

Hermann Schulze-Delitzsch: The Cooperative Idea in German Liberal Thought

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Abstract

The paper analyses Hermann Schulze-Delitzsch's contribution to the cooperative idea and economic thought of the second half of the 19th century. Schulze-Delitzsch has recently been described as a leftish liberal at the exhibition about the German Labour Movement in Mannheim's Technomuseum (2013), but was placed more centre with publications under the hospice of the Friedrich Naumann Stiftung. During his life (1808-1883) he became the founder of cooperatives in Germany and various forms of associations. Schulze-Delitzsch placed the main emphasis on self-help to deflect the danger that the industrialisation posed to small and medium sized companies. It is shown that liberal ideas were the main Leitmotifs for Schulze-Delitzsch's cooperatives. The paper illustrates Schulze-Delitzsch's position with regards to trade unions, wage funds and political economy.

Index terms—

1 I. Introduction

In 2013, the Technomuseum Mannheim featured a 150 year retrospective of the German workers' movement between 1863 and 2013 (*Durch Nacht zum Licht? -Geschichte der Arbeiterbewegung 1863-2013*). The exhibition defined workers' movements beyond the usual political and trade unionist movements, and also included cultural and social concerns as Leitmotifs. In that way, both the liberal movement as well as the creation of cooperative associations were featured as impulses for workers' movements. In particular does the exhibition pay tribute to Hermann Schulze-Delitzsch (1803-1883) and his contribution to the cooperative idea. Economic cooperatives started to exist at around 1833 within the secondary sector and usually followed the principle of cooperation. In 1859, Schulze-Delitzsch became one of the leading figures of the German cooperatives as chair of the Zentralstelle der Genossenschaften.

The exhibition was strongly influenced by concepts of the Bielefelder School. According to the curators, the workers' movement rests on three pillars: political parties, trade unions and associations (Welskopp, 2013). The Bielefelder School of History (also known as the School of Historical Social Sciences) places emphasis on the significant contribution of social movements towards the creation of political structures. 1 Historical change is thereby explained through a reciprocity and mutuality of forces of various areas within society (such as economics, politics, and culture). Such forces are understood as processes which are the result of dynamics created by particular social and economic structures (Nathaus, 2012). Critics of the Bielefelder School demanded a relaxation of the cultural axiom and a stronger weight to be placed on the actual structures within society. The explanation of history should foremost be approached through functions (Mommsen, 1972.) Within the tradition of the Bielefelder School, Welskopp (2013) considers cooperative associations both as a result and a pillar of the workers' movement. He further asserts that the influence of the German workers' movement spread into the formation of the SPD (Godesberger Programm) and influenced the creation of trade unions and consumption associations. German workers' movement is conceived as a social movement in its first stages resting on voluntary unionisation without a clear institutional structure.

4 SD'S MEMBERSHIP IN THE NATIONALVEREIN AND THE KONGRESS DEUTSCHER VOLKSWIRTE

This paper does not attempt to enter a historiography debate, but it aims to a) place the writings of Hermann Schulze-Delitzsch into economic thought and b) show that SD's cooperative association had a strong institutional character that aimed at an economic as well as a social purpose. It will be shown that the place in German economic thought is that of liberal economic and political thought, and that the curators might have been correct in including SD in terms of his important contributions to institutional history. It must be noted though that SD saw the cooperative as a vehicle on the grounds of liberal principles rather than a means to establish an equitable society or lead to workers' empowerment.

2 II. Principles and Economic Processes: Function and Constitution

Schulze-Delitzsch used arguments of economic processes as the main drivers for the establishment of cooperatives. Self-help and self-accountability are explored as constitutional and functional factors rather than aiming at a defined end situation. These principles place SD directly into the mainstream liberal spectrum. Schulze-Delitzsch' political involvement with the left liberal Progress Party distracts from the liberal-economic convictions he displays in his writings. His passionate dispute with Ferdinand Lassalle, he continued even until after Lassalle's death, reflects the strong opposition to state intervention and the social state. The passionately proposed concept of self-help forms the basis for the cooperatives; this is built on the principle of selfresponsibility and its constitutional requirement that no individual becomes a burden to others; a strong foundation of the classical liberal school of thought. There are no traits to be found of a welfare orientated state policy or communal responsibility which is sometimes subscribed to the term liberalist in the US American sense (Watrin, 1999). Instead Schulze-Delitzsch follows a classical libertarian perspective in the wider sense of Anglo-Saxon liberal thought. That notwithstanding, it is noteworthy that he does not address the wellbeing of society in the way that Smith and other classical liberalists did. He follows some Aristotelian ideas of natural liberty and sets the scope of individual freedom within the limits imposed by the freedom of society or others. Individual liberty excludes dependability as it would destroy self-respect, honour and self-motivation. Respect and honour are seen as constitutional principles, whereby self-motivation rests on a functional principle which SD employs largely to support education as well as savings.

3 III.

4 SD's Membership in the Nationalverein and the Kongress Deutscher Volkswirte

The pre-revolution period of the 19th century (1800 -1848) was demographically and socially characterised by increasing population growth and pauperism amongst the land population (Marquardt, 1969; ??ocka, 1990). The early 19th century is also typical for a general trend towards liberalism, in Germany highlighted by the creation of the Zollverein in 1834. The demographic implication was increased urbanisation and a rise in the number of people seeking employment within the crafts and trades. This was further accentuated by the elimination of work restrictions within those sectors as a result of the demolition of the guilds. In 1848, at the time of the failed German revolution, the first workers' associations were founded.

