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Article

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Intervention. European Journal of Economics and Economic Policies

Provided in Cooperation with:

Edward Elgar Publishing

Suggested Citation: Altzinger, Wilfried (2011) : Kurt W. Rothschild (1914 - 2010). A modest and upright character with an outstanding publication record, Intervention. European Journal of Economics and Economic Policies, ISSN 2195-3376, Metropolis-Verlag, Marburg, Vol. 08, Iss. 1, pp. 12-21,
<https://doi.org/10.4337/ejeep.2011.01.02>

This Version is available at:

<https://hdl.handle.net/10419/277202>

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due to the complementary behaviour of capital and labour at the economy level. It is efficient because if you have got low unemployment, you knock out low productivity, often declining industries, and you encourage high productivity, often expanding industries. So you have a higher rate of increase of overall productivity and that gives people a proper reward for money income restraints. Then you can supplement that by redistributive policies through taxation. That will make for a much more humane, cooperative and decent society even if you are giving business people free play to be entrepreneurs and use enterprise and initiative.

The interview was conducted by Eckhard Hein and Achim Truger in January 2010.

Selected Publications of G.C. Harcourt

Joan Robinson, Basingstoke: Palgrave Macmillan 2009 (with Prue Kerr) • *The Structure of Post-Keynesian Economics. The Core Contributions of the Pioneers*, Cambridge: Cambridge University Press 2006 • *50 Years a Keynesian and other Essays*, Basingstoke: Palgrave Macmillan 2001 • *Selected Essays on Economic Policy*, Basingstoke: Palgrave Macmillan 2001 • *Post-Keynesian Essays in Biography*, London: Macmillan 1993 • *On Political Economists and Modern Political Economy. Selected Essays of G.C. Harcourt*, edited by Claudio Sardonì, London: Routledge 1992 • *Some Cambridge Controversies in the Theory of Capital*, Cambridge: Cambridge University Press 1972. And 240 papers in journals and books.

Kurt W. Rothschild (1914–2010). A modest and upright character with an outstanding publication record

*Wilfried Altzinger**

With the death of Kurt W. Rothschild on 15 November 2010 at the age of 96, Austria has lost, without doubt, one of her most thoughtful and original economic thinkers of the past century. He has been contributing to economics through a large number of publications in several fields over a period of nearly 70 years. A recent count lists 25 books, 120 papers in scholarly Journals, 115 contributions to collective volumes, and 140 book reviews.¹ However, it was not only his outstanding scientific performance which made Rothschild unique, moreover it was his modesty and his upright character combined with his openness and

1 Department of Economics, Johannes Kepler University Linz, Kurt W. Rothschild Lecture, URL: <http://www.econ.jku.at/1123/>.

* Vienna University of Economics and Business. First and foremost, I want to express my sincere condolences to Valerie Rothschild and her family. Further, I am grateful to Alois Guger for his comments and suggestions on an earlier draft; the usual disclaimer applies.

unusual analytical tolerance which made him one of the most respected speakers in public forums, as well as an enjoyable conversational partner at more private occasions. There was never any moment where one did not excitedly listen to his well-founded and conclusive arguments. It was indeed not only his public performance which impressed scholars, students and ordinary people alike. It was in particular the coherence of his public and private life which made him impressively credible.

Where did all these attitudes come from? We will try to explore the formative journey of an extraordinary human being in six sequences: Rothschild's growing up in »Red Vienna« (1914–1933); his study of Law in Vienna (1933–38); the enforced exile at the University of Glasgow, Scotland and his acquaintance with Keynesian thinking there (1938–1947); his work at the Austrian Institute of Economic Research (WIFO) in Vienna (1947–1966); his late comeback to pure scientific life at the University of Linz (1966–1985); and finally his impressive period as a retiree which he truly has never been (1985–2010). Nevertheless, concerning the formation of Rothschild's attitudes, the initial three periods have certainly been the most important ones. Although the following three stages are productive and exciting by themselves, they did not shape Rothschild's character very much. Since my intention is not to give full account of his scientific work (which is more or less impossible) but to stick more to Rothschild's personality and philosophy, I will draw more heavily on the initial periods of his life, on the so-called *formative* years.²

