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Reviews

ROGER KOPPL *and* GARY MONGIOVI, EDITORS (1998) *Subjectivism and Economic Analysis: Essays in Memory of Ludwig M. Lachmann*, Routledge Frontiers of Political Economy #21 (London and New York: Routledge, 1998). pp. 208

In their introduction, Koppl and Mongiovi observe that

> Lachmann's patient exposition of his radical subjectivist views finally received the sort of attention it deserved. Young Austrians were not the only students coming under his influence. Post Keynesians and other opponents of neoclassical orthodoxy also discovered him. By the time Lachmann died in December 1990 he had ensured a future for his ideas by leaving behind him a large and heterogeneous group of young scholars strongly influenced by his work (p. 3).

Subjectivism and Economic Analysis offers evidence of the growing and heterogeneous group carrying forward, critically, Lachmann's project. It's a wonderful addition to the previous compilations published by Grinder, Kirzner, and Lavoie, one that will appeal not only to Austrians but to others working outside the mainstream. While a number of articles lean heavily on methodological concerns, the volume also contains methodical and more substantive papers, as well as a reflective paper on Lachmann's call for policy activism. I shall raise several questions in this review, but I hope that some of my critical remarks do not cast a negative tone over the entire project, nor dissuade scholars from reading this book. I'm only exploiting the luxury of being a review writer—transferring the critical comments I wrote in the book's margins to this essay.

In "Ludwig M. Lachmann: Subjectivism in Economics and the Economy" (chapter 2), Brian Loasby discusses Lachmann's criticism of general equilibrium theory and his appeal to a catallactic and radically subjectivist approach to understanding the market system. Loasby then compares Lachmann's criticisms with those of Alfred Marshall. Although Marshall, of course, is considered a father of partial equilibrium theory, Loasby sees in Marshall more Mengerian elements, stressing knowledge, uncertainty and the unintended consequences of human action (p. 20). Loasby draws from private correspondence between himself and Lachmann to help substantiate this view of Marshall. This is not to say that Marshall successfully teased out the Mengerian features; for the most part they remained implicit. Most students of Marshall would squeeze these features out of the partial equilibrium framework in the standard theory of the firm under perfect competition. Only later, in the work of Penrose, Richardson, Shackle, and Loasby himself, would Marshall be reinterpreted more in the subjectivist tradition.

Loasby argues that Lachmann's work in capital theory, particularly his emphasis on capital heterogeneity, and the entrepreneurial faculty that combines capital in complementary and productive ways, places Lachmann as a "founder of the modern capability-based theory of the firm" (p. 25). This literature challenges the more popular theories of the firm and corporate governance. Its subjectivist orientation correctly recognizes that "a portfolio of businesses can be swiftly rebalanced, but the capabilities that constitute the productive assets within that portfolio cannot. Nor can the relationships between these capabilities" (pp. 25–6).

In "Mises and Lachmann on Human Action" (chapter 3), Stephen D. Parsons reconsiders Lachmann's criticism of Ludwig von Mises's strictly a priori methodology. He then turns a criticism on Lachmann himself.

Parsons first mounts an argument against Mises's extreme a priori claims. Unlike Lavoie (1986), who attempted to reinterpret what Mises "really meant" with the a priori by taking a hermeneutical turn, Parsons seems more sensitive to the tensions in Mises's extreme stance. Mises conflates phenomenology and epistemology; on the other hand he distinguishes a priori knowledge from the theory that is deduced from it, and claims both are necessary to understand human action; likewise, he distinguishes between praxeology and economic theory, but again claims that both are necessary to understand human action (p. 36).

Parsons rightly appreciates that "Mises is appealing to a much broader conception of rationality than that operating in rational choice theories" (p. 37). This is something subjectivists ought to emphasize and further clarify. But Mises himself struggles. Mises in some places claims that economics is a branch (the most well developed, in fact) of praxeology, the general theory of human action. But Parsons shows how Mises seems to reduce praxeology to economics: "Mises is attempting to establish that conceiving the meaning of *any* action requires *all* the concepts relevant to marginal analysis" (pp. 39–40). He cites Mises arguing that analysis of action—per se—*requires* concepts of cost, profit or loss, and the like. If this is true, however, what distinguishes economic theory from the allegedly broader notion of praxeological theory? *Must* all action be conceived with marginalist concepts? Mises himself maintained that economics is that part of praxeology that deals with calculative action. Presumably, then, there is a whole realm of noncalculative action that lies outside economics but within praxeology. Why would noncalculative action be combined with the marginalist notions of cost and benefit, profit and loss? It would be nice if we had a clearer picture of what noncalculative action looks like. Parsons finishes the chapter with a hermeneutical criticism of Lachmann's plan economics, a criticism similar to one I raised a few years ago (Prychitko 1994).