Schulze-Delitzsch (SD) argued that the formation of the crafts associations were based on the general economic trend and in that regards a response to the increasingly more difficult economic and social situations that many workers found themselves in. SD was a member of the Nationalverein, a club of the worker education associations. He was also a protagonist of the Progress Party which pursued a small German state under Prussian leadership. Schulze-Delitzsch was not only politically active; he also pursued a path that would make his economic ideas be heard: he became a leading influence in the foundation of the Kongress deutscher Volkswirte (Congress of German Economists). The congress was founded in 1858 and remained the institutional basis for the free trade movement in Germany until it was dissolved in 1885. 2 It is considered the most important gesamtsdeutsche association with political-economic influence (Erdmann, 1968). 3 The Kongress deutscher Volkswirte had no representatives from industry or owners of physical capital. The latter comes to no surprise as the congress emphasised its purpose of serving the common good. It accentuated the notion that the liberals felt responsible for the representation of the working classes and their position regards the privileged traders and capital/share owners (Raico, 1999).

The congress consisted of scholars and academics, lawyers, publicists, craftsmen/traders and public servants (Stalman, 1926). The objective of the congress was to achieve the general support for the principle that free markets and liberal economic activity would enable economic prosperity and alleviate economic hardship. The congress further set itself the aim to support the creation of institutions that would facilitate the economic progress resting on the aforementioned principles (Volkswirtschaftlicher Kongress, 1857). Schulze-Delitzsch accounts that it is the "...task ...not only to explain the main lessons of academia, but to translate them into practical life ..." (1863c, p. 90).

5 4

The Kongress deutscher Volkswirte became the platform for German national liberals outside of parliament. The party used the congress a) as a platform and a means for public relations and b) an advisory organ towards trade and policy in support of a liberal economic policy (Erdmann, 1968). In contrast to the important free-trader and liberal Prince-Smith, This general notion of the constituents does however not represent the motivation or position of Schulze-Delitzsch. In contrast, Schulze-Delitzsch understands the freedom of workers in the liberal sense as free mobility and responsibility. Although he addresses class within society and aims at a class-less society, this is done on the grounds of selfresponsibility rather than the notion that a certain class requires representation, protection or elevation. The social position of a particular class is not his primary concern; he does not address the issue of social divide, neither does he define the common good. His focus is the establishment of the institutional frame that allows self-help and social rise.

Schulze's motive was that of establishing the associations as a programme for the congress (Schulze-Delitzsch, 1858a). Schulze-Delitzsch provides liberal arguments on the microeconomic level in support of education, savings and self-help, whereby economists such as Boehmert focused on the macroeconomic implications of free goods and factor markets (see Boehmert, 1884). Schulze-Delitzsch's argument was that these microeconomic behavioural forms could be best facilitated through the institutional structure of the cooperatives. Schulze-Delitzsch is therefore known as the founder of the German cooperative movement and the banking associations in particular. However, he adjusted his views over the years (from the inauguration of the congress toward the early 1860s) in response to some strong criticism he received from Max Wirth (quoted in ??Idenhoff, 1984, p. 113) with regards to his conception of the production associations. In his later open dispute with Lassalle he displayed the most fervent disdain for the production associations on the basis of their capital guarantee through the state.

In 1863 the Allgemeiner Deutscher Arbeiterverein (ADAV) was founded under the presidency of Ferdinand Lassalle. Lassalle supported what was so much repulsed Schulze-Delitzsch; Lassalle sought active economic state intervention with the state acting as a guarantor for his production associations. Schulze-Delitzsch's work must be considered in connection with his party-political membership of the Progress Party, his membership of the Kongress deutscher Volkswirte and presidency of the Cooperative Association. In 1863, SD held numerous speeches addressing the ADAV, which form most of the basis of this attempt to understand and analyse SD's particular cooperative concept, the liberal motivation and the economic soundness of the arguments.

6 IV.

Schulze-Delitzsch's and the Cooperative Argument a) Liberal Principles of Nature and Self-Accountability Schulze-Delitzsch derives microeconomic patterns of economic motivation and macroeconomic cycles from the liberal principles of the nature of man in the sense of self-responsibility and the belief in the natural law of regularity.

The nature of man is understood in the sense of "self-confidence and self-determination, with intelligence and intention" (SD, 1863a, p. 31). The main principle for the material and existential position of the individual within society is the "duty to self-sufficiency (Selbstsorge)" (ibid, p.32). Schulze-Delitzsch continues to explain that fate lies 'in each individual's hand', here the 'worker's hand'. It is paramount that the individual looks after himself and does not become a burden to society. The duty to be self-sufficient is linked to the notion of self responsibility. Some of the terminological differences are a little hazy in SD's writings, but the latter term of self responsibility is used mainly with respect to the classical liberal principles that form the basis for all human action: a) liberty and b) limits to liberty. Both principles are derived from the notion of man been born as a free man in the naturalist -philosophical context; the limits to liberty are imposed by the imperative that no man's freedom or right must be curtailed by other's actions (ibid, 33; 1863b, p. 71). SD makes no reference to Immanuel Kant (1788), but it can be argued that he perceives the limit to liberty in the tradition of the categorical imperative. The scope of action must not be restricted by the actions of others, the notion that forms the basis for the constitutional state. It is the state's responsibility to protect the individual's liberty through the use of supreme power (Staatsgewalt), this power is to be exerted through laws and regulations in the later ordo-liberal sense. Schulze-Delitzsch already produces a framework for the later Freiburger School of ordoliberalism with its protagonist Walter Eucken and the serial publications of *Ordnung der Wirtschaft*. The principles of liberty and equality necessitate equality before law but do not require social equality; he considers the latter impossible due to the varying abilities and characteristics of people. People are considered by nature different and this law of diversity cannot be defied (SD, 1863c, p. 106). "It is those predispositions and natural talents that success in life depends upon, they give power, ownership..." (ibid).

