

FMM WORKING PAPER

No. 118 • September 2025 • Hans-Böckler-Stiftung

POWER, WAGES, AND THE MARKET: KURT ROTHSCILD'S VISION OF DISTRIBUTION IN A POST- KEYNESIAN FRAMEWORK

Hagen M. Krämer¹

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Kurt W. Rothschild, an Austrian economist known for his multiparadigmatic and interdisciplinary approach, made significant contributions to Keynesian and post-Keynesian economic theory. Born in 1914 in Vienna, his work encompassed price theory, labor market economics, growth and distribution, power and ethics in economics, and economic policy. His incisive critique of neoclassical theories, advocacy for state intervention, and commitment to methodological pluralism distinguish his work as a vital contribution to economic thought. Since income distribution is a central theme in Rothschild's research, this paper examines his contributions to post-Keynesian distribution theory. Following a brief overview of his life, academic formation, and the historical context that shaped his thinking, the paper explores his theoretical innovations, emphasizing his rejection of mono-causal explanations in favor of an approach that integrates economic, political, and social dynamics. Rothschild's perspective on income distribution as a product of complex interactions between markets, institutions, power structures, and ongoing conflict is a defining feature of his work. The paper concludes by assessing the continued relevance of his insights for contemporary economic research. His legacy remains a guiding framework for scholars seeking a more holistic and dynamic understanding of income distribution and its policy implications.

¹ Professor of Economics, Karlsruhe University of Applied Sciences, Germany.
E-mail: hagen.kraemer@h-ka.de.

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Hagen M. Krämer*

ABSTRACT

Kurt W. Rothschild, an Austrian economist known for his multiparadigmatic and interdisciplinary approach, made significant contributions to Keynesian and post-Keynesian economic theory. Born in 1914 in Vienna, his work encompassed price theory, labor market economics, growth and distribution, power and ethics in economics, and economic policy. His incisive critique of neoclassical theories, advocacy for state intervention, and commitment to methodological pluralism distinguish his work as a vital contribution to economic thought. Since income distribution is a central theme in Rothschild's research, this paper examines his contributions to post-Keynesian distribution theory. Following a brief overview of his life, academic formation, and the historical context that shaped his thinking, the paper explores his theoretical innovations, emphasizing his rejection of mono-causal explanations in favor of an approach that integrates economic, political, and social dynamics. Rothschild's perspective on income distribution as a product of complex interactions between markets, institutions, power structures, and ongoing conflict is a defining feature of his work. The paper concludes by assessing the continued relevance of his insights for contemporary economic research. His legacy remains a guiding framework for scholars seeking a more holistic and dynamic understanding of income distribution and its policy implications.

JEL Codes E24, D31, J31

Keywords Kurt Rothschild, Multiparadigmatic Approach, Post-Keynesian Theory, Bargaining Power, Labor Market Economics, Distribution Theory.

* Professor of Economics, Karlsruhe University of Applied Sciences e-mail: hagen.kraemer@h-ka.de. This manuscript is an incomplete and preliminary version. The final version will appear as a chapter in the edited volume *Post-war Keynesianism in Germany and Western Europe*, edited by J. Backhaus, G. Chaloupek, and H. A. Frambach, in the series *The European Heritage in Economics and the Social Sciences*, Cham, Switzerland: Springer Nature; <https://link.springer.com/book/9783032004970>. Earlier versions of this paper were presented at the 38th *Heilbronn Symposium in Economics and the Social Sciences*, Post-war Keynesianism in Germany and Western Europe, Heilbronn (Germany), June 20–22, 2024, and at the 28th Annual Conference of the *European Society of the History of Economic Thought* (ESHET), Torino (Italy), May 22–24, 2025.

1. Introduction

This chapter explores the scholarly endeavors and lasting contributions of the Austrian economist Kurt Wilhelm Rothschild, born in 1914 in Vienna (Austria), to Keynesian and post-Keynesian thought, with particular emphasis on his engagement with income distribution theory. Rothschild was a prolific economist whose work spanned numerous areas of economic theory and policy. His contributions were characterized by an interdisciplinary approach to economic theory, incorporating insights from sociology, political science, and history. His work is characterized by a pragmatic, pluralistic, and eclectic methodology, reflecting his belief that no single economic theory can address the complexities of real-world phenomena. This perspective is vividly illustrated by his famous advocacy for a „box of tools” – a term borrowed from Joan Robinson –, which underscores the necessity of employing multiple theoretical frameworks to understand different economic situations. Rothschild’s academic journey and professional achievements have cemented his legacy as a pivotal figure in the field of economics, particularly in Austria and Germany. His numerous accolades include honorary doctorates from universities such as Aachen (1987), Augsburg (1990), Bremen (1995), and the Vienna University of Economics and Business (2004).¹ He was also the first honorary member of the German Keynes Society, founded in 2003.² Each year, the Kurt Rothschild Prize is presented in Austria to exceptional economists and social scientists who have demonstrated outstanding contributions in their research, in the spirit of its namesake.³

Rothschild’s research interests were wide-ranging, and he published in many areas, advancing research in various fields. He consistently expressed his criticism of one-sided neoclassical theories. Rothschild favored a pluralistic approach, utilizing a range of tools and methods as required. However, he rejected being labelled as a „heterodox“ economist,

(...) because you can’t have a theory that explains everything. Economics is so complex that you need several different theories to explain different situations. You need pluralism (...) You have many theories—neoclassical, Keynesian, institutionalist, and so on. They are all honourable theories, and all of them are important. (Rothschild and King 2009, 151-2).

Nevertheless, Rothschild’s work is best categorized as post-Keynesian (Springler 2011). While his work is rooted in Keynesian principles, he goes well beyond the standard Keynesian

¹ The award of an honorary doctorate from the University of Bremen was essentially an initiative of Peter Kalmbach, a professor at this university. As his doctoral student and research assistant, I was involved in the preparations for the award ceremony and had the opportunity to get to know Kurt W. Rothschild better during his stay in Bremen. During this and later encounters, I found him to be an equally intelligent and educated, but above all absolutely likeable person.

² Peter Kalmbach was a founding member of the German Keynes Society with me and eleven other economists.

³ <https://renner-institut.at/angebote/kurt-rothschild-preis>.

framework by incorporating insights from sociology, political science, and history. His innovative approach emphasizes the role of social, institutional, and political factors in shaping economic outcomes – with a particular focus on income distribution – challenging the static equilibrium models that fail to account for dynamic social processes typical of traditional Keynesian theory. What further situates him within the post-Keynesian tradition is his view of unemployment as a major concern, his emphasis on the causal direction running from investment to aggregate savings, and his assignment of a central role in his distribution theory to the analysis of the evolving income shares of labor and capital. Rothschild's contributions, in essence, extended and enriched Keynesian thought, firmly anchoring him within the post-Keynesian tradition.

