

Glimpses of a Non-Linear Biography *

When I was approached to contribute to the series of recollections of economists the first effect was that I began to see more clearly than ever before how ridiculously futile the idea of "rational expectations" is. Not only did I never expect to be included in the recollection sequence (and was thus taken by surprise) I also realised – looking backwards – that what had formed me and my development could not have been planned or expected beforehand – neither rationally nor irrationally. The past was always fixed and the future very, very uncertain.

When I finished secondary school in 1933 Austria belonged to the countries which were particularly hard hit by the worst depression the developed world had ever known. Unemployment (official and unofficial) was somewhere near 25 percent, wages were low, the outlook was bleak. Though I should have liked to study physics, real constraints of finance and "rational expectations" prevented me from taking this course. Studying physics would have taken a long time and would have been costly, and the chances of obtaining a job in industry or as a school teacher seemed very low indeed. So I turned to the "mass faculty" of law studies, partly because I had some interest in a career as a lawyer, but mainly because it was a comparatively short study leaving some time to earn money on the side (by tutoring secondary school youngsters) and because of the Austrian practice to regard graduates from the law faculty as suitable candidates for a wide variety of jobs in industry and administration (in addition to the narrower field of legal activities).

In those days the old tradition (lasting till 1966) still prevailed that economics and political science had no separate faculty but belonged to the Faculty of Law and were taught as part of the law curriculum (though some specialisation in their direction was

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possible). In fact, all the famous protagonists of the "Austrian School" – the "fathers" Menger, Böhm-Bawerk, Wieser, and the second generation Hayek, Haberler, Mises, Machlup – had taken a degree of a "doctor juris". It was this constellation which brought me into touch with economics as a subject of scientific study. Though I continued to regard the main line of my course, *i.e.* the legal subjects, as the basis for my (vaguely hoped for) future livelihood, I immediately developed a particular liking for the unexpected offerings in economics. It became the only subject in which I invested more time and effort (in the form of reading and seminars etc.) than was absolutely necessary.

This special interest had different roots. First of all in the Austria of the twenties and early thirties one lived in an atmosphere of intensive political and ideological tension which either made you escapist, withdrawing completely into a private sphere of one sort or another, or you had to become interested in the burning problems of your environment. The economic deterioration after 1929 was disastrous and social problems were spreading fast. This was happening against a background of sharp class divisions represented by a very reactionary (ruling) conservative party and an (oppositional) semi-Marxist ("Austro-Marxism") Social Democratic Party. Confrontations took place not only in the form of day-to-day political exchanges and occasional physical fights; there were also important ongoing discussions on a "higher" plane of political and economic theories and ideologies which attracted the interest of many of us in the younger generation. Shortly after I had started University the tense political situation exploded (in February 1934) and in a short civil-war-like action democracy was crushed and political parties were forbidden: Austro-Fascism was installed. The open and lively discussions on controversial political and economic issues came to an end or were driven underground. This had a dampening effect on intellectual life in the university. So when (round about 1936) economics came up in my curriculum I was immediately attracted to it because it at least touched those problems (like income inequalities, poverty, unemployment) which had played such an important role in our pre-fascist discussions and controversies.

A second reason for turning my interests towards the new subject was connected with my scientific inclinations. After the many legal subjects which had dominated the first part of my course the change to economics was quite exhilarating. Not that I had loathed

the lectures and seminars in law proper; they had their attractions as exercises in logic and argumentation, and one could see their practical and social significance. But to a large extent they just meant accumulating and remembering a vast mass of material. In economics I suddenly met with an approach which had ample room for analytical reasoning and theorising of a sort which resembled those characteristics which had attracted me in physics. It was almost love at first sight.