Economic freedom is required as are voting rights and private property rights; theses rights form the conditions for the guarantee of people's liberty. Schulze-Delitzsch is proud of his liberal convictions, and when Ferdinand Lassalle called him by the name of Bastiat (the epitome of French liberal economists), he recalled this with flattery (SD, 1866).

7 b) Production Function and Economic Progress

SD recognises the principle of liberty not only as a principle that requires to be guaranteed for the purpose of the individual itself, he also acknowledges its paramount relevance as a principle for the flourishing of a moral

8 V. PROFICIENCY, ECONOMIC PRINCIPLES AND THE ROLE OF COOPERATIVES

society, a nation's politics and economy (SD, 1866, . 177). The natural law of regularity and circular flows points towards SD's recognition of physiocratic thought as he sees needs and wants as a regular occurrence following the dynamics of perpetuity. Within this cycle, man seeks a secure position which is provided through labour. Labour is perceived as a provider for future wants and needs (1863a, p. 31) but production is only possible if natural resources (Naturresourcen) are combined with natural resource. Both labour and natural resources are defined as input factors that cannot be substituted for: "Human labour and power of nature are the necessary comrades in production...they move alongside each other...nature provides us with the material...as subject for further cultivation, without which [nature] labour would be unfathomable, because nothing could be created from nothing" (1863a, p. 34,35).

The naturalistic emphasis on natural powers becomes even more pronounced when he states that capital is made from nature and exemplifies the steam engine as a result of the energy of wind (ibid). This far reaching pushing aside of capital comes to no surprise as he conceives technology, progress and know-how as factors that are outside of the production function. Inventions and innovations as well as technology and progress are considered external shocks which can have a positive effect on labour as they can reduce labour's effort in the process of production which is commonly known as an increase in labour productivity (1866, p. 181). Technological change is a natural occurrence of industrial progress as "men have always endeavoured the reduction of strenuous effort through making improved use of natural powers" (ibid).

Unfortunately, industrial progress creates regular states of distress which "are a result of the industrial conditions themselves, and cannot be conceived as a random occurrence" (1863c, p. 92). It is important to note here that this is by no means an anti-capitalist rhetoric, instead he emphasises the danger that the industrial development poses towards the smaller enterprises, in particular the craft enterprises. His position could be interpreted as opposed to Grosskapitalismus, but predominantly from a pro competition standpoint rather than a capital exploitative argument. Further macroeconomic cycles are exemplified through trade crisis, recessions, credit limits, political tensions and wars and the growing world market. There is a "steady tendency" to reduce the influence of these external shocks through "cultural advancement of humankind as a whole, as well as through the individual's education and entrepreneurial proficiency" (1866, p. 183).

8 V. Proficiency, Economic Principles and the Role of Cooperatives

On the basis of the natural law and the acceptance that God endowed men with identical instincts, Schulze-Delitzsch derives two innate driving forces for man's engagement in work: a) needs and wants, and b) skills and talents. The satisfaction of needs and wants requires labour engagement, and this sequence is one that fills every man's life. This "instinct is the essential energy force which brings man into motion with view to achieve the goal and to sustain himself" (1863a, p. 31). He identifies the survival instinct as the strongest instincts of all amongst living creatures.

In that respect he asserts "that all labour is directed towards the satisfaction of wants" (1863b, p.69). He does however not address the satisfaction of non material wants or indeed the possibility that work provides a merit in itself (Weber, 1920). Quite the opposite in fact, SD portrays man as a creature that is by nature inert and therefore pulled into two opposite directions: sluggishness and activity for the sake of the satisfaction of wants (1863b, p. 69). Both directions are seen with tenderness for man, man pursues both out of self-love. Indeed, the concept of self-love builds a link towards the care for oneself in the truest humanist tradition. To pursue self-interest and engage in self-care (Selbstsorge) is in accordance with the primitive impulses referred to by David Hume (1740). SD accepts the impulse of the want and the motive that creates the subsequent action. SD further argues, implicitly though, that this impulse can be made use of to create a new organisational form, namely that of the cooperative. SD does however not articulate this extensively, nor does he make references to the idea of self-interest as a main motivator, his focus is more on the idea of selfpreservation which necessitates love for oneself. Selflove becomes the means to achieve the purpose of self preservation. Despite using similar arguments as Hume, he also accepts notions of Benthamite ??Bentham, 1789) utilitarianism by stating that people aim "to have as much as possible and do as little as possible to obtain" (1863b, P. 71). His positivist interpretation of the possible satisfaction of wants and needs lies in the belief that man himself possesses the power to achieve the end result. It could be argued that he ignores circumstantial and social situations towards the internal capabilities (not to be confused with external circumstances) and narrowly observes psychological impulses on the basis of the assumptions about the human condition. Psychological impulses are seen as endowed by God, but by no means does SD place any value judgement on types of behaviour. There is no virtuous behaviour; instead the focal point is effort, efficiency and frugality (1863a, p. 34). As a result his writings remain directed at finding practical solutions rather than identifying the right behaviour or indeed the construction of the just society. Schulze-Delitzsch is an entirely pragmatic liberal. He does not construct ideal scenarios.