The primary areas of focus for Rothschild included employment, labor market issues, income distribution, and related topics, which he personally emphasized as his „special fields of interest” (Rothschild 1991, 11). Since income distribution is a major theme in Rothschild's work, this chapter will focus on his contribution to the post-Keynesian theory of income distribution. Before addressing this topic, however, a brief overview of Rothschild's life, academic formation, and the historical context that influenced his thinking will be presented in chapter 2. Chapter 3 explores his major contributions to post-Keynesian distribution theory, highlighting his interdisciplinary and eclectic approach. Chapter 4 concludes by synthesizing the key insights and reflecting on the relevance of Rothschild's ideas for contemporary economic research.

2. Biography

Rothschild's academic contributions encompassed price theory, labor market economics, bargaining power, growth and distribution, and economic policy. Throughout his life, he published 42 books, 183 essays, 174 contributions to edited volumes, and 146 book reviews.⁴ Rothschild was an influential figure in Austria and Germany and is regarded, together with Josef Steindl (1912-93), as a pioneer of Keynesianism in Austria (Chaloupek 2014).⁵ His modesty, upright character, and analytical tolerance were widely appreciated, making him an outstanding figure in the field of economics (Nowotny 2014; King 2014).

⁴ Detailed biographical information about Kurt W. Rothschild can be found in Rothschild (1991, 1999, 2000, 2004a, 2006); King (1994, 1995, 2010); Rothschild and King (2009); Altzinger et al. (2014) and on the website <https://www.kurt-rothschild.at> (Rothschild (n.d)).

⁵ For an examination of the role of emigrant economists in post-war Keynesianism in Austria, see the chapter by Günther Chaloupek in Backhaus, Chaloupek, Frambach (forthcoming).

Rothschild's early scientific work included significant publications in prestigious journals such as the *Economic Journal* and the *Review of Economic Studies*. His research covered areas such as advertising, the degree of monopoly, and public expenditure. His work on price theory and market structures examined the role of monopolies and oligopolies, as well as power structures in markets. He criticized neoclassical assumptions about perfect markets and emphasized the need to consider real market structures and power asymmetries. His work on price formation and the dynamics in imperfect markets highlights the complexity and social implications of economic decisions.

2.1 Formative Years in “Red Vienna” (1914-1933)

Kurt W. Rothschild was born on October 21, 1914, in Vienna, Austria, into humble circumstances and a rather non-political family.⁶ His upbringing was marked by the socio-political and economic dynamics of „Red Vienna,“ a period during the 1920s and early 1930s when the city was known for its progressive social policies, extensive public housing projects, and a vibrant intellectual scene. This environment played a crucial role in shaping Rothschild's early worldview, particularly his awareness of social justice and economic inequality. Vienna was also a vibrant hub for discussions in the fields of sociology and psychology, with the young Kurt Rothschild playing an active role. These experiences left a significant mark on his personality and greatly contributed to his strong preference for an interdisciplinary approach in economic science (Altzinger 2016, 3). Additionally, the Great Depression of 1929-1930 had a profound impact on him. The economic collapse and the resulting widespread unemployment and poverty starkly illustrated the failures of the prevailing economic systems and policies. This period of economic turmoil solidified Rothschild's interest in economics and his desire to understand and address these issues.

2.2 Studying Law (1933-1938)

In 1933, Rothschild began his studies in law at the University of Vienna. He chose to study law, partly because he believed it would provide better career prospects, and partly due to his desire to fight injustice („to defend innocent people against a reactionary judicial system“, Rothschild 1999, 3). During his time at university, he was introduced to the ideas of the Austrian School of Economics, including marginal utility theory. He studied the works of key figures, such as

⁶ He had no relation to the renowned Rothschild banking dynasty, a fact that was quite often inquired about during his lifetime (King 2014, 22).

Carl Menger, Eugen von Böhm-Bawerk, and Friedrich von Wieser. These early influences provided Rothschild with a solid grounding in economic theory, although he would later diverge significantly from the Austrian School's methodological individualism and laissez-faire ideology, instead developing a problem-oriented approach to economics.

2.2 Exile in Scotland and Adopting Keynesian Theory (1938-1947)

Rothschild witnessed the political upheaval brought on by the rise of Austro-Fascism in 1934 and the “Anschluss”—Austria’s annexation by Nazi Germany—in 1938. With the rise of the Nazi regime, the political situation in Austria deteriorated rapidly. As a Jew, Rothschild was forced to flee the country with his wife, escaping via Switzerland to Scotland (Rothschild 1999, 4).

In Scotland, he received a scholarship to the University of Glasgow, where he studied political economy and philosophy under the guidance of his Professors Alec Macfie and Alec Cairncross. This period was intellectually formative for Rothschild, as he immersed himself in the works of John Maynard Keynes and other contemporary economists who were challenging the orthodox economic theories of the time. Reading Joan Robinson’s (1937) book “Introduction to the Theory of Employment” was of significant importance to him, as it gave him intellectual access to the philosophy of John Maynard Keynes and enabled him “to enter a new world” (Rothschild 1999, 5). After earning his degree, Rothschild served as an assistant lecturer at the University of Glasgow, where he taught price theory. This exposed him to theories of imperfect and monopolistic competition, sparking his interest in these areas.

Rothschild often recalled his early academic ventures with a touch of amusement, illustrating his youthful boldness with the anecdote,

My first theoretical paper, which I did at the university, I immediately sent in youthful exuberance to the leading journal, the Economic Journal. He [referring to John Maynard Keynes] was the editor. After a few days, I received a letter where he wrote, “I like it, I will publish it.”⁷

⁷ His first essay published in “The Economic Journal” is Rothschild (1942), “A Note on Advertising”. The quote is in German and taken from the website “<https://www.kurt-rothschild.at/leben/biographie/>”. All translations of German quotations into English are provided by the author of this chapter.

This early acceptance by Keynes himself served as a significant validation and encouragement for Rothschild's burgeoning career.⁸

During World War II, Rothschild was interned as an enemy alien, but he was soon released and allowed to continue his academic pursuits. He worked as a lecturer at the University of Glasgow and appreciated the open and unbiased academic atmosphere in Scotland. About Scotland, Rothschild (admired that

(...) a differentiated and differentiating view in political matters and tactics was accepted. 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 views on politics and political action but probably also contributed to the *eclectic leanings in theoretical matters*" (Rothschild 1999, 6; my emphasis).