The formation of a problem-oriented approach in »Red Vienna« (1914–33)

As Rothschild (1999) himself describes, in one of his autobiographic notes, the period of »Red Vienna« was really something special. First and foremost, it was the foundation of the new democratic republic, the rather bleak economic perspective, and in particular the huge unemployment accompanied by intensive and partly violent political controversies which formed Rothschild's consciousness during that time. Moreover, Vienna was the multi-ethnic center of the former monarchy with all its diversities and contradictions. But Vienna was not only a cultural focal point at that time. It was among others the location of a lively discussion in the fields of sociology and psychology in which Rothschild took part and which has certainly made a strong imprint on his personality. Experiences like these certainly contributed very much to Rothschild's strong favour for an interdisciplinary approach in economic science. However, he was not only deeply involved in the psychological discussions led in Vienna at that time. This period was also earmarked by the bitter political fights and discussions between the strong socialist movement and the reactionary, catholic-oriented group, which led finally to the coming to power of Austro-fascism in 1934 and the incorporation of Austria in Nazi-Germany, the *Anschluss*, in 1938. These political events and in particular the rather progressive developments in the capital of Austria, the »Red Vienna«, formed to a large extent Rothschild's conviction that things can and should be

2 For those who are interested in Rothschild's scientific contributions I have tried to gather his most important ones under the header of »Suggested further readings« after the list of references.

changed for the better. Although Rothschild's parents' house was rather apolitical he soon became member of the Socialist pupil's organization (*Vereinigung sozialistischer Mittelschüler*) where, among others, Austria's most famous writer of the interwar period, Jura Soyfer, was a member.³ There, Rothschild also attended classes in Austro-Marxism. For the purpose of a better understanding, let me quote from his autobiographical note:

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

Further on he adds:

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

Rothschild expressed several times in interviews (King 1995, Rothschild 2004a and 2006) that it was in particular this period and its political circumstances which made him very much aware of social and economic problems. And it was especially this period in which he developed his interest and great ambition to at least attempt to tackle these problems. Although he pursued a tremendously wide range of topics during his life-long research effort, he focused rather strongly on topics relevant for the whole of society, like unemployment or the distribution of income, wealth and economic and political power. Most of Rothschild's political and social interests were formed during these economically and politically awful times of high unemployment, enormous poverty and the abrupt ending of a democratically elected government (which happened in Austria in 1934).

The Study of Law or The »indoctrination« of marginal utility theory by the »Austrian School« (1933–38)

Although Rothschild initially had great ambitions to study either physics or mathematics he finally chose the study of law. This decision was mainly the result of the unfavourable job perspectives after the completion of the study of natural science. One has to note that the unemployment rate amongst academics was more than 50 percent at that time. And since Rothschild was dependent on financing his studies on his own, he was very much

3 Soyfer, himself Jewish, was captured crossing the border to Switzerland in March 1938 and died in the concentration camp *Buchenwald* only one year later.

interested in a subject which would also increase his chances of getting a job afterwards. However, one important issue has to be emphasized in this respect: Rothschild had a rather strong favour for theoretical and analytical issues which had already been encouraged by his teacher in secondary school, but which he could not instantly satisfy by choosing the proper kind of study. However, it's worth recognizing that his favour for proper analysis started in secondary school.

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

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

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

Scotland (1938–1947) – The acquaintance with Keynesian theory and Scottish attitudes

After the Nazi-German invasion of Austria in March 1938, Rothschild, as a Jew, had several experiences which made it more than obvious that he had to leave the country as soon as possible. He rarely spoke about this tragic period of his life. Only once, in a biographical documentation which was produced by the Austrian TV in autumn 2009 on the occasion of his 95th birthday, his wife Valerie told the interviewer that Rothschild also had to do »floor cleaning« in 1938 in order to survive. He also never mentioned that his mother, who remained in Vienna, died in a concentration camp. I think it is worth noting and even emphasizing these experiences since it is almost inconceivable that a man who was pushed out of the country, and to whom any appropriate academic job was refused after his return to Austria in 1947 for a very long time, neither accused anybody in Austria for his personal experiences nor refused to work hard for the country's reconstruction after World War II. For him it was just natural to make his contribution – seemingly regardless of what happened to him during all those years.

