

Conference:

## **Towards Pluralism in Macroeconomics?**

20 Years-Anniversary Conference of the FMM Research Network

Berlin, 20 October – 22 October 2016

### **Kurt W. Rothschild – Was he a heterodox or an orthodox economist?**

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#### **Abstract**

Kurt W. Rothschild was an Austrian Economist who was born in 1914 and died in 2010. During his early youth he experienced the 'Red Vienna' as a pupil and student where he got acquainted with Marxist approaches. During his study time in law he came in touch with the 'Austrian school' of economics. In 1938 he was forced to migrate. He exited to Glasgow (Scotland) where he was strongly involved in the Keynesian debate. These three steps he has called himself his '*formative years*' which have been the cornerstones of his eclectic approach. The paper tries at first to summaries the methodological approach of Rothschild's work in general and secondly what (in particular heterodox) scholars can learn from his approach today.

## Kurt W. Rothschild – Was he a heterodox or an orthodox economist?

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### 1. Introduction

Kurt W. Rothschild died on 15 November 2010 at the age of 96. With him, Austria has lost without a doubt one of her most thoughtful and original economic thinkers of the past century. He has been contributing to economics through a large number of publications in several fields over a period of nearly 70 years. A recent count lists 42 books, 183 papers in scholarly Journals, 174 contributions to collective volumes, and 146 book reviews.<sup>1</sup> However, it was not only his outstanding scientific performance which made Rothschild unique, moreover it was his modesty and his upright character combined with his openness and unusual analytical tolerance which made him one of the most respected speakers in public forums as well as an enjoyable conversational partner at more private occasions. There was never any moment where one did not eagerly listen to his well-founded and conclusive arguments. It was indeed not only his public performance which impressed scholars, students and ordinary people alike. It was in particular the coherence of his public and private life which made him never-to-be-forgotten.

Where did all these attitudes come from? We will try to explore this way of formation of an extraordinary human being in six sequences: Rothschild's growing up in "Red Vienna" (1914-1933); his study of Law in Vienna (1933-38); the enforced exile at the University of Glasgow, Scotland and his acquaintance with Keynesian thinking there (1938-1947); his work at the Austrian Institute of Economic Research (WIFO) in Vienna (1947-1966); his late comeback to pure scientific life at the University of Linz (1966-1985); and finally his impressive period as a retiree which he truly has never been (1985-2010). Nevertheless, concerning the formation of Rothschild's economic thinking, the initial three periods have certainly been the most important ones. Although the following three stages are productive and exciting by themselves, they did not shape Rothschild's character very much. Since my intention is not to give full account of his scientific work (which is more or less impossible) but to stick more on Rothschild's economic thinking, I will draw more heavily on the initial periods of his life, on the so-called *formative* years.

### 2. The formation of a problem-oriented approach in "Red Vienna" (1914-33)

As Rothschild (1999) himself describes in one of his autobiographic notes the period of "Red Vienna" was really something special. It was first the foundation of the new democratic republic which was

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<sup>1</sup> <http://www.kurt-rothschild.at/>

accompanied by a rather bleak economic perspective with in particular huge unemployment. Moreover, the period was marked by intensive and partly violent political controversies. All these events have formed Rothschild's political consciousness to a large extent. Moreover, Vienna was the multi-ethnic center of the former monarchy with all its diversities and contradictions. But Vienna was not only a cultural focal point at that time. It was among others the location of a lively discussion in the fields of sociology and psychology in which Rothschild took part and which has certainly made a strong imprint on his personality. Experiences like these contributed very much to Rothschild's strong favor for an *interdisciplinary approach* in economic science. However, Rothschild was not only deeply involved in the psychological discussions led in Vienna at that time. This period was also earmarked by the harsh political discussions and finally also fights between the strong socialist movement and the reactionary, catholic-oriented movement. Finally these controversies led to coming into power of Austro-fascism in 1934 and subsequently to the incorporation of Austria in Nazi-Germany, the *Anschluss*, in 1938. These political events and in particular the rather progressive developments in the capital of Austria, the "*Red Vienna*", formed to a large extent Rothschild's conviction that things can be changed to a better situation. Although Rothschild's parents' house was rather apolitical he soon became member of the Socialist followers organization (*Vereinigung sozialistischer Mittelschüler*). It should be mentioned, that Rothschild had already at secondary school a rather strong favor for theoretical and analytical issues. This favor has been strongly encouraged by his teacher, Gustav Kurti, who later worked as a physicist in the US.

