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Editorial

Kurt W. Rothschild’s Life and Work

„... three ‘roots’ – love and respect for economic theory as an impressive analytical instrument, dynamic perspectives as an important key to an understanding of socio-political developments, and a problem-orientated approach in view of the economic and social ills of society – have remained the ‘prime movers’ of my work.“ (Rothschild, 1992A: 473)

At least for a quarter of a century before his death in autumn 2010 Kurt W. Rothschild had been the unquestionable doyen of economics in Austria. He was an outstanding and original economic thinker whose voluminous work is of rare quality and versatility. However, his lasting and inspiring influence on generations of economists is not only due to his scientific performance and his important interdisciplinary contributions which reached economics by taking into account of widely neglected factors, such as strategic behaviour, power, history and ethics. But, it was also due to his modest and upright character which made of him a devoted academic teacher, an influential empirical researcher and policy adviser, as well as a highly respected speaker in public forums.

Kurt W. Rothschild was born on October 21st 1914 in Vienna and died on November 15th 2010. He was the son of Ernst Rothschild, a salesman, and his wife Philippine. In 1933 Kurt W. Rothschild finished secondary grammar school and entered the University of Vienna to study law. His first choice would have been to become a physicist but that would have taken too much time. Due to the need to contribute to the family budget and the poor labour market conditions at the time he turned to study law with a prospect of wider job opportunities.

There existed no Social Science faculty at Austrian universities at that time. However, economics was an important part of the legal studies curriculum. Kurt W. Rothschild (1992: 472-3) was soon captured by this subject; on the one hand, he was attracted by the ‘beauties’ of analytical reasoning in economic theory but, on the other hand, his interest was also kindled from a political angle. Since already in grammar school he became acquainted with Karl Marx and the Austro-Marxist thinkers through his contact with the Socialist Youth

1 Large parts of this editorial rely on Altzinger (2011).
Movement. Moreover, there was also the stimulating atmosphere of Vienna in the inter-war period: First, from an economic point of view, the bleak economic perspectives, i.e. extremely high unemployment and poverty in these years of depression, as well as a deeply divided and unstable political environment, provided a strong challenge to take side even when you came from an apolitical family background as Kurt W. Rothschild did. Second, on the cultural side, Vienna had to offer a rich spectrum of activities and highly influential debates in the fields of psychology and sociology, the “Viennese Circle” of Philosophers, Austro-Marxism and Austrian Economics (Rothschild, 1999:3). Third, as political action is concerned, there was the policy of “Red Vienna”: The Viennese Social Democrats used their majority in the City Council and pursued an active municipal policy against the background of a hostile federal government by financing public housing and social and educational institutions through redistributive taxation (e.g. luxuries).

These were important years for Kurt W. Rothschild as he made clear in an autobiographical paper (1999: 3):

„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 experience 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.“

It was this period in which he developed his great ambition to at least attempt to tackle social and economic problems. Although he pursued a tremendously wide range of topics during his life-long research effort he focused rather strongly on topics relevant for the whole society like unemployment or the distribution of income, wealth and economic and political power. Most of Rothschild’s political and social interests were formed during these economically and politically awful times of high unemployment, enormous poverty and the abrupt ending of a democratically elected government (which happened in Austria in 1934).

At the time when he finished his legal studies in 1938 Hitler invaded Austria. Thus, Rothschild as a Jew had to leave the country as soon as possible. He nearly never spoke about this tragic period of his life. Only in a biographical documentation in autumn 2009 on the occasion of his 95th birthday his wife Valerie told the interviewer that also Rothschild himself
had to do “floor cleaning” in 1938 in order to survive. He also never mentioned that his mother, who remained in Vienna, died in a concentration camp. Today, it seems almost inconceivable that a man who was pushed out of the country and to whom any appropriate academic job was refused after his return to Austria in 1947 for a very long time, neither ever accused anybody in Austria for his personal experiences nor refused to work hard for the country's reconstruction after World War II. For him it was just natural to make his contribution – seemingly regardless of what happened to him during all those years.

In August 1938 – after legal ways to emigrate were denied – Kurt and Valerie Rothschild fled through Switzerland to Scotland, where he was granted a scholarship. He studied Economics and Political Philosophy at Glasgow University (1938-1940) and continued as Lecturer till 1947. The years in Scotland probably were the most formative ones for Rothschild’s entire life. And this mainly in two respects. Firstly, in Scotland he discovered an entirely new world of economic thinking. And secondly, he was involved in a kind of democratic society which for an Austrian was hardly imaginable. 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 at that time also the “Introduction to the Theory of Employment” by Joan Robinson. Otherwise he probably would have withdrawn from the study of economics. 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).

The second and certainly not less important experience of Rothschild’s years in Scotland was the complete “openness” both at the university and in society.