Roger Koppl's "Lachmann on the Subjectivism of Active Minds" (chapter 4) moves from the methodological to the methodical. After comparing Lachmann's view of expectations to Mises, and to Keynes, Koppl draws upon Alfred Schutz's phenomenology (particularly his concept of anonymous ideal types) and Hayek's evolutionary theory, to suggest an approach to plan coordination that supports Lachmann's call for a "subjectivism of expectations." Koppl discusses how his earlier work with Butos on Hayek's philosophy of mind, and with Yeager on the Big Players Theory, can go much further in explaining, say, speculative herding in assets market, than can a Misesian or Keynesian theory of expectations.

I had some trouble with the late Laslo Csontos's "Subjectivism and Ideal Types: Lachmann and the Methodological Legacy of Max Weber" (chapter 5), which claims that "Lachmann's views can be best described as belonging to the general category of *methodological solipsism*" (p. 81; original emphasis), and tries to build his argument "on the basis of scattered remarks in the works of Hayek, Mises, Lachmann, and others" (p. 81). He seems unaware of the debate between Hodgson and Boettke (see Boettke 1990).

I'm skeptical because Hayek, Mises, and Lachmann did not hold the same views on the questions of subjectivism, rationalism, individualism, expectations, knowledge, and so on. Worse, Csontos mentions that, to a methodological solipsist, "society is made up of independent and isolated individuals," and cites *Hayek* as supporting this view, as well as implying that individuals "are bound together only by social relations modeled after the exchange relationship" (p. 83). Did Mises, Hayek, and Lachmann really hold these views? Would Mises, Hayek, or Lachmann deny, for example, that families are important social institutions (for here we are no longer dealing with independent and isolated individuals) or claim that families are merely personalized market-exchange processes? Were Mises, Hayek, and Lachmann advocating an atomistic individualism?

Csontos considers introspection another one of the "fundamental epistemological postulates" of methodological solipsism. For Csontos, the solipsist believes that "we can learn about our own mental states only by way of introspection" (p. 86), which inevitably means that "this methodological principle would . . . ban cultural and economic anthropology from the family of social sciences" (p. 87). He cites Mises and Hayek as defending both these positions. I do not believe Mises nor Hayek made such claims. In fact, Csontos seems unaware that Hayek had cited Clifford Geertz's *Interpretation of Cultures* favorably—Hayek agrees with Geertz that "we are, in sum, incomplete or unfinished animal [sic] who complete or finish ourselves in culture" (Hayek 1979:199, n. 23). Hayek's epilogue to the third volume of *Law, Legislation and Liberty* is radically removed from the "solipsist" position that Csontos seems to perceive. Finally, Csontos claims that, to a methodological solipsist, "the social sciences do not strive for causal explanations; their cognitive goal is to understand human behavior through introspection," and cites Hayek to support this claim. Csontos hardly considers the Mengerian roots of the entire Austrian school—the causal-genetic method.

I was also a bit disappointed, but for very different reasons, with Maurizio Caserta's "Endogenous Change, Open Systems and Provisional Equilibrium" (chapter 6), which is based on an unpublished paper by Caserta and Victoria Chick, and is supported by a model of A.K. Dutt. Caserta attempts to construct a model of provisional equilibrium, whereby the equilibrium state "has within itself the seeds of its own destruction" (p. 106) due to endogenous change caused largely by a process of learning. Caserta says, apologetically, that "the inclusion of this chapter in a memorial volume for Ludwig Lachmann is justified by this emphasis on action, which it shares with all Austrian thinking" (p. 104). But Caserta proceeds to construct a model that is *anything* but Lachmannian: drawing from Dutt, Caserta "assumes a closed capitalist economy that produces one good using two factors only: homogeneous labour and capital. Technology is given and exhibits fixed coefficients and constant returns to scale. Moreover, capital is eternal and all firms are identical. No government or money is included in the model. The basic structure of the system is made up of two equations, . . ." (p. 116).

Caserta finishes the chapter stating "It must . . . be noticed that such an approach is compatible with the axiom of the purposeful individual typical of Lachmann's thinking" (p. 122), but I'm left wondering if there are *any* Lachmannian or more generally any Austrian features in Caserta's model. I am afraid that Lachmann himself had already criticized models like Caserta's for merely paying "lip service" to purposeful action, expectations, heterogeneity, and all the rest (Lachmann 1973:11).