At that time, Rothschild has been close to then political controversies and discussions. For the purpose of a better understanding let me quote from his autobiographical note:

*"Without reading 'Das Kapital' (let alone understanding it!) I learned to see the world and its economic aspects not just as a harmonious progress of mankind (which so obviously it was not) but as a dynamic process of interacting interests and conflicts, of power and exploitation. This influence could and has been maintained and colors one's perspective far beyond Marx' class war approach."* (Rothschild 1999, 3)

Soon afterwards he resumes:

*"This experience (the policy of the Viennese municipality, W.A.) supported a viewpoint that in economic, political and social affairs things do not just "happen" and are not predetermined by "iron economic necessities" (as the opponents of the Viennese experiment continually argued). It has remained as a permanent reminder that activism and interventionism are possible and useful when conditions are regarded as unjust or undesirable, particularly in regard to basic human needs and extreme inequalities."* (Rothschild 1999, 3)

Rothschild articulated several times that it was in particular this period and its political circumstances which made him very much aware of social and economic problems (King 1995, Rothschild 2004A, 2006). And it was especially this period in which he developed his great ambition to tackle these problems. Although he embraced a tremendously wide range of topics during his life-long research effort he focused rather strongly on topics most relevant for the well-being of people, e.g. unemployment, distribution of income and the interaction of economic and political power. Most of Rothschild's political and social interests were formed during these unpleasant times of high unemployment, enormous poverty and the abrupt ending of a democratically elected government (which happened in Austria in 1934).

### **3. The Study of Law or The “indoctrination” of marginal utility theory by the “Austrian School” (1933-38)**

Although Rothschild initially had great ambitions to study either physics or mathematics he finally has chosen the study of law. This decision was mainly the result of the slightly better possibilities to get offered an employment opportunity as well as the idea to defend ‘innocent people against a reactionary judiciary’ (Rothschild 1999, 3). One has to note that the unemployment rate amongst academics was more than 50 percent then. Since Rothschild was forced to finance his studies on his own he was very much interested in a subject which would also increase his chances to get a job afterwards.

Since the study of Law had a final section, which was devoted to the study of public finance and political science, this was a good possibility for Rothschild to get acquainted with issues which were of strong interest to him. Here again he had the luck to have a teacher who stimulated his interests for economics by his analytical approach. Beside the resemblance of this analytical approach to the much respected methods of the natural sciences, Rothschild thought and hoped that these methods could probably also be applied to real economic problems. As Rothschild put it:

“In addition to the fact that it afforded the promising luxury to deal with interesting problems and intellectual challenges it also offered the hope that with a better understanding of the economic mechanisms a contribution to a more satisfactory economic and social society could be achieved.” (Rothschild 1999, 4)

At that time the intense education in marginal utility theory certainly laid the foundations of Rothschild’s later methodological framework where he strongly argues for a (large) ‘*box of tools*’ from which one can choose appropriate tools for specific questions. However, he always emphasized that the Austrian school was not only pure neoclassical thinking since it included also psychological reasoning, i.e. for the configuration of consumer preferences. This psychological impact was mainly due to the intense discussions about Sigmund Freud’s and Alfred Adler’s new insights which were hotly debated at Vienna during that time. Probably also this might be one additional explanation why Rothschild favored an interdisciplinary approach throughout his life.

### **4. Scotland (1938-1947) - The acquaintance with Keynesian theory and Scottish attitudes**

After the invasion of Nazi Germany in Austria in March 1938 Rothschild, as a Jew, had several experiences which made it more than obvious that he had to leave the country as soon as possible. He rarely spoke about this tragic period of his life. Only once, in a biographical documentation which was produced by the Austrian TV in autumn 2009 on the occasion of his 95<sup>th</sup> birthday, his wife Valerie told the interviewer that also Rothschild himself had to do “floor cleaning” in 1938 in order to survive. It was also not Kurt Rothschild himself but his son Thomas who made the public aware that Kurt Rothschild’s mother and both his parents-in-law died in the concentration camp.<sup>2</sup> I think it is worth to note and even emphasize these experiences since it is almost inconceivable that a man who was pushed out of the country and to whom any appropriate academic job was refused after his

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<sup>2</sup> Rothschild, Thomas (2014); Schlafen nach dem Holocaust, In: Die Presse vom 17.10.2014.

come-back to Austria for a very long time, neither accused anybody in Austria for his personal experiences but worked hard for the country's reconstruction after World War II. For him it was just natural to make his contribution – obviously regardless of what happened to him, his mother and his parents-in-law before.