„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 creative eclecticism, drawing on neoclassical analysis where it is sensible and relevant (mainly short-term microeconomics)
but always investigating in its weaknesses (King 1994, 29f.). Rothschild always used different theories for different specific analyses. He never refrained to use neoclassical tools where they were applicable. However, he also always mentioned their weaknesses. Rothschild had a striking tolerance and openness to various theoretical approaches. His eclectic approach always tried to see what different theories have to offer and to analyse their strength and weaknesses. 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, 2004B). Besides this kind of eclectic theorizing there was one additional point which 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 1947 Rothschild left the Glasgow University and returned to Vienna. He was already a highly respected economist with a number of important publications. Among others he published several papers in the most prestigious economic journal of that time ‘The Economic Journal’ (edited by John M. Keynes), such as “A Note on Advertising” (1942), “The Small Nation and World Trade” (1944) and his most influential paper “Price Theory and Oligopoly” (1947). But, despite of his reputation, like so many who returned after the war to help rebuilding the ruined intellectual infrastructure of the country, he was met with little support. Due to the narrowness of those people who managed the Austrian universities at that time (and many of them already since 1938 or before) and due to his Jewish roots he did not get an academic post. However, he could find a job at the Austrian Institute of Economic Research 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.

At WIFO Rothschild found a rather stimulating environment with a young team of economist who was strongly devoted to applied empirical research. Among others also Josef Steindl returned to Austria in 1950 and enriched the institute. Work at WIFO was rather strenuous since they were only few people and each of them had to write a report nearly every month
for WIFO’s monthly bulletin. In addition, Rothschild managed to publish a great number of highly regarded articles on Income Distribution, Wage Policy and Foreign Trade in these years as well as his “Theory of Wages” in 1954, which was of lasting influence on generations of economists. During that work at WIFO Rothschild detected “a healthy scepticism 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 in Linz where a Faculty of Social and Economics Sciences was established and an entirely new curriculum in economics was introduced and had to be drawn up. Since Rothschild always had had strong ambitions in academic teaching and research he accepted this offer. 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 to develop the curricula in economics mainly by himself and with his colleagues. Hence he could apply 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 enormous teaching load. Similar to Glasgow and WIFO, he had to work rather hard since much of the new teaching stuff had to be completely reorganized. 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 enormous teaching load at Glasgow during the 1940s and again at Linz for the new curricula during the late 1960s had one common denominator. In both cases (as well as in several other cases) he used this challenge for producing either text books or papers. At least four of his text books were outcomes of his lectures either at universities or shortly thereafter (Rothschild 1954, 1981, 1988, 1992B). This output-oriented work is an extraordinary characteristic of Rothschild and is underlined by the long list of publications of books and articles in renowned journals during this period of intensive teaching and thereafter; to mention just a few books of rather diverse subjects: “Arbeitslose: Gibt’s die?” (1990), “Ethik und Wirtschaftstheorie” (1992B), “Die politischen Visionen großer Ökonomen” (2004A).

Rothschild was not only open-minded in his research he was also open-minded throughout his live. He liked to discuss new developments in economics - theoretically, empirically and politically - with colleagues and students alike. At the University of Linz such discussions took place during the meanwhile well-known “Rothschild Coffee” which was an after-lunch
meeting at the department. Whenever you met Rothschild one of his first questions always was “What are you working on actually?” And instantly a stimulating and encouraging discussion was established. He was interested into nearly everyone’s topic of research and one could always learn quite a lot in the stimulating conversations with him.

Conference in Memory of Kurt W. Rothschild²

On December 1st and 2nd, 2011 the Austrian National Bank (OeNB) jointly with the University of Economics, Vienna, the Austrian Economic Research Institute (WIFO) and the University of Linz organised a conference to commemorate the 1st anniversary of Kurt Rothschild’s death and honour his personality and contributions to economics.

We would like to thank all institutions who provided financial support for this conference, in particular the Oesterreichische Nationalbank (OeNB), the Austrian Institute of Economic Research (WIFO), the Chamber of Labour (AK), the Chamber of Commerce (WKÖ), the University of Linz and the University of Economics and Business, Vienna, the Office of the Federal Chancellor and the Ministry of Finance and the Ministry of Economy, Family and Youth.

This volume presents the papers that were given at this conference held at the headquarters of the Austrian National Bank. Nearly all of the speakers not only know Rothschild’s writings quite extensively, but most of them were students, colleagues and/or close friends to him. The conference was organized in three sessions.

In the first session Ewald Nowotny, the Governor of the National Bank who started his career as Rothschild’s Assistant, colleague and friend later on, positioned Rothschild between mainstream and critical economics and described him as “fascinating, but also challenging, even strict university teacher” who saw in the merit principle an important guiding principle of particular importance for students from an underprivileged background. Since they cannot draw on family relations and social networks but have to rely on their academic achievements.

² The conference has been organized by Wilfried Altzinger from the University of Economics and Business, Vienna (WU), Alois Guger from the Austrian Institute of Economic Research (WIFO), and Peter Mooslechner from the Oesterreichische Nationalbank (OeNB).
John King (La Trobe University, Victoria, Australia) reviewed Rothschild’s biography and his impact on economics by drawing on his wide knowledge of the history of economics, professional interviews and personal reminiscences of Rothschild. Since King has edited a book of selected essays of Rothschild (1995) and conducted two long lasting interviews with him (1995, 2009) there are not many who know Rothschild and his work better than him. King summarizes Rothschild’s contributions as ‘An inspiration to generations of economists’.