Caserta's effort might be interesting, and even important, but it doesn't fit this particular volume. For, as Carlo Zappia states in his "Radical Subjectivism and Austrian Economics" (chapter 7), "Lachmann's most fruitful suggestion is . . . to abandon the search for alternative equilibrium constructs and to pursue the analysis of those institutional settings that favour the market's order" (p. 135). Zappia also offers a corrective to Csontos's earlier claims, maintaining that the Hayekian approach "emphasises the role of those forces of competition, such as imitative behaviour, rules and traditions, which were excluded by the Walrasian interpretation of competition" (p. 137).

The thrust of Zappia's paper reads like a review essay of Karen Vaughn's *Austrian Economics in America*, in which he chides Vaughn for being unsympathetic to some recent developments in neoclassical microtheory. Zappia believes the contemporary neoclassical literature has moved far beyond the old models that required perfect information, no indivisibilities, atomistic competition and the like—long the object of scorn by Austrians. "The standard framework," Zappia reports, "is one of missing markets and impossibility of complete insurance against future events. Indeterminancy of equilibria, that is multiplicity, is regarded as the norm; Pareto-constrained efficiency of equilibria is not guarenteed" (p. 132). Zappia lists Hahn, Radner, Grossman, Milgrom and Roberts, Bowles and Gintis, and Stiglitz as examples of the contemporary literature, and argues that post-revival Austrians would do better if they were aware of this literature, and were warmer to its reception: "The unanimous conclusion by the Austrians is that Hayek's profound insights have been misunderstood and not properly dealt with. It is worth noting that non-Austrian theorists show an opposite attitude on this historiographic matter" (p. 132).

In "Hierarchical Metaphors in Austrian Institutionalism: A Friendly Subjectivist Caveat" (chapter 8), Steven Horwitz hopes "to search for any unacceptable lingering objectivism in the treatment of institutions by both Lachmann and other post-revival Austrians" (p. 143). Part of the paper traces through a string of analogies (which seems to be a Horwitzian proclivity) between institutions and the capital structure. Some of the analogies actually work well. Horwitz questions the notion of the "hierarchy" of institutions (or "internal" versus "external" institutions) found in the work of Lachmann and Richard Langlois. In their view, lower-level institutions coordinate lower-level, rather concrete plans, and higher-level institutions coordinate higher-level, more abstract plans. Horwitz argues that this view assumes some type of "objectivity" to the hierarchy itself. Horwitz draws from Austrian capital theory, with its notions of heterogeneity, complementarity and specificity, to suggest that the institutional order itself can be more sensibly viewed as *social* capital. "Rather than seeing institutions as in hierarchical relationships with each other," writes Horwitz, "a more fruitful conceptual device might be an exploration of the ways in which they can work together and the limits to such complementarity" (p. 153). The discussion is not all abstract nor methodological. Horwitz points to the evolution of banking and institutional innovations within the industry to reinforce his argument, making the piece a rare, and appreciated, blend of the methodological and the applied.

I must admit, however, that I raised an eyebrow when I read Horwitz's apparent adoption of a Marxian conception of capital. He suggests that a capital good is best considered as a *commodity*, a good that is exchanged for money, rather than a good with a particular purpose in a structure of production. Horwitz claims that "Capital goods have market prices, as do the items they produce. The ham sandwich I make and eat is, in Marxian terms, not a commodity; the restaurant sandwich is. The commodity status of the product confers capital status on the inputs. It is neither accidental, nor incorrect, that Marx started *Capital* with a discussion of the commodity" (p. 159, n. 11). I am struck that Horwitz, in a paper emphasizing radical subjectivism and the Austrian theory of capital, would suddenly turn to "Marxian terms" to try to buttress his point. The notion of a commodity is, of course, terribly important, though I question whether Marx offered the best analysis of commodity production and exchange. Capital goods can be and often are commodities, but what do we gain by *collapsing* the concept of a capital good into that of a commodity? I don't think Horwitz really wants to do this, even though his note suggests otherwise. I feel Horwitz would agree with me that it is worthwhile to study a fictional Crusoe constructing a net to catch more fish, or a realistic Buchanan investing in a hoe to manage his cabbage—and conceptualizing the net and the hoe as capital goods because of their *purpose* in the process of production.

If Horwitz really held tight to the Marxian conflation of capital with commodity, he'd also have to admit that an economic system that does not yet have commodity production and exchange (as in a primitive commune), or has conceptually abolished it (as in socialism), is an economic system *without capital and a capital structure*. Of course Marx *did* interpret the primitive commune and full-blown socialism in this way. I can't see why students of Lachmann, including Horwitz, would want to adopt this perspective and its implications.

