SUBJECTIVISM AND ECONOMIC ANALYSIS: ESSAYS IN MEMORY OF LUDWIG M. LACHMANN, EDITED BY ROGER KOPPL AND GARY MONGIOVI LONDON AND NEW YORK: ROUTLEDGE, 1998

Though little known among the economics establishment during his life time, Ludwig Lachmann was always widely connected. The range of scholars whom he knew and with whom he communicated was truly impressive. Since his death in 1990, he has become better known, particularly among heterodox economic scholars representing a wide variety of viewpoints. His appeal to such a heterogeneous group is undoubtedly to be found in his insights regarding the nature and importance of knowledge. This is reflected in this interesting book – a book of essays honoring his memory – edited by two scholars who, while differing in their approaches to economic doctrine and policy, share an appreciation of Lachmann's scholarship; an appreciation of his intellectual honesty, his methodological subjectivism, and his interest in endogenous change.

The depth of such admiration comes through in the introductory chapter in which Koppl and Mongiovi provide a brief outline of Lachmann's life and work and an overview of the chapters to follow. The introduction is helpful in placing Lachmann as perhaps the most Keynesian of the Austrians, a thinker subject to many diverse influences (such as Max Weber and his early teachers Werner Sombart and Emil Kauder), in turn influencing scholars of many different backgrounds. The account of Lachmann's early academic life adds a little to earlier accounts in suggesting that he had already absorbed much of Austrian theory before going to Switzerland, where he first studied it systematically. I balked at the description of Lachmann as a "liberal" in this early German period (or at any time). I suppose our authors meant to say that Lachmann had already developed an abiding appreciation of the qualities of the market process and thus in the importance of free markets, but, it seems to me, Lachmann did not share the degree of commitment in principle to free markets that Mises had, or the very strong pragmatic faith that Hayek, for the most part, seemed to have. It is true that his basically pro-market views probably placed him in danger in the Germany of 1933, but I am not sure we should describe him as a "liberal."

The contributions are diverse in nature. They all try, with varying success, to link their message to Lachmann. In the case of Brian Loasby's essay (chapter 2, "Ludwig M. Lachmann: Subjectivism in Economics and the Economy") this is not difficult. There is a natural affinity between the two thinkers. Loasby, as always, is thoughtful, insightful and provocative. The chapter was for me perhaps the most interesting of the book because it draws on a personal correspondence between Loasby and Lachmann that is most revealing of Lachmann's views on such matters as firms, institutions[1] and the place of Marshall in economics and in relation to the Austrians. Loasby also provides some interesting analysis of Lachmann's last book (Lachmann 1986). He persuasively argues that Lachmann is "perhaps the most Mengerian of Austrian economists" (p. 20), that his ideas complement some of Karl Popper's (p.14) and, more provocatively, that Lachmann can be thought of as the "founder of the modern-capability-based theory" of the firm (p. 25). This chapter is full of interesting ideas for those inclined to speculate about Lachmanian themes.

The relationship between Lachmann's and Mises's methodology is examined by Steven Parsons in chapter 3 ("Mises and Lachmann on Human Action"). This chapter will be of interest to those familiar with the linking of Lachmann's work to the hermeneutical turn. Parsons criticizes both Lachmann and Mises from this point of view.

In chapter 4 ("Lachmann and Subjectivism of Active Minds") Roger Koppl provides an interesting link from Lachmann's expectations to the work of Alfred Shutz and to Hayek's evolutionary theory. This draws upon some of Koppl other work (in collaboration with Butos and Yeager) on "big players" and "herding" in asset markets. It is clear that Koppl has a subtle understanding of Lachmann's theory of mind and what it implies in real world settings.

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[1] For example, just before his death Lachmann expressed the following in relation to the transition problem facing Russia, "The more I think about Russia the more pessimistic I become. How can this end well? Of course market institutions cannot be introduced by political fiat." (pp. 13-14, letter of July 1990).

Laslo Csontos died before the publication of this book and so his contribution ("Subjectivism and Ideal Types," chapter 5) was published posthumously. Csontos seems to have been an interesting thinker. Nevertheless, it appeared to me that this essay made some unwarranted assertions. In particular, Csontos attributes a methodological solipsism not only to Lachmann (a claim made, erroneously I believe, by others) but also to Mises and Hayek. This dubious claim casts doubt on the relevance of the rest of the essay. Still, the arguments are complex and others may wish to examine it to see if perhaps there is more there than I was able to see.

The relevance of the next chapter (chapter 6, "Endogenous Change, Open Systems and Provisional Equilibrium" by Maurizio Caserta) is similarly in doubt, but for different reasons. Caserta constructs a formalistic model which "assumes a closed capitalist economy that produces one good using two factors only: homogeneous labor and capital. Technology is given and … firms are identical …." (p. 116). One could hardly imagine anything less Lachmanian in spirit, in spite of Caserta's attempt to find links to Lachmann's concerns.

In chapter 7 ("Radical Subjectivism and Austrian Economics") Carlo Zappia takes Austrians to task for criticizing straw men. According to Zappia, the neoclassical economics of static, perfectly competitive equilibrium is no more. Instead, current economics has moved beyond this, in the work of Hahn, Radner, Grossman, Milgrom and Roberts, and Stiglitz, and Austrians would do well to take note of and incorporate some of this work (in the economics of information, game theory and other areas). Zappia is not alone in this sort of plea (see, for example, Foss 2000). My own view is that modern Austrians are caught in a difficult dilemma here. Much of the work to which Zappia refers *is* a variation on the perfectly competitive theme and does not really come to terms with the subjectivist insights of the Austrians, and, while it would be easy to point this out (see Thomsen 1992), modern Austrian scholarship is already very long on criticism ("negative heuristic") and short on positive contributions. The solution would be for Austrian to "just do it," to offer more positive contributions, perhaps taking note of and incorporating some of the work to which Zappia refers where appropriate.

