

# 1. Introduction

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I will never forget my first sight of Austria. It was the late summer of 1965, and I was hitch-hiking eastwards through the southern edge of what was then West Germany. As the Austrian border approached I was overwhelmed by the range of rugged, snow-capped mountains that lay just behind my destination, the city of Salzburg. As a Londoner born and bred, who had not yet been seriously north of Watford, I had never seen anything like it. I vowed to return, and have done so frequently ever since, for the first quarter of a century solely as a tourist and mountain walker and subsequently also with more academic objectives in mind. But I had already in 1965 begun to take an interest in one dissident Austrian economist, Kurt Rothschild, whose work had been recommended to me by my Oxford economics tutor. Later, when Mike Howard and I began to work on the history of Marxian economics, I worked to improve my schoolboy-cum-tourist German and put it to good use, acquainting myself with the early work of Otto Bauer and Rudolf Hilferding and the later writings of Josef Steindl, who had influenced the *Monopoly Capital* school of American Marxism. By now it had begun to dawn on me that these heterodox scholars, and others whose names were cropping up in a variety of contexts, had something in common. They did not quite constitute a single coherent school of thought, but they were certainly more than a collection of independent near-neighbours: an intellectual tradition, at least, could be detected, even if it seemed to have gone largely unrecognised in the English-speaking world.

For almost everyone with even a passing interest in the subject, 'Austrian economics' refers to a distinct school of thought, originating with Ludwig von Mises and Friedrich von Hayek, that is characterised by a strong commitment to an extreme form of free-market liberalism. Those who have gone further into these questions understand that Austrian economists are also united in their indifference or hostility to formal modelling and the use of econometric techniques. These issues place the Austrian school in a rather ambivalent position in the global economics discipline. Politically, the rise of neoliberalism – which it encouraged and helped to bring about – has thrust market deregulation, privatisation and a greatly restricted economic role for the state deep into the heart of the economics profession.

Methodologically, however, the Austrian school has never been further from the mainstream, since its repudiation of mathematical techniques and resistance to formal modelling leads the great majority of academic economists to question the scientific status of its fundamental theoretical claims. Thus Austrian economics is often regarded today as a form of heterodox economics, unusual in its association with the libertarian right in politics but sharing with more radical dissident schools a deep suspicion of the mainstream, which is firmly reciprocated.

There is a large body of published work in English on the origins, development and current status of this school of Austrian economics (see, for example, Boettke 1994; Holcombe 2014; Yagi 2011). But as I have suggested there is another, very different, Austrian tradition in economics, socialist in spirit but too diffuse to be described as a single school of thought, which shares a common conviction that the market, while possibly a good servant, is a very poor master. This alternative Austrian economics is the subject of this book. It began at the very beginning of the twentieth century with the first published articles by the Austro-Marxist theorists Otto Bauer and Rudolf Hilferding, continued to evolve for another three decades until Bauer and many other Austro-Marxists were forced into exile after the destruction of democracy in Austria in 1934, and was resurrected after 1945 with a new generation of social democratic economists, most prominently Rothschild and Steindl. It is still thriving today.

While there is a substantial German-language literature on this alternative Austrian economics, very little is available in English. I hope that this book will encourage heterodox economists in the 2020s to explore the ideas of some very perceptive and thought-provoking economists from more than a century of the Austrian left. Who should be counted as an Austrian economist in this context is a matter of judgement. I have chosen to exclude the Austrian-born theorist Emil Lederer, who spent his entire pre-1933 career in Germany rather than Austria before fleeing to the United States (Marschak et al. 1941). As I explain in Chapter 3, I have decided to treat Rudolf Hilferding as an Austrian only until his move to Germany in 1906, and as a German thereafter. On the other hand I have included some material on Karl Polanyi, who is generally regarded as a Hungarian but who lived in Vienna between 1919 and 1933 and participated in the debate on the economics of socialism that is discussed in Chapter 5. The economists who feature in Chapter 10 include several who were born outside Austria but who have made important contributions while living and working there.

A word on Joseph Schumpeter: I have chosen not to include him, for several reasons. First, and most important, he was always closer – arguably, much closer – to the mainstream economics of his day than any of his

compatriots who feature in the following chapters. Second, although he was a fellow student with several of the Austro-Marxists he was never intellectually or (I suspect) socially close to any of them, and politically he was far away; his short-lived role in the transitional regime in Austria in 1919–20 remains contentious (see Swedberg 1991, ch. 3). Third, Schumpeter spent all but the early stages of his academic career in Germany (1925–32) and the United States (1932–50), not in Austria. Finally, there is already a substantial English-language literature on his life and work.