The practical organisation of the economy is drawn up as a private economy without a social state. This private economy should pursue the following practical principles of reward: a) excellence and hard work must be awarded, b) indolence must be negatively awarded, such behaviour must have negative outcomes, c) fruits of one's labour are the property of who produced them, and d) effort justifies the extent of pleasure. In that sense Schulze-Delitzsch supports a meritocracy with no welfare system. Furthermore these principles must respect

natural limits: "The individual productivity builds the natural barrier towards one's individual needs and wants, ... it is the moral obligation of each reasonable man not to allow these to exceed one's abilities" (1863e, p. 125).

Schulze-Delitzsch further uses this argument to defy the socialist planned state. He affirms that people have different needs and wants by nature, so "no administrative office can dictate, what I need..." (1863c, p. 105). Such planning is considered synonymous with a state monopoly which effectively curtails the individual personality. It becomes clear that the reward for the individual is Schulze-Delitzsch's main focus instead of notions of national well-being. Self-accountability becomes the motif for self-betterment, an incentive for proficiency.

Proficiency can be obtained through two means: a) education, and b) savings. The pragmatic liberal Schulze-Delitzsch recognises that behaviour follows certain motivations and presumes a rational and a future-oriented perspective. He subordinates current temptations and motives to those which are directed towards a future gain (1863d, p. 49). Future gains are often focused towards the family, so that one's sacrifices today are made to benefit one's children and grandchildren. Economic improvement is dependent on two factors: human talents and willingness to sacrifice. Progress and improvement of one's material well-being is therefore not a random occurrence (1866, p. 177). Human talents can be improved through education and the motivation to save (sacrifice) can be stimulated through the institutional form of the cooperative. Both aspects, education and savings, are conceived as external forces that can amend internal capabilities; they are outside of the human 'God given disposition': they have to be facilitated. SD recognises a dynamic relationship between a man's endowment with talents and his being influenced by outside factors. Man with lesser talents is relatively more dependent on the external world. Schulze-Delitzsch supports the notion that man's dependence on external factors must be decreased and identifies such a reduction as synonymous with gaining liberty. The cooperative can provide exactly this in Schulze-Delitzsch's view.

For Schulze-Delitzsch, it is the state's obligation to provide for the public's education; he demands an extension of the compulsory school education (1863e, p. 127). He supports the extension of the compulsory public Volksschule beyond the primary school years in favour of the guild schools that traditionally provided much of the secondary school education in relation to the particular craft or trade. Schulze-Delitzsch recognises the educational achievements of the German workers' education movement and asserts that "no one is allowed any longer to doubt the full human equality [of the workers]..." (ibid). He places a strong emphasis on the function of craft and trade cooperatives to provide education through further educational establishments. 5 The second pillar upon which proficiency can be gained is savings. Schulze-Delitzsch's argument is that savings are dependent on income; hence they can only be created through labour. "Labour alone creates all value which leads us back to the primary source of wealth, luxury and consumption goods..." (1863d, p. 49). This notion extends the inter-temporal consumption model beyond a one-generation model and allows inheritance of wealth to originate in the primary source of labour. Within a life time, savings are however bounded which Schulze-Delitzsch assert with a reference to Rastignac's dilemma in Balsac's *Le Pere Goriot*: "A lawyer must vegetate for 10 years ... and will not earn enough to get to the top. But there is another route: the dowry of a rich woman." (ibid).

Despite this acknowledgement, Schulze-Delitzsch extensively praises the charging of interest and emphasises the importance of the capital rent. Savings that are not needed within the saver's enterprise shall be lend and thereby generate a rent on capital. Credit creation is necessary because "if no one gives me credit, I cannot undertake the work and the prospect of income is lost" (1863d, p. 55). He rests the notion of useful capital rent on a principle of justice and asserts that capital rent is simply the price of usage of money over a certain period of time. Furthermore, SD considers capital rent to allow for self-help in old age; wage income can be sufficient to allow subsistence during working and non-working age. It is noteworthy that he still refers throughout these deliberations to the entrepreneur as the worker. It is apparent that the separation between contract labour and self-employed labour remains vague. In contrast to SD, it could be argued that wealth creating savings are foremost relevant to the self-employed worker.

SD writes very much in relation to the tradition of the crafts and trade which he sees as endangered through industrial development. The latter is also considered a threat to the contract labour (wage earning labour) in smaller sized firms (1863c, p. 92). He proposes that cooperatives can facilitate individual betterment and proficiency. SD puts certain conditions forward: members of a cooperative must have savings und must prove their moral qualifications; they must renounce current temptations of consumption and thus be willing to make sacrifices today for the sake of the future (1863f, p. 151). Both means for proficiency, education and savings, are seen as factors that address weaker inner capabilities through which a correction of inequality can be achieved. Schulze-Delitzsch's cooperative can therefore serve as a means for social [entrepreneurial] mobility by equipping the worker with education and capital (1866, p. 172). This conclusion is based in SD's particular conception of the production function and the creating force of capital.