His time in Scotland solidified his commitment to a pluralistic approach to economics, one that embraced diverse theories and methodologies to better understand and address economic issues. In his academic career, he pursued an interdisciplinary approach, viewing economic theories as tools for analyzing and solving concrete problems.

2.3 Return to Austria and Work at WIFO (1947-1966)

After World War II ended, Rothschild returned to Austria in 1947 where he faced resistance in obtaining academic positions due to the influence of former Nazis. He joined the Austrian Institute of Economic Research (WIFO), one of the leading economic research institutions in Austria. A recommendation from August Hayek was helpful in his application. His early years at WIFO were marked by challenges, including a skeptical attitude towards the quality of available economic data.

Rothschild made significant contributions to economic research at WIFO. He collaborated with prominent economists such as Josef Steindl (1979), with whom he developed a deep professional and personal relationship. Their work often focused on issues of economic development, income distribution, and the role of monopolies and oligopolies. In 1962, Rothschild completed his habilitation at the University of Vienna, which allowed him to teach at the university level. His habilitation thesis, which dealt with issues of price theory and market structures, was well-received and further established his reputation as a leading economist in Austria.

⁸ It is remarkable that, early in his career, when Rothschild was only in his late twenties or early thirties, he already published in prestigious economic journals, such as *Economic Journal*, *Review of Economic Studies*, and *Oxford Bulletin of Statistics* (Rothschild 1942b, 1942c, 1943a, 1943b, 1944, 1947).

During his time at WIFO, Rothschild also engaged in public policy discussions and contributed to the development of economic policies in post-war Austria. His work often emphasized the importance of addressing social and economic inequalities and the need for state intervention in the economy to promote stability and growth. His work at WIFO was distinguished by rigorous research and a series of important publications that solidified his position as a leading thinker in post-Keynesian economics.

2.4 Academic Career at the University of Linz (1966-1985)

In 1966, Rothschild was appointed to the newly founded University of Linz, where he served as rector in 1971/72. His professorship provided him with an opportunity to shape the curriculum and academic direction of the economics department. He was known for his ability to facilitate lively and constructive discussions among faculty and students, and he often invited prominent economists to speak at the university. Rothschild's tenure at Linz was marked by his commitment to a problem-oriented approach to economics. He believed that economic theory should be grounded in the realities of economic life and that it should address pressing social issues. This perspective was reflected in his teaching, where he encouraged students to critically engage with economic theories and to consider their practical implications. During this period, Rothschild continued to publish extensively on a wide range of economic subjects, including price theory, labor market economics, and income distribution. His work was characterized by a deep skepticism of simplistic economic models and a commitment to understanding the complex realities of economic life.

2.5 Retirement and further publishing activities (1985-2010)

After retiring from his professorship in 1985, Rothschild remained active in the academic community. He continued to work as a consultant at WIFO, participated in conferences, and published scholarly articles and books. His later works often reflected on the state of economic theory and the importance of maintaining a pluralistic and interdisciplinary approach to economics. Even in retirement, Rothschild's intellectual curiosity and commitment to social justice did not wane. He engaged in public debates on economic policy and continued to advocate for policies that addressed economic inequality and promoted social welfare. One of his final books, co-authored with Hans Bürger and published in 2009 (when he was already 95 years old), exemplified his enduring commitment to economic research and his belief in the importance of interdisciplinary perspectives (Bürger and Rothschild 2009).

Rothschild passed away on November 15, 2010, in Vienna, leaving behind a legacy of intellectual rigor, social commitment, and a profound influence on the field of economics.

3. Kurt Rothschild's Contributions to Post-Keynesian Distribution Theory

3.1 Rothschild's Approach to Economic Theory

Rothschild's work was deeply aligned with the core principles of Keynesian economics. He was particularly drawn to its focus on macroeconomic phenomena, its openness to considering the role of the state and political action in shaping economic outcomes, and its emphasis on uncertainty in economic decision-making.

Rothschild made important contributions to the study of labor markets, focusing on issues such as unemployment, wage determination, and labor market institutions (Rothschild 1954, 1961, 1968, 1988, 1993, 1994). His work on unemployment challenged the neoclassical view that unemployment is primarily voluntary or caused by rigidities in the labor market. He argued that unemployment often results from macroeconomic factors, such as insufficient aggregate demand, and that active government intervention is often necessary to achieve full employment.

Rothschild always insisted on the relevance of macroeconomic correlations and influences and took into account the overall economic situation, in particular the situation on the labor market (full or underemployment). His papers on inflation, stagflation, and the Phillips curve were highly influential and well-received within the academic community (Rothschild 1971a, 1982). Rothschild (1999, 5) once stated that Keynesian economics had a significant influence and appeal for him because it provided a more effective and straightforward theoretical foundation for understanding socio-economic issues:

The most important characteristics in this respect are the immediate access to macroeconomics, which points the way to considering state and political action; the stress on uncertainty and decisions under uncertainty (a bridge to psychology and away from the „mechanic” rationality of the homo oeconomicus); and the shift in emphasis towards the analysis of the socially most pressing economic problem, viz. unemployment, instead of starting with and concentrating on price formation and equilibrium conditions in more or less perfect markets. These characteristics appealed to me not only because of my special biases (or „philosophy”?), but also because they force one to pay more attention to realism and relevance than some other types of economic analysis (Rothschild 1999, 5).

This quote encapsulates Rothschild's perspective on the key strengths of Keynesian economics, highlighting its relevance to real-world economic problems and its departure from the more abstract and idealized assumptions of neoclassical economics. Rothschild's Keynesian orientation led him to prioritize the study of issues such as unemployment and income

distribution, which he saw as central to understanding the functioning of modern economies. He believed that economists should actively address pressing social and economic challenges instead of concentrating solely on theoretical models of market equilibrium. He valued realism and relevance over the perfection of the analyses of market equilibria. In his labor market research, he analyzed how bargaining power shapes employment relations and wage outcomes. Rothschild demonstrated that labor markets are often characterized by power asymmetries and that wages and employment conditions are determined not only by market forces but also by negotiations and institutional and social frameworks.

