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Emigration with a pulled handbrake: Friedrich A. Lutz's internal Methodenstreit

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EMIGRATION WITH A PULLED
HANDBRAKE:
FRIEDRICH A. LUTZ'S INTERNAL
METHODENSTREIT

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CENTER FOR THE
HISTORY OF POLITICAL ECONOMY
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Emigration with a Pulled Handbrake:

Friedrich A. Lutz's Internal Methodenstreit

Lachezar Grudev*

Abstract

My paper reconstructs the path of German economist Friedrich A. Lutz (1901–1975) to American economics. The correspondence with his former teacher Walter Eucken, the founder of the Freiburg School, constitutes a crucial and yet unexplored source for the paper. Through Lutz's case, I demonstrate the growing gulf between German and Anglo-Saxon economics during the late 1930s. In his native Germany, Lutz was trained in methodologically and institutionally focused economics, which differed fundamentally from the mathematical economics dominating Anglo-Saxon academia. He realized that an academic career in the US would be impossible if he did not adapt to the new methods, and if he did not abandon the methods of the German tradition. This gave rise to his internal Methodenstreit. After the emigration in 1938, he constantly experienced doubts and tensions because he was convinced that without considering institutions, mathematical economics was doomed to fail to explain the occurrence and essence of macroeconomic phenomena. Despite his stellar career at Princeton, it was only after 1953 at Zurich, where he taught history and theory of socioeconomics for the rest of his life, that Lutz could reconcile this internal Methodenstreit.

Keywords: Friedrich A. Lutz, Walter Eucken, Friedrich A. Hayek, Emigration, Freiburg School,

Ordoliberalism, History of Macroeconomics

JEL Codes: A11, B22, B25, B31, B41, E32

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1. Introduction

Friedrich August Lutz (1901–1975) made a stellar career as a professor of money and banking at Princeton. According to his Princeton file: “Professor Lutz [was] an outstanding scholar in three fields – economic theory, money and banking, and international trade and finance. He [had] an international reputation in all three fields.”¹ Lutz’s path to international reputation was anything but easy. As a student of Walter Eucken (1891–1950), he was pre-occupied with methodological struggles against the still dominant Historical School in his native Germany and attempted to establish a communication with the Anglo-Saxon economic community. The Historical School’s hostility to abstract-deductive theory isolated German economic research more and more from the developments of Anglo-Saxon economics.

My paper is a case study of how a German economist educated in an academic environment still dominated by the Historical School became part of American economics. This contributes to the research about the process and consequences of German-speaking economists’ emigration to the US in the late 1930s and early 1940s (Hagemann 1997; Hagemann 2005). Among others, Paul Samuelson emphasized that the development of American economics was “enormously accelerated by importation of scholars from Hitlerian Europe” (Samuelson 1988, 319). I demonstrate that emigration to the US gave rise to Lutz’s internal Methodenstreit. He was unable to fully accept the new mathematical methods: on the one hand, because he did not possess the mathematical skills: on the other, he disapproved of this mathematical treatment because it neglected the relevance of institutions for explaining macroeconomic phenomena. Lutz realized that a research program like the one of the Freiburg School, or of German economic thought more generally, heavily based on methodological and institutional considerations, was “out of fashion” in Anglo-Saxon economics.

¹ Alumni and Faculty Offprint Collection, Folder “Lutz, Friedrich” (Box 29, Folder 12), Princeton University.

This was the primary reasons why after the Second World War, Lutz came back to Europe to continue his research in the ordoliberal tradition.

The paper delineates three reasons why Lutz's case study should be relevant for the transatlantic history of economics during the interwar period:

- 1) First, his publications in the area of monetary economics, monetary policy, and international monetary theory established him as an expert in the field of money and banking. The American Economic Association appointed Lutz as a co-editor with the Chicago economist Lloyd Mints of the selection committee for the volume *Readings in Monetary Theory* whose purpose was to republish the leading papers in this area (American Economic Association 1951).
- 2) Second, Lutz was very well connected to top-tier American economists, and this connectivity was the reason why Hayek thought of Lutz when envisaging the appropriate person to write the US version of *The Road to Serfdom* (Caldwell 2011, 303). Further evidence for his connectivity services through Lutz's membership in the Bellagio Group, where William J. Fellner, Gottfried Haberler, Peter B. Kenen, Charles P. Kindleberger, Fritz Machlup and Robert A. Mundell discussed topical theoretical and practical problems of international monetary policy (Dal Pont Legrand and Hagemann 2013, 249).
- 3) Third, he has been remembered as an inspiring teacher who was able to explain complex phenomena in a clear and straightforward manner, something that his student and the later Fed Chairman Paul Volcker described as formative for his decision to start studying monetary economics (Silber 2013, 17).

Lutz did not leave behind any archives, his library was integrated into the Walter Eucken Institute in Freiburg. The only archival source about Lutz's life is the correspondence with his teacher

Eucken.² The correspondence covers the period 1927–1950 which only became accessible several years ago with the processing of the Walter Eucken Papers at Thüringer Universitäts- und Landesbibliothek at the University of Jena.

2. The German Methodological Years

Lutz was born on December 29, 1901 in Saarbürg (now Sarrebourg) in Alsace-Lorraine, then at the Western periphery of the German Empire – two years after Friedrich A. Hayek and Wilhelm Röpke, and one year before his future Princeton colleague Oskar Morgenstern. Lutz belonged to this “fin-de-siècle generation” born on the eve of the new century. The tragedies of Great War and the instability of the Weimar Republic shaped his economic and political thinking (Kolev and Köhler 2021, 8–9). Lutz’s father, also named Friedrich Lutz, was a brewery owner and had died two months before his birth. Young Friedrich grew up with his mother Amélie Lutz, née Metzger, and four siblings. The First World War brought many tragedies to Lutz’s family. He, who was too young to be drawn into the war, lost his elder brother on the battlefield and his native Saarbürg which became part of victorious France. The strong German sentiments in Lutz’s family could not accept the new French administration, so they left for Stuttgart in 1919 (Veit-Bachmann 2003, 10).

Lutz started his study of economics at the University of Heidelberg in 1920. One year later, he moved to Berlin where the German Historical School was still dominating the academic landscape. During his Berlin years 1921–1925, the acquaintance with the young lecturer Walter Eucken became formative for Lutz (Veit-Bachmann 2002, 158; Kolev and Köhler 2021, 18–20). In 1925, Eucken was appointed professor of economics at the University of Tübingen not far from Stuttgart

² Walter Eucken Papers, Folder “Friedrich A. Lutz”, Thüringer Universitäts- und Landesbibliothek, University of Jena.

and accepted Lutz as his first doctoral student. In 1925, Lutz defended his doctoral thesis *The Current Disputes on Capital Theory* (1927).³ The thesis provides a short glimpse at how Lutz conducted research in the history of economics. He classified economists according to the method they adopted to study the origin and purpose of capital. This approach to history of economics that focused on issues of methodology would become fateful for Lutz's later career. After defending his thesis, Lutz moved to Berlin where, upon Eucken's intermediation, he worked in the department for economic policy of the Mechanical Engineering Industry Association, headed by Eucken's friend and later ordoliberal fellow Alexander Rüstow (1885–1963). Meanwhile, Eucken was appointed professor of economics at the University of Freiburg in 1927. Lutz accepted a position as a research assistant at Eucken's chair in 1929 when he focused on his habilitation thesis (Brintzinger 1996, 45; Veit-Bachmann 2003, 12–13).