9 VI. Linear Production Function: Capital as the Creative Phoenix

Schulze-Delitzsch perceives the production process from the viewpoint of the capital owner who requires three necessary inputs: natural resources, tools, and subsistence means for the duration of labour (1863d, ps. 41-45). The first two factors of production are conventional, the third expression of the input is based upon the wage fund theory. The wage fund theory requests a financial capital fund that allows for the wage payments for hired

labour and for the subsistence of the self-employed. He implicitly assumes that no current payment is required for natural resources and production equipment, they are assumed to be owned. In contrast, it is labour that requires a factor payment as it is hired. The wage fund becomes an unconventional factor within the production function; one would usually include quality and quantity of labour instead. This stands further in contradiction to accepted production theory because the fund itself does not create anything. Despite the weakness of this notion, it becomes clear that the wage fund theory is used as the fundamental reference point for the request of the creation of the cooperative fund and the associates' contributions. The wage fund is defined as a wealth fund created through the foregone consumption upon which the owner draws to pay labour. He maintains that "this consumption is a productive consumption, e.g. it is a consumption that leads towards the production of output that has value." (1863d, p. 47). This is based on the notion that all production is a fundamental destruction of capital (both physical and financial) and that it is this utilisation of physical and natural capital as well as financial capital for the payment of labour creates new value. Capital is given the mythical status of Phoenix: it burns itself on the pyre but rises from the ashes and lives through another cycle.

"Capital, that is destroyed by labour, is replaced by new values, in one word: capital is created anew out of its destruction..

10 ." (ibid).

There are two fundamental assumptions within this statement that portray Schulze-Delitzsch's economic position as a pragmatic and capitalist liberal. He assumes: ownership of resources (capital, natural resources, financial capital for the wage fund), and ownership of output. This can be explained with his focus on the smaller firms within the crafts and trade, but also highlights the liberal principles of private property and that the owner of the firm is the natural owner of value created (output). The production aim is that the value of output will exceed that of the inputs, which acts as a motivating force in the utilitarian sense. SD sees this objective as motivator and links it to "the economic aspirations for the creation of capital ??which] lie with the more noble parts of human nature" (1863d, 49). He further states: "...[The] unavoidable truth comes into consideration, that capital ??and] the sum of previous labour output that we require for our business, pay for nothing else but for labour...Capital in its ultimate purpose is indeed nothing else than a wage fund, and each capital investment aims at the payments of labour wages" (1863d, p. 59). This notion is common amongst liberals of the second half of the 19th century. Marx (1867) reflects with irony upon this: "How did the owner become possessed of it? 'By his own labour and that of his forefathers' answer unanimously the spokesmen of Political Economy" (ibid, p. 322).

Only in very limited form does Schulze-Delitzsch transfer the above microeconomic notions onto the macroeconomic level. Where savings and wealth creation are necessary for production within the firm, the macroeconomic development could be further facilitated through the creation of cooperatives and the extension of their relevance within the financial market. The creation of a thriving middle class within the crafts and production sector is linked to an improvement in wellbeing. Profit sharing within the production associations is considered as sharing welfare within a growingly class-less society (Gall, 1976a). 6

11 VII. Labour and the Working Classes

With regards to the creation of wealth, Schulze-Delitzsch asserts that "that capital or wealth in general can only be created ...through labour and savings" (1863d, p. 50). There is no explanation to which extent value changes or cyclical variations affect wealth. In that respect, the argument is narrow and does not foresee the financial crisis of 1873 that was influenced by post war reparation payments by the French (Keynes, Ashley, 1919). It is here surmised that wealth is therefore mainly considered as physical capital wealth rather than financial capital wealth. Again, this is commensurate with the focus on the entrepreneurial form of the small or medium sized privately-owned firm.

The rhetoric in his speeches, when addressing the ADAV, is that 'labour creates capital'. This is somewhat misleading as some of his arguments approach the labour question predominantly from the perspective of the self-employed labourer or entrepreneur. It is the perspective of the proprietor of a small firm within the crafts or trade sector who works within the company. He under-emphasises the form of outside ownership that is linked with large scale firms and Grosskapitalismus and thereby the position of the wage earning contract labourers. The poor material wellbeing of these workers at that time is however mainly linked to their position within large firms and, in this point, he misses the larger issues at hand or those that Lassalle (1864) refers to.

Given those conceptual limitations, SD asserts further that the combination of capital with work will facilitate employment and benefit the worker. He stresses that work will become "easier and more productive" which leads him to express it as inconceivable that capital is seen as "a fiendish power, which some fractions try to convince the workers of" (1863d, p. 57). He argues that the rise in productivity of labour as a result of increased capital input will lead to a rise in output which in turn will lower prices of consumption goods and thereby improve the workers' material well-being. This is seen as equivalent to a rise in real wages. But he further stresses, that the ease of labour "makes the workers' discontent with their human destiny irrelevant, they are now given time and effort to engage in a betterment the more noble talents alongside their work to earn their bread..." (1863d, p.