What I have said just now must be cut back a little: it did not apply to university economics in general but rather to a certain section of it. When I started economics the "splendour" of the Austrian School had already evaporated in the university: the old generation had died, Haberler, Hayek, Mises, Machlup had left the country, the young talents in the Austrian Institute of Business Cycle Research (Morgenstern, Tintner, Wald, Steindl) were kept out of the intrigue-infected university faculties. Most of the professors and lecturers in economics were rather uninteresting and many lectures contained mainly descriptive accounts of past economic theories and of economic facts. There were only two professors who stuck out of this grey mixture: Oswald Spann and Hans Mayer.

These two were personally and theoretically as opposed to each other as opposed one can be. Spann – more a philosopher than an economist – felt himself to be in the tradition of the romantic school of German economists of the early 19th century (Adam Müller in particular) and taught (or preached) a sort of semi-mystical "holistic" theory of the economic and political "body". His theories were full of woolly aspects but appealed to conservative instincts and served as an ideological prop for Austro-fascist corporatism. Mayer, on the other hand, who had been assistant to Wieser before becoming professor, was the "heir" to the Austrian School and a strong defender of analytical theory. Since he was also a splendid expositor I fell for him right away. It is to Mayer that I have to ascribe my first *strong* desire (though felt as utopian at the time) to shift to economics and economic theory as a life-long activity and career. But though Mayer could kindle a flame it must be stressed that it was – to put it mildly – a rather one-sided picture of economic theory that we got. Mayer, who had written (and probably researched) very little in his life-time – he was *proud* of never having written a book –, was very strong on and very much in love with marginal analysis as such and marginal utility in particular. So when I came to the end of my studies in 1938

I was steeped in marginal utility theory with all its assumptions, complications, and ramifications, so that I was able to "explain" such burning problems as why a stamp collector is suddenly prepared to pay *more* for the *marginal* stamp when it comes to complete a set etc., but had learned very little about other fields of Austrian theory, let alone other theories. As far as monetary theory was concerned I remember Mayer once telling us that such a branch exists "and some books have been written about it". And that was that.

1938 came and with it Hitler and the annexation of Austria. Being a Jew (with left-wing sympathies on top of it) the question whether I should stick to legal activities or should try to shift to economics became irrelevant. Leaving the country became the only viable option. In my various attempts to find a venue for my emigration I had the extreme luck to hear of the offer of (two) scholarships for endangered students provided by the Scottish Branch of the International Students Service (ISS). Since I was prepared to consider any straw of hope I applied for this scholarship in order to finish my economic education. To my great surprise I was informed – after an interview had taken place in Wien – that I would be considered a suitable candidate (together with Konrad Singer, subsequently Professor of Chemistry in London). The procedure, however, was slow, the situation in Austria worsened, so in August 1938 I fled (after having married) to Switzerland where I was permitted to stay in Bale. After I had informed the ISS about my new abode I was informed by a young Glasgow University lecturer, representative of the Scottish ISS, that the scholarship had been granted but that it would take a few months until I would get the permit to come to Britain. The name of the lecturer was Alec Cairncross (now Sir Alec Cairncross) whose efforts then and whose friendship and advice later on provided the foundation for the successful realisation of my earlier hopes to be able to make economics my profession.

When Cairncross wrote to me in September 1938 he suggested that it would be useful if I spent the time of waiting for my visa in reading a book which had become central in teaching and discussion: J.M. Keynes' *General Theory of Employment, Interest and Money*. When I sat down in the library of Bale University to study this work of an – for me – unknown English economist my fragmentary knowledge of the English language was the least problem in my efforts to penetrate this new world. Filled with the basics of Austrian-type micro-economic behaviourism I just couldn't make head or

tail of what I found in Keynes' book. I got into a rather despondent mood and began to fear the day when I had to present myself in Glasgow as a partly-trained student of economics. But then the *deus ex machina* turned up in the form of a slim volume which I detected in the library: Joan Robinson's *Introduction to the General Theory*. This proved to be an eye- and brain-opener which not only enabled me to begin to understand what Keynes was aiming at, but also immediately convinced me that here was a type of perspective and analysis which permitted a far closer link between the intellectual adventure of economic theorising and the social and socialist questions of the time than I could have found in my Wien days.