Steven Horwitz provides a nice discussion of Lachmann's ideas on institutions in chapter 8 ("Hierarchical Metaphors in Austrian Institutionalism: A Friendly Subjectivist Caveat"). He suggests that, while social institutions, like language and law, provide indispensable coordinating functions for the actions of individuals driven by subjective and disparate expectations, these institutions, themselves, rest on subjective perceptions and anticipations, that, over time, could be falsified and they will evolve and mutate. To see them as "objective" fixed points in the subjective shifting landscape is erroneous. There is no fixed hierarchy in which objective higher level institutions serve as a backdrop against which to interpret the subjective meanings of economic actors. While I readily agree with Horwitz's (Lachmanian) understanding of institutions, I am less comfortable with his suggestion that Lachmann objectified them. I doubt that Lachmann would plead guilty (on this see Lachmann 1979). Rather I think the contextuality of the institutional structure is the real point. An example is the evolution of company law.

> Company Law, as it has emerged in the Western world in the course of time, is a delicate web within which many interests, some conflicting, some complementary, have been woven into a pattern of harmony….
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> On the other hand, there is no company law of which it could be said that it preceded legislation. As soon as the resources for organizing joint ventures with limited liability and the opportunity for their use were present, there also arose the need to give them an adequate legal form, e.g. in the form of a royal charter, or in some other way. Participants in the venture needed this minimum of 'calculability.' Modern joint-stock enterprise is of course the creation of the market (in Menger's terminology an 'organic institution') but it could not have come into existence without a legal form expected to be permanent….
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> Company Law, in short, the joint creation of market growth and the legislative embodiment of ideas pertaining to the market, is the final product of a long process of interaction of business men and lawyers who invested their experience, their ingenuity and their skills in it. (Lachmann 1979, pp. 254-255)

So I think Lachmann has, in many ways, anticipated Horwitz main point but this in no way diminishes its validity or his interesting discussion and extension. The evolution of institutions (like company law) proceeds within the context of the evolution of the market itself - leading one to alternately shift one's perspective as to which is the landscape and which is the foreground (much like shifting images in a holographic picture).

Students of Lachmann's work will find a fascinating discussion of a puzzle in his approach to business cycles in chapter 9, by Peter Boettke and Steven Sullivan ("Lachmann's Policy Activism: An Austrian Critique of Keynesian Proclivities"). I found that this chapter addressed some of my own questions, particularly my inability to understand Lachmann's discussion of macroeconomic policy in chapter VII of his *Capital and its Structure* (1978 [1956], p.126). His call for an active and targeted credit expansion policy in the secondary phase of a recession seemed to me to be at odds with his epistemology, with his single-minded portrayal of knowledge as subjective and idiosyncratic. How, I wondered, in Lachmann's framework, were the policy-makers to know what to do? Boettke and Sullivan supplement their discussion of this puzzle with a consideration of one of Lachmann's earlier and unpublished works – his Master's thesis (written in 1935), which echoes this theme, in a more definite way. When I first looked at the thesis, my first inclination had been to assume that the young Lachmann had not yet formed his mature opinions, and that in the passage of time he had modified his position (this was certainly true about his capital theory). But Boettke and Sullivan's juxtaposition of the 1956 and the 1935 works made me realize that this was an enduring aspect of his thought. One might also note that a second edition of *Capital and its Structure* was published in 1978 and Lachmann specifically says in the new preface that he passed up the opportunity to make any changes. So the puzzle remains.

Boettke and Sullivan consider three possible explanations: Lachmann (1) "contradicted himself …; (2) presented us with a fully coherent set of policy arguments; (3) established the validity in theory of the policy positions he takes but left no basis for their rational implementation." (p. 165). They quickly reject the second explanation, perhaps too hastily, in that they wonder how the policy-maker's position can be "epistemically privileged" within Lachmann's scheme. And they argue that the first explanation is also wrong, that Lachmann did not contradict himself, since the assertion of the necessity to reshuffle mal-formed capital combinations can be squared with his understanding of capital. This leaves the third explanation as the valid one. It seems to me, however, that the three explanations may not be mutually exclusive. It is possible that Lachmann may have thought that policy-makers indeed could have the necessary (not necessarily privileged) information, *but only in some circumstances*, the circumstances of a secondary slump; though Boettke and Sullivan are correct in suggesting that an insufficient basis has been developed for this view, and it certainly seems to strain, if not contradict, Lachmann's overall approach (for example, his capital-based criticism of Growth Theory and Keynesian investment theory). It remains for me a puzzle but one that is significantly illuminated by Boettke and Sullivan's discussion.

The final chapter also has a Keynesian theme. In "Expectations and Stock Market Prices" Jochen Runde and Jorg Bibow deal with the question of convergent and divergent expectations in asset markets. This is a subject that interested Lachmann greatly. He thought of the daily determination of stock prices as a sort of temporary equilibrium, in the sense that the bulls just balanced the bears. Runde and Bibow investigate the behavior of divergent expectations about the future price of a stock and how this may serve to narrow the divergence of expectations about its "correct value," a paradoxical and interesting idea.

This book can be read most profitably by those already familiar with Lachmann's work, but others may be stimulated by it to know more about Lachmann. Overall this is an interesting collection of essays and one which certainly fulfills its mission to honor the memory of Ludwig Lachmann.

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