The years in Scotland probably were the most formative ones of Rothschild's entire life. And this is mainly in two respects: First, in Scotland he discovered an entirely new world of economic thinking. And second, he was involved in a kind of democratic society which, for an Austrian, was hardly imaginable. Rothschild was introduced to the Keynesian ideas for the first time by studying the *General Theory* at Bale in Switzerland on his three-month stop on the way to Glasgow. He told that story many times. »Filled with the basics of Austrian-type micro-economic behaviourism I just couldn't make head or tails of what I found in Keynes' book« (Rothschild 1991: 6–7.). For him it was just luck to discover at that time also the »Introduction to the Theory of Employment« by Joan Robinson. Otherwise he probably would have withdrawn from the study of economics. It was Robinson's problem-oriented approach in particular which was an »Eye- and brain-Opener« for Rothschild and permitted him »a far closer link between the intellectual adventure of economic theorizing and the social and socialist questions of the time than I could have found in my Wien days« (Rothschild 1991: 7). And in his autobiographical note Rothschild writes:

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

The second and certainly not less important experience of Rothschild's years in Scotland was the complete »openness« both at the university and in society. He expressed his admiration for his two »bosses« at the University of Glasgow, Alec Cairncross and Alec Macfie, in such reverential words which one can rarely find in Rothschild's writings. If one reads the obituary for Sir Alec Cairncross in *The Independent*, written by Alan Budd on 23 October 1998, one is inclined to copy and paste it. I just want to quote a few sections which are all entirely applicable to Rothschild: »Marked by a typically Scottish belief that you made your own way in life and progressed through hard work and education«; »never ceased to display the qualities of his generation and place of birth«; »prepared to forgo personal comforts«; »the great respect in which he was held for his profound commonsense, his hatred of dogma and his complete intellectual honesty« (Alan Budd 1998). It was in particular the close friendship with such people and the acquaintance and devotion to the Scottish way of living and sharing which strikingly shaped Rothschild's personality. Otherwise it would remain difficult to understand his overall tolerance both within and even outside the scientific community during his entire life. But let's listen once again to Rothschild himself:

»In Scotland I found democratic attitudes which had grown in centuries of democratic institutions [...] This openness towards other opinions and the readiness to cooperate with »other« sides when the situation seems opportune impressed me and has not only left its marks on my view of politics and political action but probably also contributed to the eclectic leanings in theoretical matters.« (Rothschild 1999: 5–6)

Rothschild's theoretical work in general is a form of creative eclecticism, drawing on neoclassical analysis where it is sensible and relevant (mainly short-term microeconomics) but

always investigating its weaknesses (King 1994: 29–30). Rothschild had a striking tolerance and openness to various theoretical approaches. His eclectic approach always tried to see what different theories have to offer and to analyse their strengths and weaknesses. For example, Rothschild did not refrain from using utility theory for the analysis of micro-economic, short-run mechanisms of current economic activities on the one side, and Marxism-like approaches for the analysis of long-term dynamics of the socio-economic interplay of power and interests on the other (Rothschild 2002 and 2004b). Besides this kind of eclectic theorizing there was one additional point that characterizes Rothschild's methodological approach: the factor of complexity.

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

In addition to *complexity* Rothschild emphasized in many of his theoretical works the issue of *uncertainty*. Due to the importance of complexity and uncertainty Rothschild mostly refused to make any forecasts. His standard reply to such a question was: »Forecasts are rather difficult, especially if they are about the future.« Nevertheless, he published in 1969 a book (in German) on Economic Forecasting (Rothschild 1969). Having gathered a wide variety of experience as an empirical researcher at the Austrian Institute of Economic Research (WIFO) he wanted to offer to students and to the interested public some insights in the methods of forecasting and warnings of its limits in the face of the fast rising supply of economic forecasts at the late sixties, as he wrote in the introduction.

Rothschild's return to Vienna and some remarks concerning his methodological approach

As I said at the beginning, the »formative« years for Rothschild certainly were before 1947. What follows was the »application« of his formative years to the upcoming challenges of his work. Although this period is of great interest by itself, it did not influence his personality very much. Hence I will summarize this period rather briefly.