As Eucken's assistant, Lutz joined his teacher's quest against the Historical School. The roots of his teacher's hostility can be traced back to Berlin years 1921–1925, when Eucken was a young lecturer and functioning as the managing editor of *Schmollers Jahrbuch*. He broke with the legacy of the Historical School whose descriptive methods were oriented at collecting economic facts about specific industries or countries without any theoretical considerations. For example, Eucken's dissertation thesis described the cartels in the maritime industry (1914), while his habilitation thesis discussed the global nitrogen supply (1921). As a lecturer, Eucken focused on price and currency theory based on abstract economic thinking (Klinckowstroem 2000, 62–66; Veit-Bachmann 2002, 158), most probably using Gustav Cassel's *Theory of Social Economics* (1918). This book introduced the Walrasian system to non-mathematicians and was considered a

³ Unless stated otherwise, all translations from German are mine.

standard textbook in the 1920s, helping many German young scholars to break with the Historical School (Predöhl 1972, 11; Köster 2011, 28, 101–102).

This emancipation process was institutionalized during the late 1920s when Eucken and Rüstow founded a group of young economists who called themselves “German Ricardians”. The name did not mean they adopted Ricardo’s labor theory of value or any specific part of Ricardo’s intellectual legacy (Janssen [1998] 2012, 38); rather they intended to reconnect German economics to abstract economic theory and provoked the representatives of the Historical School, who saw in Ricardo the epitome of abstractness and detachment from reality (Schmoller [1893] 1949, 74; Köster 2011, 56). For them, the descriptive methods of the Historical School failed to shed light on economic reality and, in particular, to explain the occurrence and essence of what we nowadays denote as macroeconomic phenomena. Lutz remembered later as professor at Zurich that the mere collection of facts had made the Historical School economists unable to explain and combat the hyperinflation in 1921–1923. They not only failed to identify the reasons for it, but, most importantly, were unable to provide any substantial recommendations for economic policy to combat the disastrous phenomenon (Barkai 1991, 38–39). In Lutz’s memory, the younger scholars never forgave the Historical School this fatal moment of incompetence (Lutz 1971, 62–63).

Yet an irreconcilable hostility emerged among the Ricardians about what abstract economic theory was supposed to answer and thus what methods should be applied (Köster 2011, 222–223). Two socialist economists, Adolf Löwe (1893–1995) and Emil Lederer (1882–1939), pleaded for the foundation of a new (dynamic) economic approach that could explain the instability of capitalism. The most notable expression of this position was the one in Löwe (1926) which Simon Kuznets assessed as “brilliant” (Kuznets 1930, 128, fn. 1; Hagemann 1994, 106). According to Löwe, the existing (static) laws of economic theory failed to explain the dynamics of capitalism which was

prone to excessive booms and depressions. In his eyes, booms and depressions reflected the inherent tendency of capitalism to disequilibrium where prices and quantities moved simultaneously upwards (during the boom) and downwards (during the depression) and, most importantly, the aforementioned directions of economic magnitudes changed on a regular basis. This observation stood in diametrical opposition to an economic theory which deduced its logic from the clearing function of markets by constructing such relationships among prices and quantities that equilibrium was always established. Market-oriented economists such as the Austrians Ludwig von Mises and Friedrich A. Hayek trusted in the equilibrating forces of markets and stressed the relevance of the existing Walrasian economic theory. They identified the one-sided change in money supply as the ultimate reason for disturbance of the coordination mechanism of markets (Klausinger 2013, 13–15; Grudev 2020, 22–25). Hayek’s habilitation thesis *Monetary Theory and the Trade Cycle* (1929) represented the most notable response to Löwe’s criticism (Hagemann 1996, 102; Hagemann 2002, ix; Klausinger 2013, 12–13). In the English edition [1933a] 1966, Hayek introduced a footnote to clarify for the English audience that he understood under equilibrium “the natural tendency of economic system to clear markets” (Arena 1994, 211), which should be the benchmark to study the cycle as a disequilibrium phenomenon (Hayek [1933a] 1966, 42).

The incorporation of this footnote indicated one of the earliest steps towards future cooperation between Hayek and the members of Freiburg School. Hayek cited Leonhard Miksch’s dissertation thesis *Is there a General Overproduction?* (1929) supervised by Walter Eucken. Miksch was another talented student of Eucken who was a close friend of Lutz and also played a formative role in the foundation of Freiburg School (Goldschmidt and Berndt 2005). Miksch’s thesis was positively reviewed by Hayek in the Viennese *Zeitschrift für Nationalökonomie* (Hayek 1930), which itself evolved into a fundamental platform for business cycle and capital theory debates with

relevant contributions to general equilibrium theory (Hagemann 1997, 13). Hayek's review applauded the relevance of Miksch's research for its history of economics perspective on equilibrium concept and his attempts to point out how money disturbed the equilibrating forces of markets. He agreed with Miksch that the idea of equilibrium underlining Say's Law was the fundamental benchmark to construct a business cycle theory. There were no other factors inherent in the exchange process that disturbed Say's Law, other than changes in money supply that could damage the equilibrating forces of markets. Hayek identified in Miksch an ally against the dominant non-monetary explanation of business cycle in the German-speaking area such as Löwe's one (Hayek 1930, 626; Grudev 2020, 24).

Three years after publication of Miksch's thesis, Lutz also contributed to the debate with his habilitation thesis *The Business Cycle Problem in Economics* (1932). He accused the participants of spending too much energy in proving why and what gave rise to the periodic recurrence of crisis, instead of concentrating on why crises could reach disastrous dimensions (Rühl 1994, 188–189; Hagemann 2002, xvi –xviii). The habilitation thesis shared Eucken's epistemological position about interpreting individual historical events, as economic crises, as well as Miksch's and Hayek's understanding of money in context of equilibrating forces of markets (Grudev 2019, 8; Grudev 2020, 24).

Lutz and Eucken criticized business cycle theory because its approach reflected an irreconcilable conflict between squeezing all individual events into a general scheme and developing abstract theory oriented to explain the reason for these events. There was a division of labor between teacher and student. The teacher saw in business cycle research an example of historicism originating from Karl Marx's works that tried to formulate a general dynamic law of capitalism with whose help business cycle theorists hoped to deliver an explanation of the periodic recurrence of crisis (Eucken

[1940] 1950, 246, 329; Goldschmidt 2016, 190; Grudev 2020, 28–32). The student conducted a vast history of economics study from the founder of business cycle research Clément Juglar to the most recent works of Ragnar Frisch and Nikolay Kondratieff, and pointed out that business cycle theorists failed to explain the crisis as a necessary consequence of the instability of capitalism. Either their attempts ended up as descriptions, as in the case of Juglar and Cassel, or the wave-like movement was replicated by mathematical formulas, as in the case of Frisch or Kondratieff (Lutz 1932, 32–35, 135; Grudev 2019, 8–11).

Lutz concluded that each crisis represented a unique historical event that should be explained in its historical setting. This was not a concession to the Historical School, but a quest to construct ideal types as models for explaining macroeconomic phenomena. In this context, the equilibrium approach was the fundamental benchmark to study how exogenous factors could affect the relationship among microeconomic variables. The aim of these models was to ascertain how the reestablishment of equilibrium depended on the institutional factors. Translated into plain English, the models should identify the set of institutions surrounding the exchange process among individuals. The same ideal types should be applied to different instances in time and space. The task of the economist was to show how exogenous shocks affected the exchange process among individuals within different institutional frameworks. Lutz intended to demonstrate that the institutional framework determined the speed of recovery from an economic crisis (Lutz 1932, 160–165; Grudev 2019, 16–19).