12 61).

The betterment is conceived as an engagement in public life and a furthering of education, seen as factors to promote proficiency and improve the workers' non-material welfare.

Schulze-Delitzsch' argues that improved capital usage will lower product prices with no nominal wage adjustment. In other sections, SD foresees an employment effect due to increased labour productivity (general expansion and limited substitutability of factors), yet he states that the labour saving production changes will result in total wage savings (in relative terms with respect to output); as a result the entrepreneur experiences a surplus in the wage fund. Capital improvements and changes in the production methods therefore "never have the effect that less is worked, instead the same effort of work will create more than before which will attract more [work]...leading to a considerable increase in the wage fund because the entrepreneurs draw more profit and therefore add more to their capital" (1863d, p. 62).

He assumes a reinvestment of profits and evidences such development with historic examples of the British cotton industry and the respective wage increases between 1804 and 1850. His arguments do not distinguish sufficiently between real and nominal wage increases, and an explanation of how the increase in the wage fund is allocated is entirely vague. Is the marginal surplus paid in wages or is it used for further capital expansion? In any case, SD follows Say's law and assumes that the increased output will create its own demand, however at given lower prices.

These thoughts are poor echoes of the Ricardian labour theory of value and the iron law of wages: the law would expect wages to rise due to an increase in capital but eventually return to their natural rate due to population expansion (Ricardo, 1821(Ricardo, [1951])). There is however an important shared notion between Ricardo's theory and SD's thought: all capital is the result of previous labour. SD is critical of Lassalle's adoption of the iron law and considers his arguments as incorrect (1863f); instead he concedes towards the natural wage, which is the equilibrium wage, subject to possible increases due to capital growth. In terms of the return of capital, SD extends that capital gains will be reinvested or contributed to the wage funds. The wage fund must be placed within the firm and not be designed as a social fund, which he considers to be 'dead capital' as these funds are not allocated towards a productive purpose. This points towards the political discussion of the role of the state.

13 VIII.

14 Political Economy of the

Cooperative Society SD's political position as a member of the liberal Progress Party is his opposition to a military or absolute state and a class-based society; in more detail he opposes restriction of free markets and 'industrial policing' which he associates with the guild party (1863e). SD maintains that the national economic organisation rests on the principles of exchange, competition, private ownership, input factor hire, and free movement and separation of labour. SD identifies labour in its creation of capital as the surplus generating force which contributes positively to society. Such organisation allows increased utilisation of capital which facilitates the positive income effect that instigates a reallocation of the workers' time to "higher public and private tasks" (1863b, p. 63). Within the circular flow, surplus production creates new capital which leads to improved welfare, conceived as a "natural course" (ibid). SD does not use the term 'human capital', it could be argued that he implicitly means that surplus capital creates new physical and financial capital, but also allows an improvement in human capital. This could be strongly supported by the two driving forces in his writings: savings and education. Savings are required for the first, education for the second, both of which are propagated as achievable through the organisational form of the cooperative. He equates "capital accumulation of man with their ability to gain cultural proficiency; the growth of the people's mental and vocational capital causes necessarily the general perfection of human conditions in intellectual, moral and economic terms" (ibid, p. 67).

Schulze-Delitzsch asserts that capital accumulation benefits society as a whole, and the poor in particular. The division between the educated and uneducated will diminish and so will the welfare gap between the working classes and other classes. SD's assertion of this dynamic development as a result of capital accumulation and savings is designed to create a more or less class-less society. It is paramount here to notice that SD once again defines workers in the form, where he distinguishes between two classes of workers: "workers, who operate a business on their own account" and workers "who are in an extraordinarily difficult situation ... which causes their more or minor dependence of particular employers" (1863c, p. 91). It is inferred that the time saving capital accumulation allows the latter to migrate towards the first group of selfemployed. This notion rests deeply in his liberal conviction, the self-employed individual exercises selfhelp and is self-accountable. He sees the "civilisation of the workers" and the "elevation of the working classes" achievable through the political economy of the cooperative principles, which identifies the "competent effort of the individual to be the aim of the historical development of our human race" (1866, p. 174, 176, 179). Production has to be placed within a cooperative society because the individual is not capable to produce enough to satisfy his wants and needs. The cooperative organisational form and liberal principles can be maintained through a cooperative society.

The cooperative society rests upon the notion of reciprocity. Schulze-Delitzsch rejects the notion of the brotherhood of men as a principle for the cooperative society because it cannot be used as an economic principle or as a basis for the order and maintenance of the public household, neither is it the basis of the "common life of

people" (1863c, p.106). Individual selfresponsibility and accountability, and reciprocity provide for the possibility of a people living alongside each other within society, it also provides the foundation for the alliance of states. 7 7 The Prussian Progress Party was in support of the unification of the northern German states rather than a Prussian-Austro-Hungarian union. It is important to note that this is not political-theoretical concept, it is a micro concept directed at the question of the creation of the unified Germany in 1871.