As already mentioned Rothschild, after his return to Austria, did not get an academic post due to the narrow-mindedness of the people who managed the Austrian universities at that time (and many of them also since 1938 or before), and due to his Jewish roots. However, he could find a job at the Austrian Institute of Economic Research (WIFO) as a senior research economist. Interestingly, he was supported for this position by a recommendation from the later Nobel laureate Friedrich August von Hayek (one of the founders of WIFO), who certainly did not support Rothschild's economic point of view. Since at that time no curriculum of economics was established at Austrian universities, WIFO was the only place where theoretical and empirical economic research was conducted. There Rothschild found a

rather stimulating environment with a young team of economists who were strongly devoted to applied empirical research. Among others, Josef Steindl also returned to Austria in 1950 and enriched the institute. Steindl, who published the ›classic‹ *Maturity and Stagnation in American Capitalism* in 1952, had already introduced Rothschild to the new economics during his exile in Scotland in 1940. At WIFO they soon became close friends. Work at WIFO was rather strenuous since they were only few people and each of them had to write a report nearly every month for WIFO's monthly bulletin. During that work Rothschild acquired »a healthy scepticism regarding the quality of data and a respect for good empirical work, even if it were ›merely‹ descriptive« (Rothschild 1991: 9).

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

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

Rothschild was not only open-minded in his research, he was also open-minded throughout his life. He liked to discuss new developments in economics – theoretically, empirically and politically – with colleagues and students alike. At the University of Linz such discussions took place in particular in the core seminar in economics which was organized by the main staff together so that students could experience lively discussions with and between teachers of diverse backgrounds and paradigms. However, such discussion also happened in an informal context, in particular during the well-renowned »Rothschild coffees«, which were after-lunch meetings at the department. Whenever you met Rothschild, one of his first questions always was »What are you working on actually?« And instantly a stimulating and encouraging discussion was established. He was interested in nearly everyone's topic of research and one could always learn quite a lot in the stimulating conversations with him.

Some concluding remarks

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

Austria, and in particular the Austrian economic and academic community, can be rather happy about Rothschild's generous decision. Rothschild was and still is an inspiration to generations of economists as John E. King (2010) put it in his obituary. Even if Rothschild's death is tragic, in particular for his wife and his family, all of us still have the pleasure that he has left a tremendous treasure of books, papers and interviews which can be acquired, read, studied and applied (!) by everyone who is interested in it. Therefore Rothschild's views will hopefully live and survive for a very long time. It is up to everybody whether he or she wants to learn something from Rothschild's commonsense approach, which might be summarized as follows:

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

Let us hope that this might be recognized by as many economists as possible. Only then might economics again become more relevant and exciting than is currently the case.

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Common monetary policy with uncommon wage policies: Centrifugal forces tearing the euro area apart

Kazimierz Laski and Leon Podkaminer**, ***

Are we all Keynesians now?

Extraordinary actions taken by EU governments and the European Central Bank (ECB) averted a catastrophe. However, while these actions are acknowledged to be Keynesian, ›we are not all Keynesians now‹. Little has changed in the decision makers' minds. Numerous statements emanating from the ECB and the EU Commission make this point crystal clear. It is worth quoting the opinion of J. Stark, a member of the ECB Board:

»There is no doubt that the exceptional fiscal policy measures and monetary policy reactions to the crisis have helped to stabilize confidence and the euro area economy. Following the substantial budgetary loosening, however, the fiscal exit from the crisis must be initiated [...] to be followed by ambitious multi-year fiscal consolidation. This is necessary to underpin the public's trust in the sustainability of public finances. The Stability and Growth Pact constitutes the mechanism to coordinate fiscal policies in Europe. [...] Sound and sustainable public finances are a prerequisite for sustainable economic growth and a smooth functioning of Economic and Monetary Union.«
(ECB 2010: 7)

The revival of pre-crisis instincts is manifest also in discussions about ›exit strategies‹, and hurried fiscal consolidations already underway throughout the EU. According to the European Commission's 2010 Spring Economic Forecast, EU public consumption is projected to rise by about 1% in 2010 and hover around zero in 2011 (it used to rise by more than 2%). The

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