Lutz's main message demonstrated that he did not completely abandon the achievements of the Historical School, because their descriptive accounts understood the crisis as an individual phenomenon. However, without the theoretical instruments of the ideal type, economists were unable to explain the occurrence and essence of macroeconomic phenomena. Lutz's thesis

indicated that it was written in the context of the Eucken–Hayek generation which deployed economic sociology as developed by Friedrich Wieser and Max Weber, a research program aiming at the reconciliation of the battle fields left behind by the Methodenstreit between Schmoller and Menger. The initial debate focused on the irreconcilable dichotomy between history and theory, and the in(-variability) of the categories of political economy. The Weber–Wieser generation introduced economic sociology as an intermediary layer to overcome the bipartite divisions of “theory-or-history / abstractness-or-concreteness / deduction-or-induction” (Kolev 2020, 48). My paper argues that Lutz promoted the employment of economic sociology and economic history in explanation of macroeconomic phenomena by combining sociology and history with theory.

Almost immediately after the book’s publication, Hayek endorsed Lutz’s main message in his 1933 Copenhagen lecture.

“As has recently been shown very convincingly by Dr. Lutz, our task is not to construct a separate theory of the trade cycle, that is of a construction of a detailed scheme which will fit all actual trade cycles, but rather a development of those sections of general theory which we need in the analysis of particular cycles which often differ from one another very considerably.” (Hayek [1933b] 1975, 138).

Hayek summarized Lutz’s critique of all attempts to construct dynamic theories aiming to explain the business cycle phenomenon (Hayek [1933b] 1975, 136). This criticism of dynamic theories was conducted at the meeting of the Danish Economic Association (*Sozialøkonomisk Samfund*) and was later published in German in the Danish journal *Nationaløkonomisk Tidsskrift* (Hayek [1933b] 1975, 135 fn. 1), where Frisch published his pathbreaking paper “Statikk og Dynamikk”. Now we can understand whom Hayek had in mind when he criticized the new attempts to explain dynamic phenomena:

“What we all seek is therefore not a jump into something entirely new and different but a development of our fundamental theoretical apparatus which will enable us to explain dynamic phenomena.” (Hayek [1933b] 1975, 137).

While Lutz’s most relevant contribution was the proof that there was no reason to assume a general recurrence of crises, in my opinion his response to the first part of Löwe’s vision of capitalism where prices and quantities move simultaneously, constituted the weakest side of his thesis. Lutz shared the view of his colleague Miksch that monetary factors gave rise to this simultaneous motion. However, Lutz discussed this only on seven pages (Lutz 1932, 106–113). Whether in the context of an individual treatment of a crisis this represented a concession that monetary factors actually played the primary role was not clearly indicated by Lutz. Very soon, however, money and the monetary institutional framework would gain the dominant role in Lutz’s mature research program.

3. The Encounter with English High Theory

Lutz gained his habilitation after delivering the inaugural lecture “Current Problems of the German Mechanical Engineering” on February 29, 1932,⁴ which qualified him for a professorship. He became Eucken’s first student who was granted the right to lecture at the university, the *venia legendi* (Brintzinger 1996, 45). As a lecturer at Freiburg, Lutz taught “Current Disputes in Monetary Policy”, “Currency and Money”, “Problems of Business Cycle Theory” as well as statistical tutorials (Brintzinger 1996, 46). In this respect, one can identify a further division of labor between his teacher and him: Eucken concentrated on this part of institutional framework that shaped market forms in which exchange took place, while Lutz concentrated on this part of

⁴ Faculty of Law and State Sciences 1920–1963 Collection, Folder “Friedrich A. Lutz” (Box 110, Folder 373), University of Freiburg Archives.

institutional framework that shaped the forms of means of exchange, money, “which the individual economic units used to facilitate their transactions” (Eucken [1940] 1950, 159). The influence of institutional framework on the market forms of exchange and means of exchange are two fundamental pillars of Eucken’s concept of economic orders (Eucken [1940] 1950, 119–173). These two pillars are of particular relevance when one aims to investigate the severity of economic crises (Albert 2009, 95; Grudev 2020, 28–32).

A fundamental milestone for the division of labor between student and teacher, and thus for the formation of Freiburg School, was Lutz’s Rockefeller Fellowship in England. Lutz joined those young scholars from Central Europe who regarded the Fellowship as a welcome opportunity to study the Anglo-Saxon economics and to establish contacts with their peers in England and the US (Syga-Dubois 2019, 1–10). In the summer of 1934, Lutz applied for the Fellowship with the aim to expand his knowledge of English monetary theory and banking. He planned to spend the academic year 1934/1935 in London at LSE where he should concentrate on the practical aspects, and three months at Cambridge where he should focus on the theoretical foundations (Syga-Dubois 2019, 751).

Instrumental in Lutz’s decision to give priority to LSE was Hayek’s doctoral student Vera Smith (1912–1976) whom he had met in Freiburg in 1934 and whom he married in 1937 (Hayek 1983, 362; Cubitt 2006, 78). This decision to spend the prevailing part of the Rockefeller year at LSE was regarded as unusual by German scholars, as visible from his letters to August Wilhelm Fehling (1896–1964), a historian who was responsible for selecting the German students eligible for Rockefeller Fellowships during 1925–1936. His sympathetic ear and desire to help the young scholars allowed Lutz to be more honest about his choice. Fehling advised him to spend the academic year at Cambridge because at LSE:

“The conditions for a German have become more difficult because of the attitude of some members of the faculty, especially in your field, and because of the emigrants, that the self-assertion requires all too great strength.” (Fehling to Lutz, 22.09.1934).⁵

Lutz responded that he had already heard similar accounts of LSE’s academic environment. He had no intentions to “jump” into the LSE community, but to seek contacts with people from practical life. He even voiced that he intended to avoid any contacts with emigrants (Syga-Dubois 2019, 544). In this way, he could concentrate on his monetary and currency research (Lutz to Fehling 25.09.1934).⁶ Vera Smith probably played a pivotal role in Lutz’s acclimating in London. Smith herself experienced the formation of the Economics Department at LSE under the influence of Lionel Robbins (Howson 2010, 166). Her academic career was intimately related to LSE’s academic environment, as her former colleague John R. Hicks remembered (Hicks 1984, 55). At the age of 18, in 1930, she started her study of economics at LSE and graduated with the doctoral thesis “Free Banking, or, A Reconsideration of the Historical and Analytical Basis of Central Banking” (1935) under Hayek’s supervision (Haberler 1984, 47). This provided the basis for her book *The Rationale of Central Banking and the Free Banking Alternative* ([1936] 1990), which later on was reviewed favorably by economists with affinities for the Austrian School (Schwartz 1984; Yeager 1990; Zelmanovitz 2019).

Hayek showed great respect for Smith as an economist (Hayek 1983, 362). This was the reason why he gave her his manuscript of the unfinished project about the history of monetary theory that he had started for a volume on money and credit in the *Grundriß der Sozialökonomik* (Outline of Social Economics), an encyclopedia initiated around 1910 by Max Weber, whose aim was to

⁵ August Wilhelm Fehling Papers, Folder “Friedrich A. Lutz” (Box 1106, Folder 40), German Federal Archives Koblenz

collect the dispersed knowledge of German political economy (Hennecke 2000, 92; Klausinger 2013, 9; Kolev 2018, 12–17). Hayek advised Smith to go to Freiburg and deepen her knowledge of German monetary theory. Recommending Freiburg was hardly a coincidence. As already mentioned, Hayek knew that Eucken’s students Lutz and Miksch focused on the monetary explanation of the business cycle. Furthermore, Eucken and his Freiburg colleague Karl Diehl (1864–1943) established themselves as leading monetary theorists in Germany (Ellis [1934] 1937, 91–92, 224–230). Hayek himself met both economists at the 1928 meeting of the Verein für Socialpolitik in Zurich where, in a session chaired by Diehl and attended by Mises and Hayek as discussants, Eucken presented a paper about the relationship between commercial bank credit creation and the business cycle (Eucken 1929). The presentation clearly indicated that the Freiburg economist sided with the Austrians who insisted on monetary explanation of the business cycle (Blümle and Goldschmidt 2006, 554; Vanberg 2013, 94; Grudev 2020, 25–28).