Self-responsibility in the sense of SD's self-help contains a social notion, as no one should expect someone else to provide for them, instead it is the responsibility of each person to care for themselves and not become a burden to society. Human material wants and needs are based on basic animalistic instincts that can easily corrupt man and could "introduce war on the field of acquisition (Erwerb)" (1863a, p. 32,33). He later asserts that man will naturally seek his integration into society, and that instincts and talents will lead man towards his natural destination. Although the notion can be related to Hobbes' idea of the social contract, SD does not provide reasons why a peaceful cooperative organisation should be sought. He rejects the Hobbesian social contract and the sovereign's provision of charity to those who cannot look after themselves. Where Hobbes declares "And whereas many men, by accident inevitable, become unable to maintain themselves by their labour; they ought not to be left to the charity of private persons, but to be provided for...by the laws of the Common-wealth" ??Hobbes, 1651, p. 387).

SD rejects this form of social equalising.

Instead, he denies "that the natural instincts and talents of man do not suffice to secure the existence of all, the working classes, and that they therefore need to be supported from another side [that of the social state]" (1863c, p. 93). Self-help instead rests on the Kantian principles of a Republican constitution where liberty can only extend as far as it can coincide with the liberty of others. Where Kant illustrates "the formal practical principles of pure reason ... as the only thing possible, which serves as the categorical imperative ..." (1788, p. 56, 57) SD chooses the following title when addressing the ADAV: "practical means and ways for the elevation of the working classes" (1863c) and places "the social question above the political, like the state's rationale is placed above its constitution" (1863f, p. 171). In his work on legal and criminal self-determination SD equates such determination with economic responsibility. He asserts that responsibility requires the rights of acquisition and thereby derives the right of private property and appropriation of the fruits of capital or labour. In more general terms: "The appreciation of the right of the other finds its expression in one's own interests, under the condition of the equal respect of one's own rights, in the principle of reciprocity" (1863b, p. 71).

In this liberal or later ordo-liberal fashion, it is the role of the state to provide limited public services such as the transport system, to serve the public interest and to guarantee personal liberty so that the individual can serve for himself (ibid). The social self-help in its form of self-responsibility makes the state beyond its constitutional responsibilities unnecessary.

15 IX.

Appraisal: Cooperatives and the Betterment of the Working Classes Schulze-Delitzsch builds his argument for the cooperative organisational form and a cooperative society largely on the idea that the interest rate as a capital rent will benefit workers. Savings are transformed into capital investment and wage funds which allow a return that is shared amongst the working entrepreneurial associates. It thereby alleviates firstly, the uncertainty of income in the case of the employee (as labour demand is derived from the firm's fortune), and secondly, the insufficiency of income as it is not commensurate with demands to satisfy wants and needs. It is also conceived that members of the working class may become subject to illness and unfortunate events which can cause income deficits to a far greater extent than in comparison to those workers who are selfemployed (1863c). The cooperative can bridge this gap in vulnerability and create a social adjustment, again through the two main factors of education and savings. This correction of the status quo can be achieved through "the care for the more noble talents", usually neglected by the wage earning classes or "exposed to external states of distress due to circumstances ... and wasted away" (1863, p. 92). He displays a positivist conception of human nature and ascribes ability to each man; however, this ability can be destroyed through external circumstances. He argues that the cooperative form can further the inner abilities (in that respect SD ignores the possibility of an innate inability). His ethical consideration is directed towards behaviour and thereby towards the achievable result. The starting point is ignored, indeed the social divide at origin is rejected, and instead the behaviour can lead to a class-less society. His positivist appraisal of human nature recognises envy, ill-will and jealousy, but does not derive negative outcomes for society from those. Instead they are approached in terms of the negative implications these traits have only for the individual. As such, capital return as a surplus is placed into the wage fund rather than taken out for consumption purposes by the owner. This is narrow and thereby misses some of the arguments presented by the workers' movement. It is SD's assumption that external circumstances can be overcome through the cooperative organisation and the individual's responsibility for self-help from which he derives the individual right for liberty but also the responsibility to secure his own existence. He rejects the social state on grounds of national economic limits, so that it will be not be possible for some to care for all. Further he contrives that the origin of all distress is the lack of engagement and motivation, a provision through the state "will not block the source of distress" (1863c, p. 94). He goes further and also discredits corporate social programmes which provide housing, medical care etc simply as a reaction to the 'fear of the red ghost'.

The overall effect of the cooperative is that the sum total of the knowledge of those joined by the association

will exceed the sum of individual knowledge. The argument is further amplified due to the improved credit rating of the cooperative. The individual default becomes negligible as the risk is diversified due to the mutual collateral. SD places large emphasis on the credit cooperatives that allow the self-employed worker to become an associate and the wage earning workers to benefit from the increased output and possible savings (1863e). The cooperative is seen by SD as an institution that can elevate the working classes and thereby act as a facilitator. The cooperative principles are based on a first case and a second case scenario: 1. Each one strives to meet the acquisition of capital, intelligence and competence; 2. Should the external conditions not allow someone to exert one's powers to achieve the objectives oneself, the free association can act as a facilitator (1863f). The cooperative is seen to join free individuals, in contrast the socialist state subordinates individuals as subjects. The cooperative shall not compensate for the lack of inner qualities (idleness, lacking intelligence etc), but facilitate in view of external difficulties such as a dominance of large corporations, a lack of financial capital etc. Associates have to prove their competence and their inner qualities as it is necessary that the "mental fund" is used to counteract the external conditions. In his speeches during 1863 he acknowledges that educational cooperatives already exist and that the innovative cooperative form is directed at the credit associations as the facilitator of the "material side". The material side is seen as a force that can counteract large scale businesses; this is achieved in the case whereby the associates operate on the principle of joint responsibility rather than in isolated legal form. Here the members share profits and losses as a principle of social self-help. Members are required to contribute a membership share, carry out administrative functions and are jointly liable for the cooperative's debt. SD supports the concept of allowing the wage labourers to receive a percentage share of the profits; this can create additional efficiency due to linking the workers' motivations with the business. SD expresses admiration for the pioneers of the Rochdale Co-operatives who applied profit sharing practices. The main emphasis is the creation of capital and the rejection of Lassalle's production associations. Despite these positive notes in the case of the cooperative association, SD is opposed to any innate right of the workers toward the appropriation of profit, as only those who carry the risk of capital investment have the right to the positive return (1883f). Furthermore, with regards to Lassalle's production associations, SD argues that membership within an association must not be random; SD places doubt into the workers' ability to manage business areas without previously having received a training.

