove its worth as an instrument for higher development of individuals, national societies and mankind as such. Therefore, his intentions were not limited to changing the economic and political organization of the nation state, but he pursued international concerns of pacification in the political-military field and of setting up of what one could call today institutions for global political and economic governance.

He saw a close relationship between internal and external politics and was aware of the necessity of a world organization both in political and economic sense. International trade should not be left to private enterprises pursuing their own interests and putting pressure on the policy of states. Therefore, he advocated national monopolies of foreign trade and international economic regulations. He saw clearly that politics and economics within and between states are closely connected, and he concluded that international political agreements or organizations would be ineffective without economic regulations.

The relevance for economic sociology

Goldscheid’s ideas concerning “state capitalism”, like similar ones of Walter Rathenau and others (Schwarz 1919), were widely discussed at the time in Germany where they met with much criticism among the predominantly conservative economists. In Austria, however, in the further course of events these ideas together with similar conceptions among social democrats as well as left Catholics had a considerable effect on the development of “Gemeinwirtschaft” (“communal economy”), which encompasses publicly owned and/or cooperative enterprises oriented at providing basic goods and services for the community, and on the acceptance of a fairly large nationalized sector of the economy (Weissel 1972, 220).

In the field of social science his conception of a “sociology of (public) finance” had a resonance which is still acknowledged today. He had tried to show the close interrelation of society and public finance in the course of the historical changes from antiquity onwards. Public finance can be seen as reflecting the social order and the prevailing conceptions of what is of importance or influence in the community, and the budget of the state can be called the skeleton of the social structure (Goldscheid 1917, 129). In this view he was supported by Schumpeter (Hickel 1976) who agreed that public finance could be seen as the best starting point to analyze societal conditions.

The idea of a sociology of public finance was taken up by the well-known scholars Fritz Karl Mann (1934) in Germany and Richard A. Musgrave in the United States. The latter included Goldscheid among the classics of the discipline (Musgrave/Peacock 1964). James O’Connor (1973, 12) referred to Goldscheid as well as Daniel Bell (1976, 260pp) who emphasized the importance of the normative aspects inherent in Goldscheid’s sociology of finance. Until today Goldscheid is remembered in works of public finance and in “fiscal sociology” (Backhaus 2002).
As far as Goldscheid’s conception of sociology was concerned it clearly differs very much from the prevailing conception as a result of the development of modern academic sociology. Goldscheid was at loggerheads with Max Weber over the question of values in science and the role of sociology in social evolution. The resulting conflicts in which he was engaged in the German Sociological Society and the Verein für Socialpolitik as an opponent of Weber are instances of the emergence of what would become “modern” sociology (Käsler 1981). The idea of social science which Goldscheid favoured soon was to yield to the conception of a “value free” empirical science with no relation to the natural sciences other than perhaps an analogy of methods.

Goldscheid’s identification of sociology and ethics is quite alien to our understanding of scientific research as is also his identification of theoretical sociology with the practice of the workers’ movement. It resembles some critical theoretical approaches that came to a last climax in the 1960’s, but is less reflected in the critical theory of Adorno and Horkheimer than in the ‘actionalist’ sociology of Alain Touraine (1973), in which social movements are the central objective. The ‘actionalist; stance has also some relevance for today’s anti-globalization movements or approaches like “liberation sociology” (Feagin/Vera 2001). What are known as action theories in modern sociology, however, usually do not have this dynamic orientation of “Praxis”, but are based on a Weberian conception.

In Goldscheid’s time sociologists eagerly sought to define a special scientific object for their discipline in order to achieve academic recognition. The object of sociology was redefined as “purely social” drained of political and economic connotations. The concept of society turned into a formal one denoting the interrelations of individuals or groups resembling in this feature very much the abstract conception of the market in economics. Goldscheid had already attacked this tendency and had called for the reintegration of economic and political dimensions into the concept of society in order to turn it into a “parole de combat” once more.

One of Goldscheid’s contribution to economic sociology can be seen in his attempt to develop a theory of human resources. Thus, in a sense he can be seen as a predecessor of human resource development schools or the human capital theory of our days (Bröckling 2003) but as has been pointed out above, his intentions were quite different from present-day human resource theories. His understanding of the economy was based on efficiency as to the usage made of resources, not in the interest of returns on capital investment. If we apply the terminology of Karl Polanyi, he understood the economy in the substantive sense as serving the “livelihood of man” (Polanyi 1977), but on top of that as instrumental for human development. This contrasts with the current perception of the economy which focuses on keeping the mechanism going and producing positive results in the form of indicators of efficiency and profitability as ends in themselves.

As Michel Callon has pointed out, the economy has become embedded in economics (Callon 1998). Economics as the formal science of cost-benefit-rationality and the market equilibrium has shaped our understanding of the economy by being used to solve problems in practice, to train managers and politicians, to spread information on economic matters by the mass media. Generations of students have studied economics and brought this knowledge with them into the enterprises, the media, or the political field. They have spread a specific image of the economy, having imbibed specific convictions about the way “the market” operates, about the superior rationality of economic thinking, etc. The assumption that economic growth (as the result of the pursuit of profit-maximization) is also the precondition for sufficient jobs and income for the masses and would guarantee free choices, jobs and career opportunities became the prevalent conception.