Smith benefited from her short stay at Freiburg. A glimpse at Smith’s dissertation indicates that Lutz might have helped his future wife in the chapters “Development of Central Banking in Germany” and “The Discussions in Germany”. The writing of these chapters resulted from Smith’s intensive reading of literature about German banking and monetary system, which probably took place at Freiburg because in later letters from England, Lutz bemoaned that such literature was hardly available at LSE or Cambridge. Furthermore, the readings required profound skills in German, on top of that they were mostly written in Fraktur, the typesetting used in German-language countries until the beginning of the Second World War.

After finishing these chapters, “She came back bringing Lutz to London, and after a while they married.” (Hayek 1983, 362). Lutz was “brought” to LSE on October 1, 1934 (Lutz to Eucken, 02.10.1934), in the middle of a period that was later described by Hayek as “the most exciting

period in the development of economic theory” (Hayek [1963] 1995, 49). This specific notion of economic theory stood in complete contrast to Lutz’s research interests originating from his habilitation period, and also indicated the ever larger and unbridgeable gulf between German and Anglo-Saxon thought which emerged in the course of the 1930s. The development of Anglo-Saxon thought was documented by G. L. S. Shackle in *The Years of High Theory* ([1967] 1973). In the late 1920s and early 1930s, Shackle dichotomized two main branches: value theory with its main representatives Sraffa and Hicks, and monetary theory with its main representatives Myrdal and Keynes (Shackle [1967] 1973, 12).⁷

Lutz experienced the dominance of Hicks at LSE. His contributions to value theory and mathematical economics struck Lutz as an abstract mathematical treatment that deprived the students from grasping the interdependences among institutions and the relevance of the institutional approach to the economic process:

“I am glad that I am a bit older and experienced in economics, otherwise I would have fallen a victim to the scam and considered investigations of demand curves and such things as the ideal. The students whom I often talk to also seem to me to be on entirely the wrong track, everywhere one sees them drawing curves and debating about them [...] If I could do mathematics, I would write a critique of the mathematical school – it seems to me extraordinarily important, because if the edifice of Walras is a palace in which one cannot live, then what is being done here now ceases to be a palace at all. A lot of rooms and anterooms with no regard for the building as a whole.” (Lutz to Eucken, 09.11.1934)

⁷ This dichotomy was already discernable in Hicks’s essay “A Suggestion for Simplifying the Theory of Money” (1935), where Hicks claimed that “[t]o anyone who comes over from the theory of value to the theory of money, there are a number of things which are rather startling.” (Hicks 1935, 1).

He characterized this kind of economics as “mathematical detail research” (*mathematische Detailforschung*). In the same letter, Lutz gave as an example Hicks’s “A Reconsideration of the Theory of Value I” (1934) that Hicks had produced with the mathematical economist R. G. D Allen, so that Eucken could get a “vague impression of what Hicks is actually doing” (Lutz to Eucken, 09.11.1934). Shackle characterized this paper as “the real achievement” whose aim “was to make known the indifference-map to the Anglo-Saxon world” (Shackle [1967] 1973, 9). The concept of indifference curves had been unknown to Lutz before, so Hicks’s paper was undoubtedly terra nova for the German economist. In one of his reports to the Rockefeller Foundation, Lutz lamented how difficult the contact was with the LSE scholars because they considered monetary and currency issues “out of fashion”, whereas “I am not interested in demand curves and refinement of value theory” (Lutz to Fehling 10.11.1937).

Lutz was interested in deepening his knowledge of the English monetary system, and in this endeavor, he decided not to rely on the LSE economists (Lutz to Fehling, 15.09.1934). He imagined continuing the envisioned research program he had initiated with his habilitation thesis, namely to explore how the monetary institutional framework could affect the depth of economic crises. Lutz found refuge in Philip B. Whale’s seminar on money and banking. Whale started as a lecturer in commerce at LSE and had been lecturing on currency and banking since the academic year 1926/1927 (Howson 2011, 168). In Lutz’s eyes, he was the only expert on monetary theory at LSE. Whale even provided Lutz with a letter of recommendation for Cambridge addressed to Keynes and D. H. Robertson (Lutz to Eucken, 27.04.1937). Lutz attended Whale’s seminars where he presented several papers. His first paper focused on the German banking system and was based on his lecture notes from Freiburg (Lutz to Eucken, 07.02.1935). The most notable paper was “Gold Standard and Economic Order” (Lutz to Fehling, 10.11.1934), with which Lutz made his first steps

towards monetary institutional analysis and thus joined his future wife's research program. The two economists were united in the quest for an institutional framework that could check the money supply by controlling the creation of bank deposits and could thus abolish excessive economic booms and crises (Haberler 1984, 47).

Along with "Gold Standard and Economic Order" (1935a) that was published in the German *Weltwirtschaftliches Archiv*, during his English period Lutz produced the papers "On the English Money Market" (1935b) and "On the Money Velocity" (1936a) where he stressed the interdependences between the monetary institutional framework and the other elements of the economic order. In Lutz's assessment, the severity of the economic crisis depended crucially on these interdependences. These papers would provide the basis for his future analysis of the 1931 banking crisis (Lutz 1936b), a book, that was among the earliest volumes of the Freiburg School's series "Order of the Economy".

4. Lutz's Disappointed Expectations and the Inevitability of Emigration

Upon Lutz's return to Freiburg in 1935, Eucken proudly wrote in a letter to his mother, the painter and artist Irene Eucken (1863–1941):

"Lutz, who has returned from England, is indeed developing excellently. He is now a leading younger economist. It is true that a kind of Eucken school is now developing. I did not even try to do that. But it became clear to me during my visit to Berlin in September that this is the case, that a certain school exists." (Dathe and Goldschmidt 2003, 64).

This close intellectual nexus, however, would make Lutz's academic career in Nazi Germany virtually impossible. Before he left for England, Lutz witnessed how his teacher was involved in several debates against the newly established regime. The first surfaced by the diametrical position that Eucken took against Freiburg's newly elected rector in 1933, Martin Heidegger. Eucken did not conceal his disagreements with Heidegger during the senate sessions and became the voice of a latent opposition at Freiburg (Brintzinger 1996, 82–83; Klinckowstroem 2000, 85–86; Goldschmidt 2013, 142; Köhler and Kolev 2013, 218). The Nazis envisaged Heidegger as the right person that could enforce Nazi ideology in the traditionally independent German university. In this endeavor, Heidegger sought support from young academics, scholars and even students with whose help he tried to overcome the professorial resistance against his policy (Grunenberg [2008] 2016, 189). The disagreement between Heidegger and the professors escalated when Heidegger intervened in the appointment procedure within the Faculty of Law and State Sciences, in which Eucken played a dominant role. Heidegger thwarted the faculty's plans to appoint Adolf Lampe, an economist who oscillated around the Freiburg School (Kolev and Köhler 2021, 11), as a successor to Karl Diehl's chair, and favored an economist associated to the Nazi party, Carl Arnold. This opposition was the final tipping point towards Heidegger's decision to resign from the position of rector (Brintzinger 1996, 100–101; Klinckowstroem 2000, 85–86; Goldschmidt 2013, 142).