So when I finally came to Glasgow in December 1938 I could enter the "Political Economy and Political Philosophy" degree course with a bit more confidence and with considerable gusto. Since my Viennese studies were partly taken into account I was able to finish my studies in Summer 1940. By that time the war was already in full swing. My first assignment after graduation was internment as an "enemy alien" when British politicians reacted nervously to some news about German spying in the Netherlands. On my way through different internment camps I also landed for several weeks in a huge and desolate former textile mill in Lancashire. There I heard that an economist from Oxford was lecturing on economics in some corner of the place. This was a welcome attraction and I joined the group. The lecturer was – so I was told – an Austrian economist named Josef Steindl. Through his talks I was for the first time introduced to Kaleckian contributions which proved equally attractive for me (and for similar reasons) as the Keynesian approach.

Thanks to the endeavours of my wife and of Alec Macfie, Professor of Economics at Glasgow University, my interlude as an internee was a very short-lived one. After about three and a half months I was released and taken on as assistant-lecturer in the Economics Department of Glasgow University. My first duty in way of lecturing was to prepare a course on monopolistic competition. This brought me into touch with the works of Chamberlin and Joan Robinson and here again I had the "liberated feeling" that economic theory can move nearer to reality and relevance than I thought possible when I was faced with the more restrictive axioms of strictly maximising individuals in a deterministic world of full competition.

Probably by that time, *i.e.* after 1940, the "formative years" had been completed. The "mixture" which – in one way or another –

continued to influence my work and my interests consisted of the Viennese background of my school and university days with its stress on the role of psychology (Freud, Adler, Menger) and social forces (Austro-Marxism), of economic theorising (in an Austrian framework with strong links to individual psychology), and of the deep impression of the two "revolutions", the Keynesian and the imperfect competition one. All this had to be seen against the background of a world of economic depression, fascism, and war, in which it did not require an extreme amount of social conscience and social engagement to regard science and scientific activity (particularly in the social sciences) as an instrument which should *ultimately* be socially relevant and not just *art pour l'art*, no matter how pleasurable that may be. 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.

My debut in the world of economic journals bore quite distinctly the imprint of the two "revolutions" which I had so recently inhaled. In 1942 I published my first two papers: "A Note on Advertising" in the *Economic Journal*, and "The Degree of Monopoly" in *Economica*. The first one expanded a Keynesian theme (effective demand), the second was a more technical contribution to the ongoing discussion on monopolistic competition. The following years were devoted to a variety of subjects (rationing, public spending, oligopoly and monopsony, problems of a small economy, wage theory, and a book on the Austrian economy), partly dictated by politico-economic interests, partly by research imperatives, and not least by the exigencies of varying lecturing requirements which were allotted to me in the (then) rather small economics department of Glasgow University. In these exploratory and exciting first years as a "finished" economist I was greatly helped by the constant and friendly encouragement of my "boss" Alec L. Macfie, Adam Smith Professor of Political Economy in Glasgow. Though Macfie, an expert on Adam Smith and deeply influenced by Frank H. Knight, did not exactly share my research

interests and political leanings, he never tried to push me into certain directions, but was always a tolerant critic taking a helpful interest in what I was doing. It was also he who encouraged me – following a course on "Wages" which I had to give – to expand my notes into book form. This resulted later (when I found the time for it) in my first theoretical book, a "Theory of Wages" in 1954.