The link between the growth of capital investment and the incomes of the working people that were the basis of a sort of social contract in the time of the welfare state, however, cannot be assumed anymore. The close connection between capital and labor as the two mutually interrelated production factors of industrial capitalism has to a great extent ceased to be effective, because capital is not anymore bound up so tightly with the production process within national boundaries due to deregulation of capital markets and due to the decreasing importance of labor for the profit potential of enterprises. Capital became a globally free-floating factor dominating and dictating the goals of the economy within the states to which labor must adjust. “The economy” became identical to a self-sufficient circulation of capital which constitutes the subject area for a “sociology of finance” in quite another sense than that Goldscheid had in mind. The dimension of circulation of money and capital (which always in the modern age had existed on top of the production economy and the “material life” as the social historian Fernand
Braudel has pointed out, has become all-powerful today and holds these lower levels in its grip.

Goldscheid showed that the economy consists of actions and hence always implies values and interests. Although the reality of market transactions starts from and results in the unequal distribution of power and resources, its logics were legitimized by linking them to the values of democracy, liberty, equality of chances. Legitimations along these lines have gained considerable ground since the last two decades of the 20th century, and this has resulted not only in economic reorientations and restructuring, but in a profound cultural change, away from the value basis underlying the welfare state and the industrial system. Instead of stressing the social tasks of the state, the humanization of work or the stabilization of conflicts of interests, arguments which emphasize individual chances and risks, flexibility, privatization, reduction of the welfare state, became dominant. The arguments in management-related texts diffused by the business media have been studied by Boltanski/Chiapello (1999); they came to the conclusion that between the 1960’s and the 1990s there occurred a transition in legitimatory practices from a predominantly industrial logic to a project-oriented logic.

The discourse on individual chances and responsibilities or on the justification of high capital returns are not only manners of speaking; they make it possible that social pressure is placed on workers, voters, and consumers to accept intensification of work, lengthening of working hours, cuts in earnings and social benefits, detrimental changes in the supply of goods and services, and so on. To call for social security, for a slower pace of organizational changes, for a reconsideration of privatization policies, for more socially responsible decisions on behalf of top management, or similar targets become delegitimized as traditionalism, averseness to change, or outdated socialist argumentation. Compared to Goldscheid’s time we have to acknowledge improvements brought about by the ascent of labour unions, legal provisions protecting workers, collective bargaining, and social security systems. Also, management has been responsive to human needs on the workplace and to the importance of social aspects and to develop what amounts to corporate ethics. But these achievements of the era of the welfare state have come under considerable pressure during the last decades. Arguments of factual constraints due to globalization and of the necessity to increase returns on capital investment as a precondition for stalling off recession serve to make reductions of income, social security and welfare seem legitimate.

Goldscheid emphasized that the economy as well as the polity are driven by actions, underlying values and interests and that social science should make these explicit. One does not necessarily have to follow him further into saying that the values and interests should be reoriented towards human “higher” development, but it would suffice to be less receptive with regard to conceptions and arguments which stress the self-steering quality of economic processes or the unavoidability to adapt to factual constraints. Changes are always set into motion at some place and time by decisions and actions of individuals, groups, organizations with certain goals, interests and power potentials. The interests and the power of actors are the real moving forces of the economy and the polity; they come along with values and world views seeking legitimation; social science should at least be able to make them explicit in order to compare and contrast diverse interests and values, their potentiality to transform society and the resulting consequences.

Concluding remarks

The ideas presented above were inseparably connected with their time and the circumstances prevailing then. Although there are similarities between the age of imperialism and our own era of globalization, great differences exist both with regard to the factual conditions and the ways of thinking about them. Finance was then and is now the leading sector; then and now an international perspective existed to financial investments. Both eras can in some sense be characterized by the concept of “finance capitalism”¹. But the differences between imperialism and globalization must not be overlooked, the most obvious being the role of the state. The leading interest around 1900 was heightening the strength of the nation-state and its military-economic power. Nowadays, however, returns on private capital funds and their flows on a global scale have become central aspects.²

The ways of thinking about social science were different, too: a wide array of diverse conceptions existed. Our modern understanding of sociology, however, is commonly traced back selectively to a few “classics” like Max Weber, Emile Durkheim or Georg Simmel and their viewpoints: the idea of value-free professionalism, functional differentiation and the formal definition of social order based on
interactions. Goldscheid’s understanding of social science differed from these ideas because he combined theory and practice and included economic and political dimensions in his view of sociology. Goldscheid criticized the “rentabilitarianism” of the big enterprises and the imperialism of the state and advocated an ethically and scientifically based worldwide socialism.

The most important difference, however, can be seen in his passionate optimism with regard to human potentials. Social science in his view was to become a “scientia militans” in order to instigate man to will the good and to trust in action. Today we are tempted to quickly dismiss this as over-optimistic, ideological and methodologically questionable. But it seems that in the face of the global finance capitalism of our days and the prevailing sense of being driven by factual constraints and of the workings of self-productive systems, it becomes increasingly necessary to reflect on our ways of thinking about the social and the economy as well as on the role of social science.

Endnotes

1 Goldscheid used expressions like “rentabilistic” or “rentabilitarianism” in order to characterize the orientation towards capital gains (rentability) he perceived as being dominant in his time.

2 This was characteristic of the interpretation which evolutionary biology received among exponents of the workers’ movement at the time (Mocek 2002).

3 The term can be connected back to the classic work of Rudolf Hilferding: Das Finanzkapital, originally published in 1910. For a discussion of recent developments of finance capitalism, see: Gertraude Mikl-Horke (1999), 688pp.

4 The debate over a new US imperialism must be excluded here.

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