Another debate initiated by Eucken targeted the intellectual tendencies prevailing in academia as promoted by the Nazi regime. Eucken and the legal scholars at Freiburg Franz Böhm (1895–1977) and Hans Großmann-Doerth (1884–1944) launched a book series entitled "The Order of the Economy" which eventually contained five volumes. This series was introduced with a manifesto-like pronouncement "Our Task" (Böhm, Eucken and Großmann-Doerth [1936] 1989), a document which is commonly considered to signal to the outside the Freiburg School's founding

(Goldschmidt and Wohlgemuth 2008, 21). The manifesto criticized the current state of German jurisprudence and economics which were both still dominated by the historicism. This tendency was an immediate consequence of the emigration of especially those German economists like Löwe, Lederer, Röpke and Rüstow who, during the 1920s and early 1930s, had contributed to the stronger theoretical orientation of German economics (Hagemann 1997; Janssen [1998] 2012).⁸

The Freiburg scholars might have recognized that these characteristics of German economics turned out to be a double-edged sword. On the one hand, they recognized that the Marshallian legacy dominating English economic thought deprived the students from grasping the relevance of institutions for the economic process (Eucken [1940] 1950, 206). On the other hand, without a strong theoretical core, German economics had been soaking in the nationalist and historically relativist tendencies dominating the political landscape of the Weimar Republic (Janssen [1998] 2012, 133–154; Köster 2011, 121–123, 152; Goldschmidt and Hesse 2013, 143–144).⁹ This gave rise to the formation of a group of economists who called for a new foundation of German economics independent from the so-called “liberalistic” English economics. Such parochial and nationalist thinking was not on the minds of the German Ricardians where Lutz and his teacher Eucken were involved. The nationalist economists who were rather in the minority during the Weimar Republic were promoted during the Nazi regime whereas almost all members of the German Ricardians were forced to emigrate for racial or political reasons. This transformed the academic environment and diminished the chances for an academic career for those economists who sought the contact with Anglo-Saxon economics or research in neoclassical economics more

⁸ Erich Schneider, one of Schumpeter’s doctoral students at Bonn and among the most prominent Keynesian economists in postwar Germany, remembered that Schumpeter’s appointment to the University of Bonn was treated as a sensation by Bonn students. In Schumpeter’s orbit, they could study the theories of Böhm-Bawerk, Cournot, Edgeworth, Marshall and Fisher and not only hear their names (Janssen [1998] 2012, 64–65; Dal Pont Legrand and Hagemann 2013, 250).

⁹ Goldschmidt and Hesse have published a translated letter from Eucken to Hayek, where Eucken described the intellectual tendencies in the Weimar Republic (Goldschmidt and Hesse 2013, 143–144).

generally (Rieter and Schmolz 1993, 91–96; Janssen [1998] 2012, 159–165; Hagemann 1997, 10).¹⁰

Lutz became a victim of these tendencies. His fellowship in England and his association with the Eucken circle in Nazi Germany closed most of the doors to academia. Particularly his book *Fundamental Problem of Monetary Constitution* ([1936] 1962) as the second volume in Eucken's series "Order of the Economy" represented a unique document of the unbridgeable gulf between his research and the "new German economics". Lutz argued that the monetary institutional framework was responsible for how Germany and the US experienced the deep banking crises. This stood in contrast to the resilience of the English monetary system during the 1931 banking crisis. He traced the source to Peel's Act of 1844 that required the Bank of England to separate money issue and credit provision. Lutz argued that a similar act should be employed in Germany, based on the 100% reserve money proposal promoted by Chicago Plan, where the central bank had full control of the money supply, while commercial banks only concentrated on the qualitative selection of credit borrowers (Lutz [1936] 1962, 86–102).

Critical reviews from Nazi economists did not wait long. In *FinanzArchiv*, one of the leading German journals, Lutz was criticized for having misinterpreted the reasons for the severe banking crisis in Germany. The reviewer Siegfried Faßbender, whose most famous book *National Socialist Economics and Peoples' Freedom* (1943) clearly indicated his political sentiments, was certain that a monetary institutional framework such as the English one would not have saved the German economy from disaster. This had been not an economic event, but a "political attempt to ruin us

¹⁰ Hayek expressed his indignation in *The Road to Serfdom* how, "with few exceptions", German scholars and scientists joined the doctrine of the Nazis which "[i]s one of the most depressing and shameful spectacles in the whole history of the rise of National-Socialism" (Hayek [1944] 2006, 196). These few exceptions could be the scholars at the University of Freiburg because later Hayek remembered that Freiburg was among the few German universities during the Nazi regime which was able to preserve the independence of its intellectual life (Hayek 1983, 362).

financially” (Faßbender 1939, 159).¹¹ Taking into account the political rhetoric in Germany in the late 1930s, we can imagine that the victorious countries from the Great War were considered responsible for the deliberate destruction of the German economy. Such political rhetoric was diametrically opposed to Lutz’s institutional analysis. In his London paper “Gold Standard and Economic Order” (1935), he supported the gold standard as the monetary institutional arrangement that corresponded to a free market economy. In this way, Lutz took a rather provocative stand because he was fully conscious of the political dimensions of this problem. He raised the questions:

“Does a particular monetary constitution not only correspond to a particular economic order, but is this order itself perhaps also dependent on a particular *political* order? Does the economic equilibrium of the free-market economy presuppose a political equilibrium?

We do not have to answer these questions here.” (1935, 247).¹²

These were bold questions during the Nazi dictatorship, given the intolerance of the Nazis regarding any doubts about their vision of the political order (Bernholz 1989, 196; Veit-Bachmann 2003, 29–30).

Hence, it was not a surprise that Lutz was deprived of an academic career in Germany. Even in his later letters from the US, he described that he had lost hopes for university or other academic positions in Hamburg, Leipzig, Kiel and Berlin. There was only one extant anonymous 1938 report delivered to the Nazi Party which claimed that Lutz belonged to “those type of lecturers that we National Socialists would not wish for” (Syga-Dubois 2019, 636). Lutz himself was aware of his teacher’s explanation when University of Leipzig refused to appoint Eucken in 1935. Eucken

¹¹ Even though the review was published in 1939, Faßbender should have occupied the minds of Eucken and Lutz much earlier, because in one of his first letters from the US, Lutz asked “Who is actually Faßbender?” (Lutz to Eucken, 19.07.1937).

¹² The first sentence was translated by Bernholz 1989, 196.

explained to his mother that he did not have any expectation of appointment at all, because he was considered a “liberalist” (Dathe and Goldschmidt 2003, 64). Lutz’s research program was also labelled as “liberalist” by the dominating economics in Germany at the time. Such a hostile academic environment could be regarded as the primary reason why Lutz applied for another Rockefeller Fellowship in December 1936. This time, he intended to spend the academic year 1937/1938 in the US with his future wife Vera. The positive outcome of Lutz’s application was met by Eucken’s benign regret, since in his eyes, Lutz’s emigration would weaken the influence of the emerging Freiburg School (Dathe and Goldschmidt 2003, 64).