Rothschild's contributions to post-Keynesian distribution theory were significant, particularly in the realm of macroeconomic income distribution. His influence on the wage and distribution debate is evident in his seminal book "Theory of Wages" (1954) and further expanded upon in his comprehensive article "Der Lohnanteil am Gesamteinkommen (The Wage Share of Total Income)" (1957). Rothschild generally accepted Kalecki's model, emphasizing the role of monopoly power in stabilizing the wage share. In the latter work, he critically examined the theoretically contentious stability hypothesis of the wage share, which had been considered a "stylized fact" in growth and distribution theories. By employing both theoretical and empirical evidence, Rothschild challenged this hypothesis, thereby advancing knowledge in the field.

In the following sections, I will first discuss Rothschild's engagement with Kaldor's post-Keynesian theory of income distribution. Then, I will present his perspective on the long-assumed constant wage share. Subsequently, I will examine Rothschild's critical engagement with Sydney Weintraub's theory of relative shares, as this reveals much about Rothschild's views on the appropriate approach on issues of income distribution.

3.2 Engagement with Kaldor's Growth and Distribution Theory

Kurt W. Rothschild critically examined Nicholas Kaldor's growth and distribution theory, thereby making significant contributions to the field. His involvement with Kaldor's distribution theory, beginning in the early 1960s (Rothschild 1961, 1965), played a pivotal role in the advancement of distribution models grounded in circular flow analyzes, thereby enhancing their empirical relevance (Guger 2011, 44). In Kaldor's original formulation, relative income shares were determined by investments and the predetermined savings behavior of profits and wage earners (Kaldor 1955/56). Rothschild (1959) argued that Kaldor's technical progress function rested on assumptions that were overly specific and lacked empirical support. He was skeptical of the constancy of class-specific saving propensities, suggesting that these

propensities are influenced by historical and social contexts rather than being fixed independent variables. By relaxing these assumptions and integrating social dependencies into the behavior of economic actors, Rothschild (1961) introduced a more realistic framework and highlighted the potential role of unions in wage policy. In his 1959 paper, Rothschild (1959) criticized steady-state growth models for their limited variables and neglect of historical, social and institutional details that are crucial for long-term analysis.

One of the problems Rothschild had with Kaldor's model was that income distribution is endogenously determined by purely economic factors. Attempts to increase real wages or profit margins either fail from the outset or lead to a distributive struggle resulting in inflation with a largely uncertain outcome. As such, there is no room for the influence of the social structure in Kaldor's model. However, the endogenous determination of distribution only holds within a specific range, the extent of which is determined by various influences, including exogenously given „social“ factors (e.g., the minimum wage). If the level of relative shares compatible with a goods market equilibrium lies outside these ranges, a new equilibrium in the form described by Kaldor will not be achieved. Yet, regarding the influencing factors that operate within these margins, one might, along with Erich Preiser⁹, wonder that

... neither the wage level nor the structural situation in the goods markets play a role. ... It is clear that this cannot be, and since the formula is correct, the question arises as to where the error lies (Preiser 1964, 11).

Kaldor's model was subject to similar criticisms from both Preiser and Rothschild. Therefore, we will briefly examine Preiser's critiques at this point. Preiser identified the main shortcoming in Kaldor's model as the assumption that income recipients are willing to accept any income distribution that falls within the specified range, thus criticizing Kaldor's determined ranges as being too broad. Instead, he argues that it is more plausible to assume that income groups plan a specific distribution of income.¹⁰ In the long term, they therefore realize a particular income distribution that corresponds to their relative power, thereby closing Kaldor's range of choice. The relative power of the parties competing for distribution, in Preiser's view, is expressed in the so-called "structural degree of monopoly", which functions as a datum for the distribution analysis. In this, Preiser (1964, 48) sees „the translation of historical power relations into economic categories.“ In line with Kalecki's theory, the presence of a degree of monopoly is

⁹ On Erich Preiser, an influential German Economist in the 1950s and 1960s, and his contributions to Keynesianism and distribution theory see Johannes Schmidt's essay Backhaus, Chaloupek, Frambach (forthcoming).

¹⁰ "... here a certain real wage, there a certain profit rate and, more recently, even sometimes a share in national income in collective bargaining" (Preiser 1964, 49).

inherently linked to the existence of imperfect markets, where a markup pricing procedure is applied. Preiser understands his contribution as a complement to Kaldor's theory, insofar as the process depicted by Kaldor ensures a goods market equilibrium while simultaneously revealing the hypothetically possible income share distribution compatible with it. At the same time, the resulting share distribution is determined taking into account the social structure of society. Secondly, Preiser emphasized the importance of Kaldor's mechanism in explaining income distribution over the economic cycle. He argued that this framework captures the oscillations around the structural degree of monopoly, which forms the core of long-term income distribution. However, Preiser's theory does not provide any further explanations regarding the emergence and development of the structural degree of monopoly over time. Preiser, therefore – much like Kalecki – often had to contend with accusations of tautology.

Rothschild (1965) modified the Kaldor model in a similar way to Preiser, but without resorting to a construct such as the degree of monopoly. In his approach, social power relations are evident in the fact that the parties strive for a certain income distribution or develop resistance if a limit is exceeded, which marks the distribution that is considered barely acceptable. If this tolerable limit is surpassed, the respective groups begin to take action: Entrepreneurs respond to wage increases that appear too high to them with disproportionate price increases or with vigorous productivity-enhancing measures. On the other hand, employees counter price increases, which shift the distribution to their detriment to an unacceptable extent, with attempts to increase nominal wages. As in the Kaldor model, this can result in a wage-price spiral or price-wage spiral. However, Rothschild emphasizes that these lines of resistance are primarily short-term and thus have a business cycle-enhancing character, but that in the long term, investments would also create the necessary savings through income variation. In his 1961 work, Rothschild (1961) emphasized the importance of path dependence and historical experiences in determining economic growth and distribution variables. He referenced Erich Schneider¹¹ (1957) to illustrate the "Keynesian spirit" by incorporating a Kaldorian model without full employment. He also explored the concept of real wage resistance and class conflicts, developing a model that identifies the conditions for a maximum wage share (minimum profit share) based on the investment-income ratio.

These modifications of Kaldor's distribution theory demonstrate that it is feasible to incorporate circular flow relationships with approaches that consider the conflict between competing groups

¹¹ For further insight into one of the most influential German Keynesian academic economists of the post-Second World War era, see Harald Hagemann's essay in Backhaus, Chaloupek, Frambach (forthcoming).

or classes. Consequently, they constitute significant contributions to the distribution analysis in a macroeconomic context. However, their immediate linkage to Kaldor's distribution theory remains unsatisfactory, since it is based on some untenable premises and implausible causal processes (Krämer 1996). Power-theoretical influences must, therefore, be analyzed in a framework other than that proposed by Kaldor. In the section below, we will explore another variant of post-Keynesian distribution theory developed by Michał Kalecki, which gives a broader role to power elements. This discussion will focus on Rothschild's perspective on Bowley's law.