Though I felt very happy in Scotland and Glasgow University I decided to return to Wien in 1947, because it seemed to me that the reconstruction of a democratic Austria (after eleven years of Austrian and German fascism) and of a war-ravaged economy provided a sufficient challenge for such a step. My attempts – after I had returned – to enter academic life failed, not least because conditions in the universities had not changed that much since pre-1945 days. But I was lucky to be taken on as a senior research worker in the reborn Austrian Institute of Business Cycle Research, now renamed Austrian Institute of Economic Research. Its director at the time, Professor Franz Nemschak, was busy to develop the Institute into a centre of modern theoretical and empirical research and he had already collected a talented team of young economists which provided a pleasant and stimulating environment for applied economic research. It was further enriched when Josef Steindl, who had worked in the Institute before the war, returned in 1950. Soon the Institute became not only a leading centre of applied research which provided (and still provides) the bulk of studies and materials for public economic policy discussions, it also fostered the absorption and development of contemporary theoretical trends which had been neglected in occupied Austria. Quite a number of Austria's economists in universities and other research institutions obtained their "post-graduate" experience in the Institute.

For me the work in the Institute, where I stayed for almost twenty years, meant an important experience for judging and applying empirical material both in empirical and theoretical studies. The continual requirement to collect, estimate, analyse, and interpret a variety of data, to use them for forecasts which in turn had to be checked and to be "defended" (particularly those that were failures!), all this contributed to the development of a healthy scepticism regarding the quality of data and a respect for good empirical work, even if it were "merely" descriptive. It also helped to become more aware of the difficulties of "proving" or "disproving" theories once and for all.

The two fields which became my responsibility in the Institute were the Labour Market and International Trade. Both were connected with research interests which had become dominant before my entry into the Institute. Wage problems as such and in their micro- and macro- (or neoclassical-Keynesian) aspects were part of my Glasgow heritage and these could be linked to unemployment and income distribution problems which – after the experiences of Austria's pre-war class struggles and depression – seemed to me (and still seem) to belong to the most pressing socio-economic and socio-political problems of capitalist societies. The international aspects of a small nation's economy had begun to interest me (long before the trade-mark SMOPEC had appeared in economic literature) in connection with the possible role and development opportunities of a semi-developed industrial country like Austria in a world of frictions and imperfect competition for which the traditional international trade theory and an unsophisticated GATT philosophy seemed anything but adequate.

In 1966 the structure of Austria's university curricula was changed in order to give more scope to the study of the social sciences. These were taken out of the Faculties of Law and Philosophy and found a home of their own in the newly created Faculties of Social and Economic Sciences. In connection with this change a new university was founded in Linz with special stress on economics and social sciences and their interrelationships. When I was asked to join the "founding fathers" of the university I took this opportunity to return to academic life and teaching. I accepted a professorship in economics which I held until my retirement in 1985 without, however, breaking completely my ties with the Viennese Institute of Economic Research.

Though Linz started off as a comparatively small university with limited numbers of staff I found the working conditions rather congenial. The simultaneous development of a new university with a new and untried curriculum opened opportunities for flexibility and experiments which made the first few years rather exciting (and strenuous too). Though the high hopes of stronger interdisciplinary ties could not be fully realised, Linz was in those days an interesting place. In economics proper ("Volkswirtschaftslehre", *i.e.* theoretical and applied economics, as against "Betriebswirtschaftslehre", *i.e.* business economics which had far more students and staff) we soon could collect among others an interesting bunch of open-minded

economists with Keynesian, Kaleckian and other non-orthodox outlooks and an interest in socio-economic developments who fitted well into the Austrian political environment of the seventies, when a socialist government followed a rather specific "Austro-Keynesian" policy in which full employment remained high on the agenda, and which was unimpressed by the various Friedman-Laffer-Thatcher-syndromes. Among my colleagues were Professor Kasimierz Laski, who formerly had cooperated with Kalecki in Warsaw, Professor Hajo Riese (now at the Free University Berlin), who developed interesting aspects of monetary Keynesianism, Egon Matzner and Ewald Nowotny (now professors at the Technical University and the Economic University in Wien respectively), who all provided a stimulating basis for critical discussions and new ideas.