On March 15, 1937, Lutz returned to London to marry Vera Smith.¹³ Lutz’s letters confirm that Hayek and Robbins fully supported their marriage and their decision to move to the US. Lutz informed his teacher that Hayek and Robbins were writing letters of recommendation to a “mass of people for our sake” (Lutz to Eucken, 15.03.1937). One example is the letter from Hayek to his Austrian colleague Gottfried Haberler:

“In about fourteen days Dr. Lutz, a particularly nice German from Freiburg, will depart for America as a Rockefeller Fellow, after he will marry my disciple V. C. Smith (“The Rationale of Central Banking”). Both are really nice and clever people, unfortunately he has now utterly no possibility for an academic career in Germany, because he is anti-Nazi as is the whole Eucken circle. He was proposed for the chair in Hamburg, but did not get it, and confidentially he was told that he would have no chance ever to get a chair under

¹³ The marriage was not without any sacrifices. According to the 1914 British Nationality and Status of Aliens Act, if a British woman married an alien man, she became an alien and lost her nationality (Baldwin 2001, 522). This was the case with Vera Smith. Two weeks before their marriage, Lutz gave an account of really dramatic scenes: Vera suffered from stomachache which Lutz interpreted as a result of her nervous condition. Her mother tried to convince her not to marry. Lutz even described himself as some bride kidnapper from barbaric lands (*Frauenräuber aus barbarischen Landen*) (Lutz to Eucken, 15.03.1937).

the regime, because the political report on him had been unfavorable.” (Hayek to Haberler 11.03.1937).¹⁴

5. Trying to Release the Handbrake of Emigration

Based on Lutz’s letters from US, this section claims that it was the trip to the US when Lutz realized how research in modern economics, which deplorably neglected the role of monetary institutions, was nevertheless indispensable for him if he wanted to start an academic career at Anglo-Saxon universities, but this was not the economics that Lutz hoped to concentrate his efforts and energy on. First, he did not “possess” the mathematical skills. Second, he knew that pure economic theory which neglected the role of institutions could not explain the occurrence and essence of macroeconomic phenomena. These tensions of his internal Methodenstreit did not remain unnoticed for Harvard economist John van Sickle (1892–1975) who was the associate director of the Division of Social Sciences in the Rockefeller Foundation and played an instrumental role in the integration of German émigrés into the American academic environment (Berman 1983, 106; Craver 1986, 209). In December 1937, while Lutz was finishing his three-month stay at Harvard, van Sickle reflected in his diary (Syga-Dubois 2019, 544) how Lutz wanted to continue his teaching activity in Germany, how he was even nominated for the three universities Hamburg, Hanover and Halle. The Nazi party, however, vetoed any potential appointment. Van Sickle described Lutz as:

¹⁴ Friedrich A. Hayek Papers, Folder “Gottfried Haberler” (Box 94, Folder 6), Hoover Institution, Stanford University.

“[...] obviously very depressed and wondered whether he can both continue to teach and keep his self-respect: He is an extremely sensitive and appealing type of person and I feel grave misgivings about his future.” (van Sickle 10.12.1937).¹⁵

I assess this period as the culmination of Lutz’s inner antagonisms: He asked himself whether he would go back to Germany, where he was able to conduct research about monetary theory and institutional analysis in the tradition of Weberian socioeconomics, but in order to make academic career he ought to betray his principles and support the ideas of the Nazis. Curiously, Lutz was not formally expelled from Freiburg. His official status was a lecturer on leave (*beurlaubter Privatdozent*) and he remained faculty member of the University of Freiburg – a status that was confirmed by the French Military Government in September 1945 (Brintzinger 1996, 48). In this context one can understand the inner conflict which escalated in Lutz’s letters from the Harvard period that contained a déjà-vu from the LSE period. He complained yet again that what had been taught in America was being completely different from the economics at German universities: “They treat things as self-evident, which we have never heard of.” (Lutz to Eucken, undated letter from Cambridge, Mass.). In the very same letter, he described the difference between partial and general equilibrium and how “fashionable” the Edgeworth-Pareto indifference curves had become.

His inner antagonism had surfaced some weeks earlier, at Chicago, which was the first university visited by the freshly married couple. They spent three months in a city “free of fantasy or charm” where Vera felt “offended by America” (Kolev and Köhler 2021, 21). The couple met Frank Knight, Henry Simons and Jacob Viner. In one of his letters, Lutz lamented that he felt as a bad economist in their circle. They were able to cite whole passages from Edgeworth, Marshall, Keynes

¹⁵ Officers’ Diaries, Diarist: “John Van Sickle” (Record Group 12, Box 482), Rockefeller Archive Center.

or Hawtrey and, based on these passages, conduct extensive discussions. Lutz was confronted with theories of economists whose names he should know, but to whom he had never associated his research program so far (Janssen [1998] 2012, 64). With some envy, Lutz described that his wife was able to participate in the conversations actively, which made Knight and Simons more interested in her: “I feel like ‘prince consort’” (Lutz to Eucken, 07.04.1937). Apparently, the education at LSE allowed her to integrate more easily into American economics. Vera’s colleague Ronald Coase remembered that he copied out her notes of Robbins’s lectures “General Principles of Economic Analysis” which helped him become familiar with Robbins’s approach (Coase 1988, 34). Vera herself worked as a research assistant for Hugh Dalton during the academic year 1934–1935, (Yeager 1990, xiii), and the same Hugh Dalton was formative for Hicks’s construction of indifference curves in his 1934 paper with R. G. D. Allen (Hicks 1979, 196). Still, Lutz found some relief: “I have the advantage of that I can ask Vera who knows all these things” (Lutz to Eucken, undated letter from Cambridge, Mass.). Thus Vera probably played *the* decisive role for Friedrich’s becoming familiar with Anglo-Saxon economics.

The most notable result of Vera’s help and at the same time of Lutz’s inner antagonisms was his first paper in English, “The Outcome of the Saving-Investment Discussion” (1938) which critically discussed Keynes’s *General Theory*.¹⁶ With relief, he wrote to his teacher that “I finished the paper with God’s and Vera’s not exclusively lingual help” (Lutz to Eucken, 24.12.1937).¹⁷ This betrays

¹⁶ Before this paper, Lutz published “A Note on Gold Movements” (1937) in the *Review of Economic Studies*. This was his wife’s translation of “Neue Goldwährung” (1937) which Lutz finished at Chicago in June 1937 (Lutz to Eucken, 15.10.1937). Many German-speaking economists relied on Vera’s translation skills: among others, Wilhelm Röpke for *Crises and Cycles* (1936), Oskar Morgenstern for *The Limits of Economics* (1937) and Fritz Machlup for *The Stock Market, Credit and Capital Formation* (1940) (Haberler 1984, 52–53). She was supposed to translate Walter Eucken’s *The Foundations of Economics* (1940), but the war and the anti-German sentiments thwarted Lutz’s efforts to find a publisher for the book. It was translated by Terence W. Hutchison (1912–2007) in 1949 and published in 1950.

¹⁷ The original German: “Ich habe meinen Aufsatz über „Development and Outcome of the Saving/Investment Discussion” mit Gottes und Vera’s nicht nur sprachlicher Hilfe beendet.” (Lutz to Eucken, 24.12.1937).

that Vera not only anglicized his paper, something which she would still do for his works in the later years at Princeton (Lutz to Eucken, 12.03.1946),¹⁸ but that she might also have helped him with the economic theory that he was criticizing. Lutz submitted the paper to the *Quarterly Journal of Economics* when they were at Harvard, but he did not imagine that his paper would be accepted, let alone have any success. As a member of the board of editors of QJE, Alvin Hansen warned Lutz that the journal received many papers on Keynes's book, so that the chances for acceptance were low (Lutz to Eucken, 17.01.1938). Lutz himself admitted to his teacher that the whole world was writing about the saving-investment problem. In case it was not accepted, Lutz pondered translating it into German. He even regretted that the paper was not originally written in German, which would have allowed him to submit it to a German journal. In the same letter, he still yearned for a position in Germany (Lutz to Eucken, 24.12.1937) which prolonged Lutz's inner conflict whether emigration had been the right decision. However, Lutz knew that even if he obtained a position in Germany, he and his wife would live in constant fear that he would suffer the same fate as his former Freiburg colleague Franz Böhm who was dismissed from the University of Jena after voicing disagreement with the Nazis (Vanberg 2008, 43–44).