The structure of the book is as follows. In Chapter 2, I describe the economic, political, cultural and intellectual background to the alternative Austrian economics, drawing on some of the huge literature on ‘Red Vienna’ before and after 1914. I set out the main principles of Austro-Marxism, emphasising both its similarities with and the significant differences from other versions of the Marxism of the Second International and from the later Third International. I conclude the chapter by introducing the socialist participants in Eugen von Böhm-Bawerk’s famous graduate economics seminar, whose ideas are discussed in detail in the following chapters.

Chapter 3 discusses the early work of the young Rudolf Hilferding. This chapter begins with his publications at the beginning of the twentieth century and ends in 1906, when he moved to Germany and effectively ceased to be an Austro-Marxist. Hilferding had already made a substantial contribution to the theory of value, to the analysis of economic crises and to documenting the rise of financial capital. The bulk of the chapter consists of a detailed account of his book on *Finance Capital* (Hilferding 1910), which had been substantially completed before he left Austria and is perhaps the most important single work to be written on Marxian political economy since the death of Marx.

Chapter 4 is devoted to Otto Bauer’s work in economics up until 1914, beginning with his first attempt to construct a model of economic crises and concluding with an assessment of his second crisis model, which was developed in the course of his critique of Rosa Luxemburg’s *Accumulation of Capital*. In between there are sections on his general approach to Marx’s political economy, set out in articles on *Capital* and *Theories of Surplus Value*; the small but significant economic component of his first and perhaps most influential book, *The Question of Nationalities and Social Democracy* (Bauer 1907); his criticisms of the crisis theories of Georg von Charasoff, Hilferding and Mikhail Tugan-Baranovsky; and his analysis of the policy issues raised by the Austrian experience of inflation and unemployment in the years leading up to the outbreak of the First World War.

In Chapter 5, on the economics of socialism, several distinctive Austrian visions of a post-capitalist future are compared. The ‘socialist calculation

debate' was not initiated in 1920 by Ludwig von Mises, as is still asserted by scholars who ought to know better (see, for example, Hodgson 2016, p. 33). In this chapter I contrast the alternative approaches to the economics of socialism taken in the first three decades of the twentieth century by Otto Neurath, who advocated a moneyless planned economy several years before Mises denied that such a project could ever be viable; Otto Bauer, who was strongly influenced by the ideas of the Guild Socialists in Britain; Karl Polanyi, who spent the 1920s in Vienna and was an early proponent of market socialism; and Otto Leichter, who argued that the labour theory of value could be used by future socialist planners. The chapter ends with two very different proposals. The first was advanced by Rudolf Goldscheid, who (beginning in 1917) advocated a 'state capitalist' system in which the profits of nationalised enterprises would replace taxation as the main source of finance for education, health and other public services. The second was set out in 1932 by Walter Schiff, who mounted a vigorous (though not uncritical) defence of the central planning system that had recently been introduced in Stalin's Russia.

The work of the mature Otto Bauer between 1917 and his death in 1938 is the subject of Chapter 6. At the end of the First World War Bauer was the unchallenged intellectual leader of Austrian social democracy, and in the following two decades he wrote extensively on the economics of capitalism and communism. In the 1920s he made no substantial contributions to crisis theory, but he did publish many articles on the contemporary problems of the Austrian economy and touched on important economic issues in his book on *The Austrian Revolution* (Bauer 1923 [1925]). Later in the decade he gave a course of lectures on Marxian political economy, student notes from which allowed the posthumous publication of what was essentially a systematic textbook on Marxian economics (Bauer 1927–28 [1956]). With the onset of the Great Depression and the Stalinist industrialisation of the Soviet Union Bauer's interests changed again, and I conclude this chapter by discussing his *Capitalism and Socialism After the World War: Rationalisation and False Rationalisation* (Bauer 1931a), the still unpublished *Manuscript on the Economic Crisis* (Bauer 1932–35), and his last major book, *Between Two World Wars? The Crisis of the World Economy, Democracy and Socialism* (Bauer 1936), in which he returned to the question of crisis theory and revised his views on the Soviet economy.