3.3 Bowley's Law: To be, or not to be

In this section, we examine Rothschild's contribution to the debate on wage share stability. Early in his career, in his book „The Theory of Wages“, Rothschild (1954) discussed the relative shares of income, affirming *Bowley's Law*, which posits a constant wage share over time.¹² This law suggests that the proportion of national income allocated to wages remains more or less stable in the long run. Rothschild later criticized this alleged “law”.

The hypothesis of a constant wage share has a long history as an ideological instrument of wage policy. Initially, wage fund theorists regarded the wage bill as a fixed variable. This perspective implied that higher wages could only be achieved at the expense of employment or other workers' wages. In neoclassical theory, the marginal productivity framework – particularly in the form of the linear-homogeneous Cobb-Douglas production function – posited that the wage and profit shares were technologically predetermined by the fixed exponents on labor and capital inputs. Any attempt to enforce wage increases that exceed productivity increases would lead to the substitution of labor by capital and thus result in unemployment. The neoclassical theory of share distribution was shaped by a series of empirical studies conducted for Great Britain and the USA from the 1920s onwards. Similarly, the early post-Keynesian growth and distribution theory drew from these studies. Notably, the works of Bowley (1920), Bowley and Stamp (1927), and Bowley (1937) found a stable wage share of total income, establishing this as a stylized fact of macroeconomic growth and income distribution. Arthur Bowley (1937) concluded from this data that a stability in the proportion of earned income to total income persisted between 1880 and 1913, and between 1911/13 and 1924. The studies apparently demonstrated the resilience of income distribution across various periods.¹³ John Maynard

¹² The “law of the constant wage share” is named after the British economist and statistician Sir Arthur L. Bowley (1869-1957) (Darnell 1981). It is considered to be a “great ratio of economics” (Klein and Kosobud 1961).

¹³ However, these results are highly dubious from today's perspective. For example, the wage bill did not include the salaries of white-collar workers. Furthermore, it represented an unadjusted wage share, meaning that changes in the proportion of self-employed persons to total employment were not considered. Additionally, the sources and methods of national accounting at that time were not as developed as they are today, raising

Keynes (1939, 48), echoed this sentiment, describing the constancy of labor's share in the national dividend as „one of the most surprising yet best-established facts in the whole range of economic statistics.“

Bowley's Law gained acceptance from numerous notable economists, including Paul Douglas, Michał Kalecki, John Maynard Keynes, Nicolas Kaldor, Paul A. Samuelson, Oskar Lange, Richard Goodwin, John Roemer, N. Gregory Mankiw, and Martin Feldstein. Keynes famously remarked on its miraculous nature, while Joseph Schumpeter labelled it a mystery, and Sidney Weintraub likened it to Newton's gravitational constant (Krämer 1996).

The hypothesis of income share constancy is a foundational assumption within various strands of distribution theories (Krämer 2011). In neoclassical, post-Keynesian, and Kalecki's writings on distribution, arguments were presented as to why income shares are rather constant in the long run. It is a peculiar feature of distribution theories, following the era of classical political economy, that they have been constructed from the outset in such a way that they primarily reproduce and justify the constancy of relative income shares. As Rothschild rightly observed:

... from the days of Douglas and Cobb via Keynes and Kalecki right up to Kaldor and later writers the “puzzle” of constant shares was a motivating force in distributional research. Behind the question why the wage share is what it is, there was the “deeper” and dominating question why the share is constant (Rothschild 1985, 777).

It is evident that, as a consequence of this limitation, distribution theory has been deprived of its original mission, which was to explain the laws that *change* the distribution of national income. Ricardo's belief that the exploration of these laws would one day become the subject of fruitful scientific research, expressed in a letter to Malthus (Ricardo 1951/59, vol. viii, 278-279), has therefore not been fulfilled.

What the various schools of thought have in common is that they model the constancy of relative income shares in such a way that either the factors determining income distribution themselves remain constant in the long run, or that there is a quasi-automatic compensation of the forces that influence income distribution (Krämer 2011). However, if the fundamental assumption of share constancy is abandoned, such deterministic approaches and monocausal explanations are no longer suitable for explaining the level and changes in income shares.

In this context, the theory of Michał Kalecki, to which Rothschild referred in many of his writings, is an interesting case. Although Kalecki accepted Bowley's Law, his theory of income distribution is more open to variable income shares, as the distribution is determined by exogenous factors such as the degree of monopoly or the relative economic power of the socio-

legitimate doubts about the accuracy of the calculations for both the national product and the wage bill (Krämer 2011).

economic classes (*ibid.*, 41). In his “The Determinants of the Distribution of the National Income”, Kalecki (1938) established his theoretical framework. Unlike the neoclassical approach, his theory was grounded in imperfect competition and a pricing mechanism based on profit markups over variable unit costs. In Kalecki’s economic theory, firms set prices based on their costs of production, including wages and raw materials. They then add a markup to account for fixed costs such as machinery expenses, depreciation and profits. This profit markup is influenced by structural factors such as the degree of monopoly power and the broader competitive conditions in the market. Kalecki explained Bowley’s empirically observed constancy of the wage share, which he accepted as valid, by predicting a long-term increase in monopoly power due to tendencies toward industrial concentration (Kalecki 1939). Simultaneously, he anticipated a counterbalance through stronger labor unions. However, regarding other determinants of income distribution in his model, such as raw material prices and the economic structure, Kalecki remained cautious about making long-term forecasts.

Kalecki’s model was occasionally criticized as tautological. Rothschild (1957, 165) did not consider the accusation of tautology levelled against Kalecki to be without foundation. However, he did not regard this as a decisive issue, as Kalecki’s theory on the impact of monopoly power provided valuable insights into price theory and the dynamics of competition. For example, he noted that the degree of monopoly was not only relevant for questions of income distribution but also influenced corporate pricing strategies as well as technical and sociological factors. Rothschild (1954) built upon Kalecki’s model and analyzed it within the context of income distribution. He concurred with Kalecki’s claim that offsetting alterations in the degree of monopoly and the price of raw materials had impeded any substantial alteration in labor’s share (King 1994, 438; Guger 2011). More generally, he identified three primary factors influencing the share of wages in gross national income: the degree of monopoly, the ratio of raw material costs to total wages, and the economic structure characterized by varying sectoral weights. For instance, an increase in monopolization or a rise in raw material costs relative to labor expenses would lead to a decline in the wage share. With his detailed consideration of the most important theoretical and statistical aspects, Rothschild wanted

to prevent the assertion of a stable wage share (or a variant thereof) from becoming a generally accepted dogma - similar to Pareto’s law of income distribution, for example - before a sufficiently sound statistical basis or a sufficiently profound theoretical explanation allows this assertion to be proven or refuted (Rothschild 1957, 184).