With the unexpected success of the saving-investment paper, Lutz made a grand entrance into American economics. This paper and Abba Lerner's response to it were later republished in the section "Saving, Investment and National Income" as a part of *Readings in Business Cycle Theory* (1944), commissioned by the American Economic Association. As a chair of the selecting committee, Haberler argued that these papers elucidated on the relationship between saving, consumption, investment and national income in the context of business cycle analysis. The students "should become familiar with the logical pitfalls and the opportunities of terminological

¹⁸ "My English still needs to be checked and edited by my wife – at least this is her opinion." (Lutz to Eucken, 12.03.1946).

tangles and controversies provided by the existence of overlapping alternative definitions” (Haberler 1944, xv).

Lutz’s paper juxtaposed the saving and investment concepts of Keynes, Robertson and the Stockholm School and outlined which of these concepts were more appropriate to explain the Wicksellian cumulative process and how it could be used as a benchmark for monetary policy. This largely methodological paper was undoubtedly an outcome of his skills acquired at Freiburg to discuss comparatively different methods applied to macroeconomic phenomena, skills he had proven in his dissertation about capital and his habilitation thesis about business cycle. In several letters, Lutz expressed his desire to publish an edited version of the habilitation thesis which would also consider the Keynesian system (Lutz to Eucken, 18.12.1946). He probably intended to base this discussion on the main findings of his saving-investment paper. While this undertaking never happened, Haberler endorsed Lutz’s main message about the compatibility between the Swedish ex-ante and Robertson period analysis as analytical tools to explain the business cycle in the second enlarged edition of his *Prosperity and Depression* ([1937] 1946, 188). Furthermore, the Swiss business cycle theorists Walter A. Jöhr (1910–1987) included Lutz’s critical discussion on how the Keynesian model could fit into the methods applied to the business cycle (Jöhr 1952, 232 –234). This is a further piece of evidence that Lutz’s paper occupied an intermediate position between the technical Anglo-Saxon economics and methodologically and institutionally focused German economics tradition. Perhaps as a career-tactical compromise, Lutz stopped emphasizing the central argument from his habilitation years that institutions mattered for the explanation of macroeconomic phenomena. This is an indication that he may have recognized the new tendencies in American economics during the “Keynesian Revolution”.

The paper was published in 1938 May issue of QJE, and the 1939 August issue launched a discussion about Lutz's arguments. Notable economists such as Abba Lerner (1939), Oskar Lange (1939) and Myra Curtis (1939) responded with extensive papers on Lutz's criticism. Lutz replied with a final comment (1939) from Princeton where he had just assumed his new job as instructor. In this debate, Myra Curtis (1886–1971) is perhaps the most interesting participant. She was a civil servant who, jointly with Hugh Townshend, Keynes's most radical interpreter, published *Modern Money* (1937) (Shackle [1967] 1973, 6, 228). This book was among the first textbooks on monetary theory and monetary system in Keynesian tradition (Hawtrey 1939, 94). Given Lutz's lifelong aspirations to finish a textbook on monetary theory (Veit-Bachmann 2003, 15), he should have felt particularly flattered by Curtis's comments. At the time, QJE had already turned into a battleground of Keynes's book, indicating that the "Keynesian Revolution" had become a rather Anglo-American phenomenon (Shackle [1967] 1973, 129–134; Myrdal 1972, 63). Leading economists such as Viner (1936), Leontieff (1936), Robertson (1936) and Taussig (1936) reviewed critically *The General Theory*. Keynes's response in the 1937 February issue (Keynes 1937) constituted a separate stage in "the years of high theory". Shackle dedicated a whole chapter of how "in the Quarterly Journal of Economics for February 1937 he [Keynes, LG] brushed aside the painstaking detail of his critics' incomprehension and attempted a final penetration of their minds" (Shackle [1967] 1973, 130). Shackle described 1937 as "the year of intensive Keynesian critical debate" when Keynes tried to tackle "our ignorance of the future" (Shackle [1967] 1973, 6).

In the context of these intensive Keynes debates, Lutz's paper represented an astonishing achievement. When *The General Theory* was published in March 1936, Lutz was at LSE. He wrote to Eucken that "Keynes's new book is *very* complicated. Hayek is of course not content with the book." (Lutz to Eucken, 10.03.1936, italics in the original). Lutz had already experienced the

formation of Keynes's book. When at Cambridge, he participated in a discussion on monetary theory organized by Keynes himself and Lutz talked with Keynes "about a new book on monetary theory that [was] supposed to be published in the end of October 1935. But the message of this book [had] changed once again" (Lutz to Eucken, 20.05.1935). Had Lutz recorded all his memories in a book, this would probably qualify as a contribution to the history of economics.

6. Releasing the Handbrake of Emigration

The critique of Keynes's *The General Theory* opened for Lutz the doors to American economics (Veit-Bachmann 2003, 22). He expressed his satisfaction with the publication: "I thought it was very useful that the paper appeared in the Harvard Journal" (Lutz to Eucken, 17.01.1938). Lutz joined Princeton in September 1938 as a lecturer, became assistant professor in 1939 and associate professor in 1945. In 1943 he was affiliated with the Institute for Advanced Study, while from 1947 to 1953 he was a full professor of money and banking. During his Princeton period, Lutz did not forget his Freiburg origins. Immediately after publication of Eucken's largely methodological work *The Foundations of Economics* (1940), Lutz reviewed it in the *American Economic Review* (Lutz 1940) and, with a war related delay, in *Economica* (Lutz 1944; Veit-Bachmann 2002, 155). Several days after the publication in the AER, he organized a meeting of the Economic Club at Princeton whose purpose was to discuss Eucken's methodological message and thus popularize the Freiburg School's research program. With a huge regret, he wrote to Eucken that "it was impossible for me to convince the participants of the relevance of the issue. I was thoroughly discouraged". In the same letter, he described his failure to find a publisher for a translation of Eucken's book before the end of the war (Lutz to Eucken, 23.07.1940).

Perhaps it was this disappointment that convinced Lutz to focus on technical economics which he hoped could end his internal Methodenstreit. He published several papers about interest rate (1940; 1943; 1945) and investment theory (1945). The culmination was the collaborative book with his wife, *The Theory of Investment of the Firm* (Lutz and Lutz 1951). In this book, they integrated the notions of time and durable goods into a microeconomic theory of production. This provided the basis for their account of the firm's investment decisions towards maximizing its internal return on capital. Historically, these analytical instruments have been developed at LSE (Boulding 1953, 77; Haberler 1984, 52) – and were the same analytical tools that he had eschewed during his Fellowship year at LSE. Mark Blaug characterized the book as “instructive not only on the Ricardo's effect, but also on Wicksell's capital theory” (Blaug [1962] 2003, 548). Ricardo's effect was introduced by Hayek in his business cycle theory in order to explain what gave rise to change in the labor-intensity of production and how this change affected the business cycle (Kaldor 1942, 361; Gehrke 2001, 143). When the couple published their collaborative work, Hayek had already left technical economics after publishing *The Pure Theory of Capital* (1941) and “The Ricardo Effect” (1942). By the mid-1940s, Hayek had concentrated his efforts on institutional analysis – the cornerstone of *The Road to Serfdom* ([1944] 2006) that was very much in line with the contemporaneous institutional analysis of the Freiburg School (Köhler and Kolev 2013, 219; Kolev 2020, 3). As mentioned above, he thought of Lutz when envisaging the appropriate person to write the US version of *The Road to Serfdom* (Caldwell 2011, 303).