The limited size of the faculty meant that – as far as teaching was concerned – each one of us had to cover a comparatively wide and varying field of subjects. This had the disadvantage of not being able to be sufficiently expert in every lecture, but it had the advantage of being forced to take note of developments in several branches of economic theory which normally would escape the attention of a narrowly specialised economist.¹ This met with my desire to aspire, *as far as possible*, to a rather wide coverage of economic themes, though I was aware that this cannot be achieved nowadays in the way this was possible fifty or hundred years ago. Of course, I had and have my special fields of interest, in particular employment, labour market problems, income distribution, and related subjects. But problem-orientation and wider interests induced me again and again to muster the questionable courage and the luxury to tackle other subjects – however incomplete and "amateurish" – when I felt that this may add something to the discussion. Just as an illustration I might mention three different book titles: *Power in Economics* (1971) was a collection of papers edited by me in which I tried to draw attention to this badly neglected factor; *An Introduction to Disequilibrium Theory* (1981; in German) was an attempt to show up the insufficiency of equilibrium theory and to indicate various escape routes; *Theories of Unemployment* (1988; in German) dealt with the core problems of my interests and presented a critical appreciation of newer theoretical approaches.

¹ I remember a visit of Abba Lerner to Wien in the fifties when I came to sit next to his wife at a dinner party. Starting the table talk she asked me: "What sort of an economist are you?" I did not quite understand what she meant. Should I answer "A good one" or "A bad one"? But then I found out that I could satisfy her curiosity by calling myself a "labour economist".

The courage to roam rather freely over a wide field I derived from a methodological position which I had held vaguely from an early period onwards and which I expanded a bit more explicitly in later papers. 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 dynamics, 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. True, economics is in a better position to apply exact methods and to obtain reliable results than most other social sciences because of the comparatively limited range of actions and motives in a market economy and the strong effects of physical and monetary constraints. These opportunities for sophisticated theory and model construction should be used as far as possible as long as they serve the advance of our understanding of the economic process or certain parts of it. How much can be achieved in this way has been shown impressively by classical and neoclassical theory. But economic processes remain a complex social phenomenon all the same and any hope to obtain a single, consistent theory which can provide a basis for all sorts of economic questions and explanations is simply ridiculous. Different theories and theoretical approaches (which do not need to harden into "schools") are not a sign of weakness but the unavoidable expression of a multi-paradigmatic attack on a "fuzzy" and constantly changing subject matter which cannot be reduced to a single all-embracing theoretical framework. Of course, there are "good" and "bad" theories; but even if it were possible to weed out all bad theories there would still be a multitude of theories and interdisciplinary links, the famous "box of tools" from which one has to select one's instruments according to time, place, problem, and question.

If there is a "crisis in economics" it is certainly not because its theoretical achievements are particularly weak or compare unfavourably with the output of other social or even some natural sciences. The real crisis in economics (if there is one) is a consequence of the hegemonic claims and the arrogance of the ruling neo-classical orthodoxy which tries to restrict the range of a "true economic science" to the mechanistically inspired "exact" approaches of equilibrium theory and its proliferations. Without denying the high quality of the

work done in this tradition and its achievements it is not difficult to point out the severe limitations of this approach which cannot be overcome as long as one sticks dogmatically to its basic assumptions. The philosopher Paul Feyerabend, in his study on scientific progress ("Against Method"), has amply shown how all sorts of methods, orthodox or not, *ad hoc* considerations etc. have contributed decisively to new *thinking* about problems and thus to new *insights* and theories. And more recently McCloskey has shown ("The Rhetoric of Economics") how economists always had to use *arguments* to support their theoretical results. By making their *methods* the exclusive trade-mark of "science" rather than the intellectual quality of new and relevant arguments the neo-classical school and some of their journals have hampered theoretical progress and reduced the liveliness of intercourse. By trying to create the impression of possessing a "hard" science, a promise which could not be met, they have contributed to existing popular disappointments and doubts regarding the efficiency of economic thinking. The way out, so it seems to me, should be a far more tolerant and open dialogue between theories (and disciplines) where quality and theoretical and practical relevance should count and not narrow rules about methodological niceties.

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