Although Rothschild did not explicitly question the constancy of relative shares in his 1957 essay, the statements in question demonstrated a certain skepticism about this stylized fact of

growth and distribution theory, which was firmly established at the time.¹⁴ In his later work, he abandoned the notion of constant relative shares and developed distribution models in which fluctuations in income shares were possible.

While the central determinants of distribution, such as relative power relations and technological progress, are not adequately addressed within either the neoclassical or Kaldorian models, Kalecki's theoretical framework provides the necessary analytical tools to consider these influential factors, as Rothschild already acknowledged. A methodological advantage of Kalecki's theory is that it does not rely on the steady-state methodology of neoclassical and the early post-Keynesian growth theory, which is often used in long-term distributional analysis. Kalecki's approach remains meaningfully applicable because it does not rely on Bowley's Law. Consequently, Kalecki's theory, along with extensions provided by authors like Sylos-Labini (1969, 1984), offers a potential point of departure for the development of a comprehensive distribution theory within the post-Keynesian paradigm.¹⁵

Recent decades have validated Kurt Rothschild's cautious assessment regarding the long-term stability of the wage share. Contrary to the widespread thesis of its stability, the wage share has proven to be more volatile over the past 50 years than previously assumed (Krämer, Proaño, Setterfield 2023, 85). The loss of bargaining power of workers and trade unions, globalization, and the financialization sector are factors that have substantially changed income shares to the detriment of wage income in the last three decades (ibid., 86-91).

3.4 Sidney Weintraub's "Eclectic Theory of Relative Shares"

Based on the recognition that the three original versions of macroeconomic distribution theory (neoclassical, Kaldorian, Kaleckian) do not provide a comprehensive and satisfactory explanation of the factors that can change relative income shares in the long-run, Sidney Weintraub pleaded for eclecticism in distribution theory, because "... everything is a 'little right' in share theory" (Weintraub 1981, 23). In his widely discussed essay within the post-Keynesian spectrum, "Eclectic Theory of Relative Shares," Weintraub (1981) attempted to integrate various aspects of prevailing distribution theories. He believed that individual theories either

¹⁴ In 1958, at the famous Corfu conference on capital theory, Nicholas Kaldor formulated a series of stylized facts that had a lasting influence on the discussion about growth and income distribution. The constancy of relative income shares was one of them. His article on capital accumulation and economic growth was published in 1961 (Kaldor 1961).

¹⁵ For a comprehensive overview of recent extensions and applications of post-Keynesian and Kaleckian models of growth and distribution, see Hein (2023).

placed unilateral emphasis on the demand side (Kaldor) or the supply side (neoclassical, Kalecki). Her argued, in the sense of Marshall's dictum, that "both sides of the scissors" are responsible for determining income distribution (Weintraub 1981, 17).

Rothschild expressed reservations about Weintraub's (1981) essay. His concerns are not directed against Weintraub's plea for applied eclecticism in distribution theory. Rothschild himself has made it clear at various points that income distribution can only be adequately studied under the prevailing economic, institutional and social conditions, and that monocausal explanations are therefore prohibited (see, for example, Rothschild 1973; King 1994). In his paper (Rothschild 1985), he addressed several additional points he believed warranted criticism. Firstly, he raised some technical issues with Weintraub's approach. One key point of contention was the significance of constancy in the "Wage-Cost Mark-Up" (k), a key variable in Weintraub's model. Rothschild demonstrated that even substantial changes in the distribution of income would have only minor effects on the value of k , casting doubt on its explanatory power. Secondly, Rothschild pointed out that Weintraub's theory lacked a clear and consistent analytical framework, which made it difficult to apply and test empirically. Thirdly, and most significantly, he raised methodological objections to Weintraub's equilibrium approach, which he shares with neoclassical and Kaldorian distribution theory. While it is appropriate to seek long-term stable relationships in markets, production, and consumption to determine a macroeconomic equilibrium solution for production and employment, this approach is not suitable for distribution theory, since:

(...) there can be no such "peaceful" stability in the distribution field. Eclectic theory in particular must take into account that discontent over shares belongs to the essence of capitalist (if not any) societies (Rothschild 1985, 588).

Weintraub also acknowledged that power and conflict play an important role in distribution:

Share theory lays bare the Ricardo-Marx-Sraffa judgement of conflict over income shares, despite the lulling marginal productivity harmonies by the many reincarnated J. B. Clarks (Weintraub 1981, 23).

However, at this point, Rothschild identified the limitations of Weintraub's equilibrium approach, noting its principal inability to address the ongoing struggle between socio-economic groups concerning income distribution. The ongoing conflict over income distribution suggests that what is often labelled as "disequilibrium" is not an anomaly but rather "an almost natural state in the distribution sphere" (Rothschild 1985, 588), since the groups competing for a share of the product are continuously striving to increase their portion of national income. At best, a temporary balance of power emerges—one that can be reshaped at any time by shifts in the social and economic environment. Therefore, even when incorporating elements of power in a distribution theory – a concept strongly advocated in Rothschild's work – it cannot be assumed

that a single specific income distribution exists that exactly reflects the relative strengths of competing groups. In reality, social groups have different ideas about what can be regarded as an adequate distribution. They therefore constantly try to realize their desired share of the pie with the tools at their disposal in the dispute over income distribution. In addition to the nominal wage level, firms' pricing also proves to be a strategic variable, as referred to in Kalecki's approach to distribution theory. In extreme cases where one of the parties does not accept the resulting distribution and fully asserts its means of power, distributional conflict inflation can occur. In such scenarios, it is evidently impossible to find an equilibrium solution.

However, even under less extreme circumstances, the determination of equilibrium values for distribution must be understood differently. The idea that exogenous parameters can be specified and that endogenous forces will work towards achieving a balanced distribution must be rejected. The never-ending interaction between endogenous factors of distribution and exogenous (especially non-economic) factors is characteristic of the distribution sphere. Rothschild's approach advocates for a distribution theory that avoids two extremes: the notion that every distribution resulting from a dispute is fundamentally feasible and the belief that economic mechanisms alone determine distribution. A realistic perspective shows that economic conditions establish the framework within which distribution disputes occur. The relationship between these two levels is not unidirectional but interdependent.