Bauer was not the only Austrian socialist in the interwar period to produce interesting work in political economy. In Chapter 7, entitled 'Other voices', I return to the political economy of capitalism, and outline the very different contributions of four of these writers. Two of them are women, both of them known principally as economists. Helene Bauer was a theorist, with special interests in the economics of capitalist crisis,

while Käthe Leichter was an empirical researcher who focused on the economics of the interwar Austrian labour market and the subordinate role that women played in it. Neither has received much attention from scholars writing in English. The two men, by contrast, are much better known, but not as economists. The eminent philosopher Max Adler often wrote on sociological issues, but only rarely on economics, and the same can be said of Karl Renner, a legal theorist of some renown who engaged only occasionally with political economy. But it was difficult – and still is – to be any sort of Marxist without taking some interest in economics, and thus it should come as no surprise that both Adler and Renner did publish articles on political economy at critical periods. Both of them dealt with the implications of the First World War, while Adler also explored the economic background to the rise of fascism.

The last three chapters deal with the rather different alternative Austrian economics that emerged after 1945. Probably the best-known of the post-war Austrian socialist economists was Josef Steindl (1912–93), who is the subject of Chapter 8. Steindl began his career as an economist in Vienna in the mid 1930s. Exiled to Britain after the *Anschluss* in 1938, he returned to Austria after the war and soon gained an international following for his *Maturity and Stagnation in American Capitalism* (Steindl 1952), which combined elements of Marx, Keynes and Kalecki (whom he described as ‘my guru’). As Steindl subsequently acknowledged, his argument seemed to have little relevance to the boom years of the 1950s. However, *Maturity and Stagnation* attracted renewed critical attention in the depressed 1970s, and more recently it has been cited approvingly by some radical macro-economists in the wake of the Global Financial Crisis of 2007–08. In the later part of his career Steindl also made important contributions to the emerging Post Keynesian literature, including some penetrating criticisms of neoliberal ideas, which are discussed at the end of the chapter.

Chapter 9 is devoted to the work of Kurt Rothschild (1914–2010). Like Steindl, Rothschild spent the war years in exile (in Scotland, where he graduated in economics at Glasgow University and then began his academic career there). Returning to Austria after the war, Rothschild soon established an international reputation as an eclectic theorist who combined elements of Marxian, institutionalist, Post Keynesian and neoclassical thinking in his extensive writing on economic theory, policy and methodology. Towards the end of his remarkable life – Rothschild’s last book appeared in 2009, when he was 94 – he had become an influential advocate of pluralism in economics.

Chapter 10 is entitled ‘What is left?’, and deals with the alternative Austrian economics in recent decades. In this chapter I identify some of the other important social democratic economists in later twentieth- and

early twenty-first-century Austria: Wilfried Altzinger, Gunther Chaloupek, Kazimerz Łaski, Egon Matzner and Brigitte Unger. I also discuss the work of two distinguished historians of heterodox economic thought, Christian Gehrke and Heinz Kurz, summarise the work of the Post Keynesian macroeconomist Engelbert Stockhammer and provide a brief appraisal of two of the more prominent younger Austrian writers in the social democratic tradition, Jakob Kapeller and Miriam Rehm. I conclude by speculating on the prospects of the alternative Austrian economics in 2020 and beyond.

I have some substantial debts to acknowledge. First and foremost I must thank Mike Howard, who was briefly a colleague half a century ago at the University of Lancaster and who was been a good friend, wise critic and constant source of intellectual stimulation ever since. I have benefited greatly from long discussions with Michael Schneider, who introduced me to the history of economic thought as a discipline and to underconsumption theory as a fascinating riddle therein. More recently I learned a great deal about the alternative Austrian economics from Christian Gehrke and Heinz Kurz during two very productive spells of study leave at the University of Graz. Michael Krätke has taught me a great deal about Otto Bauer and his place in Austro-Marxism. While writing this book I have also benefited greatly from correspondence with Alois Guger (on Josef Steindl), Jill Lewis (on Käthe Leichter) and Thomas Uebel (on Otto Neurath). On various questions I have drawn on previous publications, including Howard and King (1989; 1992; 2003) and King (1994; 1995a; 1995b; 1995c; 2008; 2009; 2010a; 2010b; 2014; 2018a). Earlier versions of Chapters 5 and 6 were presented at the 2013 and 2018 meetings of the History of Economic Thought Society of Australia, and I am grateful for the comments of several colleagues who were there.