The years in Scotland probably were the most formative ones for Rothschild's entire life, mainly due to two reasons. First, at the University of Glasgow he discovered an entirely new world of economic thinking. And second, there he was placed in a democratic society which - for a Jew who just escaped from the Nazi regime – seemed to be something like heaven on earth. Rothschild was introduced to the Keynesian ideas for the first time by studying the General Theory at Bale in Switzerland on his three-month stop on the way to Glasgow. He did tell his story on that many times. "Filled with the basics of Austrian-type micro-economic behaviourism I just couldn't make head of tails of what I found in Keynes' book." (Rothschild 1991, 6f.). For him it was just luck to discover then also the "Introduction to the Theory of Employment" by Joan Robinson. Otherwise he probably would have withdrawn from the study of economics as he assumed. It was in particular Robinson's *problem-oriented approach* which was an "Eye- and brain-Opener" for Rothschild and permitted him "a far closer link between the intellectual adventure of economic theorizing and the social and socialist questions of the time than I could have found in my Wien days" (Rothschild 1991, 7). In his autobiographical notes Rothschild writes:

*"I managed to enter a new world which I should never leave, but again seeing it not as a final heaven but as an extremely important supplement, modification, and also critical correction of the theoretical bases which I had acquired earlier."* (Rothschild 1999, 5)

The second - certainly not less important - experience of Rothschild's years in Scotland was the completely "openness" both at the university and in society. Rothschild expressed his admiration of his two supervisors at the University of Glasgow, Sir Alec Cairncross and Alec Macfie, in extremely respectful words. By asking myself who these two persons have been I coincidentally discovered an obituary for Sir Alec Cairncross written by Alan Budd (1998). I just want to quote a few sections from this obituary: "Marked by a typically Scottish belief that you made your own way in life and progressed through hard work and education; never ceased to display the qualities of his generation and place of birth; prepared to forgo personal comforts; the great respect in which he was held for his profound commonsense, his hatred of dogma and his complete intellectual honesty". I have to admit by studying these sentences I was inclined to copy and paste them for my personal obituary for Kurt W. Rothschild. The attitudes of these two great men are really astonishing similar.

It was in particular the close friendship with such people and with the Scottish way of living and sharing in general which shaped Rothschild's personality. Otherwise it would remain difficult to understand his generous tolerance, both within and outside the scientific community. Let us listen once again to Rothschild himself:

*"In Scotland I found democratic attitudes which had grown in centuries of democratic institutions ... This openness towards other opinions and the readiness to cooperate with "other" sides when the situation seems opportune impressed me and has not only left its marks on my view of politics and political action but probably also contributed to the eclectic leanings in theoretical matters."* (Rothschild 1999, 5f.)

Rothschild's theoretical work in general is a form of original eclecticism. Rothschild always used different theories for different purposes. He never refrained to use neoclassical tools where they are sensible and relevant (mainly short-term microeconomics). However, he also always mentioned their weaknesses. Rothschild had a striking tolerance and openness to various theoretical approaches. He always tried to appreciate both the strength and weaknesses of different theories. For example, Rothschild did not refrain from using utility theory for the analysis of micro-economic, short-run mechanisms of current economic activities on the one side, and Marxism-like approaches for the analysis of long-term dynamics of the socio-economic interplay of power and interests on the other (Rothschild 2002, 2004). Besides this kind of eclectic theorizing there was one additional point that characterizes Rothschild's methodological approach: *the factor of complexity*.

*"I believe (and, of course, there are others who think the same way) that economics, like other social sciences, cannot be a "hard" science comparable to mechanics or other highly developed branches of the natural sciences. The extreme complexity of the social world as well as its dynamic, the poor quality of empirical data, and the difficulties of experimenting make any attempt at reaching high levels of "exactness" futile, if one aims at more than just the construction of 'logical' models."* (Rothschild 1991, 12)

In addition to *complexity* Rothschild emphasized in many of his theoretical works the issue of *uncertainty*. Due to the importance of complexity and uncertainty Rothschild mostly refused to make any forecasts. His standard reply to such a question was: *"Forecasts are rather difficult, especially if they are about the future."*<sup>3</sup>

## **5. Rothschild's return to Vienna and some remarks concerning his methodological approach**

As we have seen in the three chapters before the "formation" of Rothschild economic thinking has started in Red Vienna, continued during his study of law and finalized at the University of Glasgow. What follows was the "application" of his formative years. Although this period is of great interest by itself, it did neither influence his economic thinking nor his personality very much. The formative years are over. Hence I will summarize this period rather briefly.