Despite his stellar career at Princeton, Lutz was one of the few economists who returned to Europe immediately after the end of the war (Scherer 2000, 624–625). In his first letter to his teacher after the war, he described his successful career as a professor at Princeton and how he consulted the Fed about interest rate policy. Nonetheless, he was reluctant to stay at Princeton and still envisaged

to return to Germany “I do not want to stay here forever” (Lutz to Eucken, 21.10.1945). He even rejected an appointment at Yale in spite of the higher salary, because at Princeton he was able to concentrate on his research (Lutz to Eucken, 12.03.1947). The ultimate return was preceded by frequent travels to Europe. The dean of the Department of Economics and Social Institutions at Princeton, James Douglas Brown (1898–1986), justified Lutz’s frequent travels to Europe as:

“[...] a strong pull to help reestablish economic scholarship in the German speaking area of Europe that led him to go back. He has always been German at heart – of the old school, not Hitlerite.” (Brown to Lanier, 09.12.1953).¹⁹

Lutz visited his alma mater in 1948 as a guest professor and gave a lecture entitled “Theoretical Economics” which, perhaps ironically so, introduced Anglo-Saxon economics to German students. In 1950, his teacher suddenly died during a lecture series at LSE organized by Hayek and Robbins. Lutz came to replace Eucken for the academic year 1951/1952 and Freiburg offered him Eucken’s chair. However, the negotiations between the faculty and Lutz took so much time due to bureaucratic issues that they were prematurely broken, and Lutz returned to Princeton (Brintzinger 1996, 147).

In 1953, Lutz accepted a financially superior position at Zurich. The acceptance was hardly a surprise. In one of his first letters to Eucken after the war, Lutz voiced his wishes to find a position in Switzerland and asked Eucken whether he knew about vacant chairs there (Lutz to Eucken, 18.12.1946). In the same letter, he justified his choice with the better food-supply and housing situation compared to Germany. From summer 1953 until his passing in 1975, Lutz taught theory and history of socioeconomics at the University of Zurich (Ritzmann 1976, 80). I claim that Lutz’s

¹⁹ Alumni and Faculty Offprint Collection, Folder “Lutz, Friedrich” (Box 29, Folder 12), Princeton University.

professorship in socioeconomics ended his internal Methodenstreit, in a similar sense like Weber's socioeconomics had contributed to the reconciliation of the posterity of the Menger–Schmoller Methodenstreit (Kolev 2020, 7). During his period, he published several works on the history of economics and methodology, while his *The Theory of Interest* ([1968] 2016) has been considered as one of the most illuminating works on the history of interest rates (Blaug [1962] 2003, 547). Furthermore, Lutz concentrated his efforts and energy to popularize the Freiburg School's research program in postwar Europe. He contributed regularly to the *ORDO Yearbook of Economic and Social Order*: the journal was founded by Eucken and Böhm in 1948 and Lutz became its co-editor after the sudden passing of his teacher. Lutz stayed loyal to Freiburg and was among the founders and life-long board member of the Walter Eucken Institute which is still popularizing Eucken's intellectual legacy (Veit-Bachmann 2003, 33–37; Hagemann 2008, 276–277).

The European period was equally productive for his wife. Given that Hayek's notes for Weber's *Grundriß der Sozialökonomik* were the basis for her doctoral thesis, I claim that in a broader sense she also started his academic career in the context of socioeconomics and became intellectually isolated after the emigration to the US, giving rise to her own internal Methodenstreit. Dean Brown noted:

“A factor in his return, also, was his English wife, who never seemed entirely happy this side of the water. She is an economist in her own right, and seemed restless in a man's university despite a good job.” (Brown to Lanier, 09.12.1953).²⁰

A look at her publication lists conveys the impression that Vera also found peace after Friedrich's appointment at Zurich. Besides *The Rationale of Central Banking* and the book translations listed

²⁰ Alumni and Faculty Offprint Collection, Folder “Lutz, Friedrich” (Box 29, Folder 12), Princeton University.

in footnote 14, Vera had not produced any substantial work before their first travel to postwar Europe in 1948. After Friedrich's appointment at Zurich, her list of publication expanded significantly by including an immense amount of works in technical economics and practical economic policy (Gusman 1984, 103–108). With the latter, she joined her husband's quest towards promoting the institutional framework of the competitive order à la Freiburg. In this respect, a geographic division of labor is discernable: Friedrich advised the Bank for International Settlement in Basel, along with the Swiss and German Central Banks, while Vera advised the Italian Central Bank and participated in discussions about French economic policy (Lutz 1962; 1969). Both of them were among the very early members of the Mont Pèlerin Society and Lutz was the only president of the Society who served two terms (Hartwell 1995, 145–146, 151–156). Friedrich died on October 4, 1975, in Zurich, Vera on August 20, 1976, both passed away in Zurich.

7. Conclusion

By reconstructing the development of Lutz's research program, my paper demonstrated how German economists educated in an academic environment still dominated by the Historical School experienced Anglo-Saxon economics during the 1930s. Lutz started his academic career with a habilitation thesis that criticized business cycle theory as an approach to explain the emergence and persistence of economic crises. He recommended to concentrate on how the institutional framework surrounding the exchange process could affect the economic process. Hence, he argued for the construction of ideal types with whose help one could explain the occurrence and essence of macroeconomic phenomena. My paper claims that this Freiburg School approach stood in the tradition of Max Weber's socioeconomics that introduced economic sociology as an intermediary layer between economic theory and economic history, aiming at reconciling the Menger–Schmoller

Methodenstreit battlefields (Kolev 2020, 47–48). Lutz's emphasis on the necessity of ideal types signified an attempt to combine not only theory and history, but to use ideal types of the framework as an exercise in economic sociology between theory and history.

During his first Rockefeller Fellowship at LSE, Lutz recognized that his research in socioeconomics was diametrically opposed to the Anglo-Saxon economics. He saw mathematical economics as an approach that was detached from reality. In his native Germany, however, the Nazi regime transformed German academia, which forced him to leave. In the US, he experienced the consolidation between American and English economic thought during the “Keynesian Revolution”. He realized that an academic career in the New World would be virtually impossible if he did not acquire the mathematical skills necessary to conduct modern economic research. This gave rise to an internal Methodenstreit, during which he was full of moments of anxiety to release the handbrake of emigration, because he was aware of the immense efforts to learn these new methods skills, but most importantly, he was convinced that without the methodological consideration of institutions, mathematical economics was doomed to fail to explain the occurrence and essence of macroeconomic phenomena. With a methodological paper criticizing Keynes's *General Theory* published in QJE, Lutz adapted to the new tendencies in American economics and at the same time made a grand entrance into American economics. Lutz's paper took an intermediate position between the technical Anglo-Saxon economics and methodologically and institutionally focused German economics tradition. He criticized Keynes's saving-investment concept on methodological grounds, but in those same years he stopped promoting the institutional analysis from his Freiburg years. In spite of a stellar career as a monetary theorist at Princeton and a connectivity with top-level American economics, it was only at Zurich, where he taught history and theory of socioeconomics, that Lutz found peace from the anxieties and tensions of his Methodenstreit.

Archival Collections

Alumni and Faculty Offprint Collection, Seeley G. Mudd Manuscript, Princeton University

August Wilhelm Fehling Papers, German Federal Archives Koblenz

Friedrich A. von Hayek Papers, Hoover Institutions, Stanford University

Officers' Diaries, Diarist: John van Sickle, Rockefeller Foundation, Rockefeller Archive Center

Faculty of Law and State Sciences 1920–1963 Collection, University of Freiburg Archives

Walter Eucken Papers, Thüringer Universitäts- und Landesbibliothek Jena, University of Jena

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