Rothschild attributes the relatively low fluctuations of relative shares around their "equilibrium values" observed most of the time in the real world to the significant resistance posed by the negatively affected group against more pronounced changes in distribution. Under normal circumstances, the balance of power does not undergo major changes. Following Rothschild's approach, the main task of an advanced distribution theory is to analyze the conditions that lead to changes in income distribution, thereby shifting the analysis into a dynamic context.

Following Rothschild's argument that income earners prioritize defending their relative income position, any given distribution can be partly explained by the income distribution prevailing in the past. This allows us, in the first step, to consider distribution as given and to analytically focus on the factors influencing changes in distribution. For Rothschild, it was essential that such an approach incorporates both economic and sociological influences. In line with his interdisciplinary vision, Rothschild (1973, 217) championed a "Political Economy" of distribution, where economic and sociological influences are combined", incorporating changes in the supply of production factors due to legal and social institutions, as well as the exercise of economic power. He argued that what a synthetic theory of income distribution

(...) *cannot* do is to give simple answers which will hold without respect to concrete situations and circumstances; but that is true of all disequilibrium theory. It is this what makes it so “sloppy” compared with pure equilibrium theory (Rothschild 1985, 592; emphasis in the original).

3.5 The Role of Bargaining Power

Rothschild's analysis of wage determination emphasized the role of bargaining power and institutional factors. He argued that wages are not solely determined by the marginal productivity of labor but are also influenced by the strength of labor unions, the level of unemployment, and government policies (Rothschild 1988). This perspective aligned with the post-Keynesian view that wage determination is a complex process involving economic, social, and political factors.

The role of power not only in determining wages, but in income distribution in general was underscored by Rothschild (1971b, 1978, 2002). Already in 1957, he highlighted how elements of power influenced the distribution of incomes, including the political pressure exerted by unions to implement price controls to protect wage shares. He argued that institutional factors and the economic system itself must be incorporated into distribution analysis. Critiquing Kaldor's theory, which linked profit shares to investment rates and consumption propensities of workers and capitalists, Rothschild pointed out that reducing capital incomes might lower investment rather than consumption, thereby setting an upper limit for wages.

Rothschild identified several factors that could influence the wage share by affecting bargaining power, including:

- **Macroeconomic Conditions:** The overall state of the economy, including levels of unemployment and economic growth, which can affect the leverage of workers in wage negotiations.
- **Labor Market Institutions and Bargaining Power of Labor Unions:** The presence and strength of labor unions, the effectiveness of collective bargaining agreements, and labor laws that protect workers' rights enhance the bargaining power of labor unions.
- **Economic Policies:** Government policies that influence the balance of power between workers and employers, such as minimum wage laws, social security systems, unemployment benefits, and tax policies.
- **Degree of Monopoly:** The extent of market power held by firms, which could allow them to set prices above competitive levels and capture a larger share of income.

These factors highlight the diverse influences on income distribution and underscore the importance of a comprehensive analysis to better understand labor market dynamics.

3.6 Rothschild's Contributions to Post-Keynesian Distribution Theory – A Summary

Summing up, Rothschild extended his analysis of income distribution beyond the immediate dynamics of the labor market to consider the wider institutional and political context. He argued that income distribution is deeply embedded in and influenced by a country's legal and regulatory framework, as well as by the prevailing political and ideological climate. Rothschild suggested that policies and institutions supporting collective bargaining, social welfare programs, and progressive taxation can help achieve a more equitable distribution of income. Conversely, deregulation, weakening of labor protections, and regressive tax policies tend to exacerbate income inequality. His work highlighted the need for a comprehensive political economy approach to understanding income distribution, one that integrates economic, social, and political dimensions.

A vocal critic of neoclassical distribution theory, particularly the marginal productivity theory of income distribution, Rothschild argued that this theory was overly simplistic and failed to account for the complexities of real-world economic relationships. He pointed out that marginal productivity theory assumes perfectly competitive markets, constant returns to scale, and the absence of power asymmetries – assumptions that rarely hold in practice. In contrast, Rothschild's approach acknowledged the importance of market imperfections, institutional factors, and power dynamics in shaping income distribution. His analysis of growth and distribution emphasized the complexity and context-dependent nature of economic progress. This perspective contrasts with the perceived precision of pure equilibrium theory and sets the stage for his multifaceted contributions. Recognizing the limitations of any single disciplinary perspective, Rothschild championed an interdisciplinary approach to understanding income distribution (Rothschild 1973). He argued that a complete analysis must incorporate insights from sociology, political science, and psychology alongside traditional economic theory. In his view, economics should not be isolated from these other fields; rather, a comprehensive theory of income distribution requires an examination of the broader socio-economic environment, historical context, and institutional dynamics. He underscored this point by identifying “two fundamental problems” from Keynes (1936) – unemployment and the unequal distribution of income and wealth – as issues that remain central to economic policy and social well-being.

His criticism of Kaldor's growth and distribution theory further exemplifies his insistence on grounding economic analysis in empirical reality and historical context.

A significant element of Rothschild's work was his strong advocacy for state intervention to redistribute income. He believed that reducing social inequalities and enhancing economic stability necessitated active policy measures designed to correct imbalances inherent in capitalist systems. Rooted in a Keynesian economic framework and enhanced by Kalecki's (1938, 1939, 1943, 1954) analysis – especially concerning the influence of firm pricing under monopolistic conditions on income shares – his proposals for redistribution focused on achieving social justice through corrective state action.

3.7 Rothschild's Themes in Contemporary Discussions

Kurt W. Rothschild's contributions have had a lasting impact on economic theory and policy. His work is recognized for integrating political and social dimensions into economic analysis, challenging the conventional neoclassical approaches, and advocating for state intervention to achieve social justice and economic stability. Rothschild's later works continued to reflect his eclectic and pluralistic approach (Kurz 2014). He engaged in discussions about the nature of economics, emphasizing the importance of methodological diversity and the relevance of economic theories to real-world problems.