16 X.

17 Conclusions

Schulze-Delitzsch is here identified as a pragmatic liberal who searches for the organisational form that could create a class-less society on the basis of liberal principles of self-help and self-accountability. As he acknowledges insufficient internal talents and external circumstances that can act to stall a person's betterment, he focuses on two main factors to promote ¹ ² ³

¹The Bielefelder School refers to the historical understanding of historians at Bielefeld University such as Hans-Ulrich Wehler, Reinhard Rosseleck, Thomas Welskopp et al. The focus of the Bielefelder school is the history of events and politics.

²Compulsory school education was only awarded constitutional status under the Weimar Republic, although schooling became compulsory in Sachsen in 1835 and in Prussia in 1717.

³Marx himself saw cooperatives as a "great social experiment"(Neubauer, 2013).

the latter: savings and education within the cooperative firm.

Schulze-Delitzsch was not a macroeconomist. He addresses 'external shocks' such as the industrialisation, monopolisation and the general business cycles as unavoidable any liberal state's order. The state's role is limited to constitutional requirements; it must provide a liberal and legal framework that can support the positive individual development. Unfortunately, SD falls short of an extensive consideration of welfare issues which other liberal thinkers did. He does not link individual well-being to the calculation of social well-being apart from accepting the utilitarian utility concept. He is weary of public expenses and points towards possible state bankruptcy if the large working class is continuously supported through the public sector. He then foresees tax rate explosions and a moral and economic demise. His rather unfortunate choice of words that "such public expenses would destroy the industrial capital of the nation" intended to pay for the workers' wages, is misleading as he is vehemently against state owned industrial capital (1863a, p. 34). On the microeconomic level, Schulze-Delitzsch discusses the various possible effects that capitalisation and a cooperative organisational form can create. The focus is the betterment of the workers' position, in his sense of the term, the self-employed and the employed workers. Within his liberal argumentation, capital growth can cause positive employment and income effects within the boundaries of population growth which leads to an acceptance of the natural wage rate. In terms of economic expansion, the proposed rise in financial and physical capital (savings) and labour quality (education) encourages an increased start up of businesses pushing up the number of selfemployed and creating a rise in the demand for employees. This is seen to create a positive wage effect. Capital growth benefits the workers through the wage fund theory. A substantial limitation is that SD denies for the most part labour substitution through capital growth; instead he assumes a given degree of compatibility of input factors and thereby leaves the argumentation within a static-dynamic model. Although he assumes output growth through capital increase, the increase is assumed to be linear. The process of industrialisation and a closer observation should have allowed him to investigate the returns to scale more closely, i.e. nonlinear production functions with substitutability of factors. A more than proportionate increase in output could have created a higher rise in surplus product and had wage fund implications. The discussion of reinvestments also falls short of the consideration that owners within the non-cooperative business might choose not to reinvested, and consume instead. As he could not delude himself that all production would in future years take place within cooperatives, he fails to explain any possible betterment of workers who are not employed within cooperatives.

Much of Schulze-Delitzsch's writing resonates in the later ordo-liberal principles by Eucken (1939Eucken ([1989])) and the wider Freiburger Schule or even the Austrian School. The social state is in SD's view "a costly bureaucracy" ... "that causes a reduction in the number of productive workers", ... and "reduces the overall output of the nation" (183c, p. 105). His anti-socialist writings resound in Hayek, especially when SD argues that the central institution of the state cannot take on the role of distributing the output amongst the people (ibid; ??ayek, 1944). On the revolution of 1848 SD asserts: "It was the fear of the red ghost, of the collapse of all ownership and economic structures, which disengaged the owning classes ... with the [cooperative] movement ... the sad class struggle lead to the sacrifice of the merely conquered liberty in favour of imperialism and imperial military force" (1866. P. 172).

Schulze-Delitzsch deserves an important place within German liberal economic thought of the 1860s. He contributed immensely to the cooperative idea and the cooperative institution. In that sense he might have aided the workers' movements through initiating discussions, this would be in support of his inclusion in the Technomuseum's exhibition. However, his main focus was functional and constitutional rather than social. His writings on cooperatives focus on their economic function and their constitutional character and the fundamental liberal principles that are meant to serve. In that regard an appraisal of the Schulze-Delitzsch contribution to the functionality and purpose of the cooperative functionality is more appropriate than his contribution to the workers' movement.

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