After his return to Austria Rothschild did not get any academic post due to the spirit of the Austrian universities after the demise of the Nazi regime. In many instances the Austria universities have been managed after the Second World War by the same people who managed them also during the war.<sup>4</sup> However, he could find a job at the Austrian Institute of Economic Research (WIFO) as a senior research economist. Interestingly, he was supported for this position by a recommendation from the later Nobel laureate August von Hayek (one of the founders of WIFO), who certainly did not support Rothschild's economic point of view. Since at that time no curriculum of economics was established at Austrian universities WIFO was the only place where theoretical and empirical economic research was conducted. At WIFO Rothschild found a rather stimulating environment with a young team of economist which was strongly occupied with applied empirical research. Among others also Josef Steindl returned to Austria in 1950 and enriched the institute. Steindl who published the 'classic'

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<sup>3</sup> This saying is attached to Johann Nepomuk Nestroy, an Austrian actor and playwright during the Biedermeier period.

<sup>4</sup> For more on that see Klausinger (2016; 2015).

*Maturity and Stagnation in American Capitalism* in 1952 got acquainted with Rothschild already during exile in Scotland in 1940. At WIFO they soon became close friends. Work at WIFO was rather demanding since they were only few people and each of them had to write a report nearly every month. During that work Rothschild developed “a healthy skepticism regarding the quality of data and a respect for good empirical work, even if it were ‘merely’ descriptive” (Rothschild 1991, 9).

In 1966 Rothschild was invited to become a “founding father” of the newly established University of Linz at the Faculty of Social and Economics Sciences where an entirely new curriculum in economics was introduced. Since Rothschild always had strong ambitions in academic teaching and research he accepted that offer immediately. However, he never completely left WIFO where he worked as a consultant from 1966 until the end of his life. In Linz he had the advantage (and disadvantage) to develop and establish the curriculum in economics mainly by him together with his colleagues. Hence he could establish his long-lasting experiences in economics starting from the Austrian School to Keynesian economics and much more than that. He emphasized in particular a strong interdisciplinary approach and managed an exhausting teaching load. Similar to Glasgow and WIFO, he had to work rather hard. Reading his autobiographical notes concerning that time one is reminded once again of the “Scottish belief” that *‘you made your own way in life and progress through hard work and education’*. As many anecdotes from colleagues and pupils of Rothschild testify he never shied back from hard work (e.g. Nowotny 2011).

Rothschild’s demanding teaching load at Glasgow during the 1940s and again at Linz for the new curriculum during the late 1960s had one common denominator: in both cases he used this challenge to produce either textbooks or papers. At least four of his textbooks were outcomes of his lectures either at universities or shortly thereafter (Rothschild 1954, 1981, 1988, 1992). Also this output-oriented work is an extraordinary characteristic of Rothschild.

## **6. Some concluding remarks**

In 1947 it was a rather difficult decision for Rothschild and his wife to return to Austria. Meanwhile Rothschild had an outstanding publication record and was also perfectly integrated and respected in the scientific community. Additionally, his wife Vally liked to stay at Glasgow very much. Thus the decision to return to Austria and to take part and be involved in the reconstruction of a totally destroyed economy cannot be appreciated enough. Moreover, Rothschild was perfectly aware that as an exile and as a Jew he certainly would not be warmly welcomed in Austria. Being asked why he did return under such unfriendly circumstances he replied that first, not all Austrians were like those described above; and second, he was always an Austrian. He had had his Austrian community in Glasgow which had also its own newspaper and he was also dealing with Austrian issues in his academic work. Finally, he did hope for some other, some better Austria. And he wanted to be involved in the challenging task to develop such ideals (Rothschild, K.W. and Graber, R. 2009).

Today, the Austrian economic community is rather happy about Rothschild’s generous decision. Rothschild was and still is ‘an inspiration to generations of economists’ as John E. King (2010) put it in his obituary. Fortunately, Rothschild has left a tremendous treasure of books, articles and interviews which can be studied by everyone who is interested in it. Actually, at the University of Economics at Vienna both oeuvres of Kurt W. Rothschild and Josef Steindl are collected and carefully administered.

The Homepage of Kurt W. Rothschild has a full coverage of all his writings. Hence everybody can use his academic sources for a long time. Let us try to summarize his main scientific aspirations

*“Problem-orientation and relevance seemed to me right from the beginning as a desirable aim for the (individual and societal) research effort as a whole, though this label cannot and need not be characteristic for every single piece of research. Basic research, experiments with new ideas, trials in different directions without narrow restrictions from practical viewpoints are necessary, if our knowledge is to expand. But the ultimate subordination of the activities to relevant and humanistic ends should be – in my opinion – an essential aspect of professional ethics and should never be lost completely from sight.”* (Rothschild 1991, 8)

Let us try to put economics forward in such directions. Only then economics might become more supportive in developing explanations and solutions for our most pressing global economic problems: unemployment, ecological catastrophes and disruptive social inequalities.

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