The relevance of Rothschild's insights remains strong in today's economic discourse, particularly in the areas of market power, mark-up pricing, and income distribution. For example, contemporary research presented at the Jackson Hole Conference in 2018, such as de Loecker and Eeckhout's (2017) study or van Reenen's (2018) paper on the rise of market power and its macroeconomic implications, resonates with Rothschild's emphasis on the role of monopolistic practices in shaping income distribution. Similarly, works like those of Autor et al. (2020) on the fall of the labor share and the rise of "superstar" firms further underline the importance of Rothschild's analysis of market dynamics and their impact on income shares.¹⁶ These studies highlight the increasing market power of dominant firms and its adverse effects on labor's share of income, reflecting Rothschild's concerns about the concentration of economic power.

¹⁶ However, it is noteworthy and unfortunate that those authors neither mention nor cite the works of Rothschild or Kalecki.

His theories also intersect with contemporary debates on distribution and economic growth (OECD 2015; Ostry, Berg, Tsangarides 2014). The work of Piketty (2014) and others on the World Inequality Database (WID) and their analyses of unequal distribution and its effects on economic growth underscore the enduring relevance of Rothschild's approach. Rothschild's emphasis on the need for a comprehensive and interdisciplinary analysis of income distribution is echoed in these modern discussions, highlighting the interconnectedness of economic, political, and social factors.

4. Concluding Remarks

Kurt W. Rothschild's academic legacy is characterized by an impressive breadth of inquiry, spanning price theory, labor market economics, income distribution, and the role of power and institutions in economic processes. His lack of association with a single major idea might explain why his work is not as widely recognized internationally, unlike the works of his contemporary colleague Josef Steindl (King 1994, 431). His work consistently challenged the conventional neoclassical paradigm by exposing the limitations of overly simplistic models that assume a stable equilibrium dictated solely by impersonal market forces. Instead, Rothschild demonstrated that the distribution of income, growth and the dynamics of economic power are shaped by a complex interplay of political, social, and institutional factors. His rigorous analysis of market structures and price formation questioned the conventional wisdom of perfect competition, arguing that real-world phenomena are better understood through a multifaceted framework that integrates insights from Marxian, Keynesian, and even neoclassical perspectives making him an innovative eclectic post-Keynesian economist.

He underscored that issues such as unemployment and income inequality – problems highlighted by Keynes in the 24th chapter of his *General Theory* – are central to economic policy-making and cannot be adequately addressed by static or monocausal models. Rothschild consistently emphasized that these issues should be at the forefront of economic analysis and policy-making. His work on income distribution, which is the focus of this essay, elucidated how shifting power relations and institutional dynamics continuously redefine the economic landscape, leading to a state of “natural disequilibrium” in income shares rather than fixed magnitudes. By rigorously integrating theoretical and empirical insights, he offered a more dynamic framework that acknowledges the inherent conflicts and constant evolution of economic structures, influencing the distribution of national income. His contributions to post-

Keynesian distribution theory remain profoundly influential and relevant to contemporary economic discourse.

Advocating for methodological openness and multiparadigmatic approaches, Rothschild argued that realistic insights and practical relevance in economics could only be achieved by embracing a diverse set of theoretical approaches. This methodological openness was crucial in his addressing of the dynamic and complex nature of real-world economic events. In his words:

In all these cases the reliance on “one eye” only and blindness on all other eyes (of which there should be many) leads to a very uneven distribution of weights and interests regarding various theoretical approaches which is not independent of the ruling “Zeitgeist” (Rothschild 1999, 7).

Central to his methodology was the advocacy for Robinson’s “box of tools” approach – an invitation to embrace multiparadigmatic analysis.¹⁷ Rothschild argued that no single theoretical lens is sufficient to explain the intricacies of economic reality. He advocated for a set of theoretical frameworks, emphasizing that

a multitude of theoretical approaches (the “box of tools”) combined with situational and interdisciplinary supplementary considerations (...) is at least helpful if not essential to interpret real events (Rothschild 1999, 7).

Ultimately, Rothschild expressed a firm commitment to

“(...) a methodological understanding that multiparadigmism and openness are unavoidable if realistic insights and relevance for practical affairs are to be achieved” (Rothschild 1999, 6).

He believed that “the whole post-war development can be explained by such combinations (...)” (ibid.) drawing from Marxian, Keynesian, and Neoclassical perspectives. He recognized that each of these theoretical traditions offered valuable insights, even if they were sometimes contradictory. The Marxian perspective highlighted “(...) the influence of changes in productive relations and group conflicts on the shifts in market and political power (...)” (ibid.). Keynesian and post-Keynesian theories provided a framework for understanding the possibilities of government intervention in the economy. Neoclassical theory, despite its limitations, could elucidate “(...) the intricacies of various new market mechanisms”. However, he cautioned against the misuse of theories, noting that

„(...) vulgar Marxism was misused as a legitimation for the Soviet economic system, vulgar Keynesianism supported the idea of the welfare state, and a vulgar neoclassical theory is supposed to justify free markets and deregulation“ (ibid.).

His work was also characterized by a strong ethical and social commitment to using economics as a tool for promoting social justice and human well-being. He maintained that economics

¹⁷ While this metaphor is widely attributed to Joan Robinson, Harcourt and Kerr (2009, p. 18) note that Robinson adopted the “box of tools” metaphor from A.C. Pigou.

should not merely be an academic pursuit but a means for social transformation. He once stated that he had

(...) an ethical and social “bias” that economics should contribute to a “better” world with less unemployment, less poverty, or – to formulate it more pathetically – to a world that is guided by the Utopian battle cry of the French Revolution: *Liberté, Égalité, Fraternité* (Rotschild 1999, 6).

In conclusion, Kurt Rothschild’s legacy is one of intellectual rigor, interdisciplinary inquiry, and a steadfast commitment to addressing societal challenges and enhancing human welfare through economics. His multiparadigmatic approach, ethical orientation, and persistent critique of conventional models offer enduring insights into the complexities of modern economies. He provided valuable contributions to post-Keynesian economics, significantly advancing the field with his comprehensive and nuanced perspectives. His work on labor markets and income distribution remains a vital point of reference for those seeking to understand and address the evolving challenges of economic inequality and the interplay of power in shaping our economic world.

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Imprint

Publisher

Macroeconomic Policy Institute (IMK) of Hans-Böckler-Foundation, Georg-Glock-Str. 18,
40474 Düsseldorf, Contact: fmh@boeckler.de, <https://www.fmm-macro.net>

FMM Working Paper is an irregular online publication series available at:
<https://www.boeckler.de/de/fmm-working-paper-22457.htm>

The views expressed in this paper do not necessarily reflect those of the IMK or the Hans-Böckler-Foundation.

ISSN 2512-8655



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