The second session\(^3\) dealt with the topics of unemployment, distribution and financial markets. Amit Bhaduri (Jawaharlal Nehru University, Delhi, India) started with the remarkable notion that Rothschild’s paper on ‘Price theory and oligopoly’ (1947) “has influenced his thinking ever since”. In particular the open-ended nature Rothschild’s explanation concerning the price setting problem under oligopoly made a strong impression on him, he explained. Such outspoken appreciations have been heard not only at this conference but could be read also in papers of non-participating economists (Harcourt, G.C., 2011). In his paper Bhaduri discusses the relation between wages, profits and economic growth where he provides theoretical proof that the liberalization of the financial markets does have a profound influence on this setting.

The paper by Falkinger (University Zürich, Switzerland) addresses some fundamental problems of economic power, political power and the financial system. He develops a fully-fledged general-equilibrium model with some remarkable extensions in particular concerning uncertainty in financial markets and its severe macro-economic consequences. He concludes that regaining the primacy of policy in the regulation of financial markets requires two things: a clearly focused goal and global political leadership.

During the third session both micro and marco economic issues have been investigated. This session gives also evidence of the broad range of topics Kurt W. Rothschild has investigated.

Heinz Kurz (University of Graz, Austria) presented convincingly Rothschild’s multi-paradigmatic approach to economics and his position within the Austrian school of economists. In particular, Kurz discusses one of Rothschild’s main issues, ‘power in economics’, with respect to Smith, Ricardo, Marx and Keynes as well as the Austrian economists Menger, Böhm-Bawerk and Schumpeter. Interestingly, he characterizes the Austrian School of Economics as a rather heterogeneous but rebellious species, and Kurt W.

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\(^3\) Each of the papers in der 2nd and 3rd session has had also a discussant. These papers will not be commented on in this introduction but are published later on.
Rothschild, he added, is no exception to this rule. Kurz describes Rothschild as an eclectic who picked up from the different economic traditions what he considered to be sound and helpful.

Harry Bloch (Curtin University, Perth, Australia) and Mita Bhattacharya (Monash University, Australia) focus on the seminal paper of Rothschild on ‘Price theory and oligopoly’ which has been published in 1947, more than 65 years ago. Nevertheless, the main arguments of this paper are still valid and important today. The paper provides an instructive summary of the arguments of oligopoly and its impact on prices via many different channels, such as advertising, price rigidities, barriers of entry and in particular by their strong economic power. Oligopoly can be explained as a struggle for position, which requires an analysis that is much more than the application of an elegant profit-maximising calculus. In particular, it requires further examination of power, which remains a key element of the economy.

Finally, Jürgen Kromphardt (Technische Universität, Berlin, Germany) summarizes Rothschild's main contributions on labour market theory, wages and prices and growth theory. This paper provides a broad overview of quite many contributions of Kurt W. Rothschild in these fields and discusses the issues rather instructively. He summarises Rothschild’s readings as a persistent integration of psychological, sociological and institutional factors in the economic analysis.

Additionally to his contributions to the academia Rothschild has also written and discussed quite many papers for and with policy advisers and politicians alike. These contributions of him have been discussed and reflected by a panel of six: two of them represent the main organizations of the Austrian social partnership, the Chamber of Labour (Günther Chaloupek) and the Chamber of Commerce (Christoph Leitl); two of them represent institutions which were (and still are) involved in the discussion on economic perspectives quite intensively, the Austrian National Bank (Peter Mooslechner) and the Austrian Institute for Economic Research (Karl Aiginger); the final two reflect opinions about Rothschild’s policy advises from the perspectives of academics (Herbert Walther, University of Economics, Vienna and Hans Brunner; University of Linz). All of them have been involved in many discussions with Kurt W. Rothschild on economic issues and therefore provide an excellent view of his arguing and reflections in such situations.

Finally, we would like to emphasize that due to a broader dissemination of Rothschild’s research output to students and interested people alike we have established a webpage for
Kurt W. Rothschild (http://www.kurt-rothschild.at)\(^4\). On this website we provide a full account of Rothschild’s numerous scientific contributions. There you can choose your preferred topics out of 42 books, 183 refereed journal papers, 174 contributions to books and 146 book reviews. Moreover, we present photos, films and radio broadcasts about and with Rothschild. You will also find several of his talks at universities and public discussions. Additionally, there are numerous interviews with Kurt Rothschild on this website.

To give a brief résumé about Rothschild’s main ambitions we want to close this introduction with a final quote by him.

„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)

We hope that the contributions in this book will give justice to these demands.

Wilfried Altzinger – Alois Guger – Peter Mooslechner – Ewald Nowotny

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4 This large workload has been accomplished by David Ifkovits, Christof Brandtner, Matthias Nocker and Fritz Luther whose work we gratefully acknowledge.
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