The Keynesian dimension, however, is a different issue. Jochen Runde's and Jorg Bibow's "Expectations and Stock Market Prices" (chapter 10) falls in a nice, applied vein, like Horwitz's piece. Here they deal with the difficult issues of convergent and divergent expectations—emphasized by Lachmann—and the validity of the "bulls-bears equilibrium" in the stock market. Runde and Bibow draw from Lachmann, Keynes, and E.M. Miller to outline how a theory of divergent expectations about a stock's price can actually create greater homogeneity about its correct value. This piece could be profitably read as an extension of the expectations chapter written by Christopher Torr in Kirzner (1986).

Lastly (I've reversed the order of the last two chapters), Peter J. Boettke and Steven T. Sullivan take Lachmann's "Keynesianism" to task in "Lachmann's Policy Activism: An Austrian Critique of Keynesian Proclivities" (chapter 9). I find it a very interesting, and quite frustrating, piece of work. They're puzzled by how Lachmann—a student of Hayek, a radical subjectivist, a sophisticated capital theorist who stresses the importance of contextual knowledge and multiple specificity, of both plan coordination and mal-investment—how such a brilliant Austrian economist could possibly call for government macroeconomic intervention during times of acute economic crisis. They cite at length Lachmann's *Capital and Its Structure* and also his 1935 Master's thesis to expose Lachmann's Keynesianism. For example, they quote Lachmann from his thesis, where he mentions that "the object of such a policy has to be the stopping of the cumulative process with a minimum sacrifice of capital. *Hence, a public works programme has to be devised in such a way, the purchases of consumers* [sic] *goods and capital-goods have to be dosed so as to bring about reinvestment-equilibrium within the shortest time possible*" (p. 176; emphasis added by Boettke and Sullivan). Immediately following this, Boettke and Sullivan then ask us to "Note the constructivist language" (p. 176).

How could an Austrian capital theorist harbor such Keynesian policy pretenses? Boettke and Sullivan offer three hypotheses: Lachmann "(1) contradicted himself in establishing the validity in principle of the policy positions he takes; (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).

I had trouble following the argument because they seem to use the term "policy" in different ways. For example, Boettke and Sullivan rather quickly reject the first hypothesis. They maintain that Lachmann does not contradict himself (i.e., his theory of capital) by suggesting that the capital combinations in a crisis-ridden economy must be reshuffled in order to end the crisis (p. 176). This point is taken to falsify the first hypothesis, but it's not quite clear to me why. I can understand the authors better if we substitute the word "policy" in the first hypothesis for the phrase "some system of capital reshuffling is in order," without specifying *precisely the processes* through which the malinvestment will be overcome. I think that's what the authors implicitly do, and by doing it they can agree in principle with Lachmann, and thereby dismiss the first hypothesis.

Boettke and Sullivan then move quickly to reject the second hypothesis. "[T]he problem of economic knowledge will not let us rest with the second alternative," they say, and they ask "Why is the theorist-as-policy-maker's position epistemically privileged?" (p. 177). (Here, of course, they are now interpreting the word "policy" in its literal and popular sense.) I'd suggest (and I'll provide my own example further below) that the second hypothesis is too narrow and bound for rejection. Is it reasonable to expect any economist (Austrian or otherwise) to provide a "fully coherent" set of policy arguments? Fully cohering to *what*—his own economic theory? his own value systems and normative principles? a combination of his positive theory and normative principles?

With only three hypotheses, it's no surprise that Boettke and Sullivan accept the third one—Lachmann in the end has no rational justification for espousing macroeconomic intervention during times of acute crisis, for he is "in the grip of an epistemic contradiction" (p. 178). Boettke and Sullivan conclude that

> Lachmann's policy maker is being asked to "bite off more than she can chew." Lachmann forgot his own analysis in framing the policy maker's problem and in moving from generalized classes of strong and weak boom problems to an actual instance of the "post-strong boom economy" type, with an objectivist knowledge requirement as large as that economy and a contextual knowledge requirement policy makers cannot begin to address from their standpoint. The problem of a radically subjectivist macroeconomics is this: The theorist has merely to think about *how* agents think; the policy maker must know *what* they think (p. 178).

Lachmann *forgot* his own analysis? That's a rather strong term to use for authors aspiring to adopt the "principle of charitable interpretation" (p. 165). How could someone who has worked so hard developing a process theory of capital simply forget it when offering a policy statement? I'm sure they don't mean that Lachmann literally *forgot* what he did as a theorist. Perhaps they mean that he simply—for whatever reason—downplayed the theoretical perspective.

And I think that reason was, perhaps, pragmatic. So let me offer a fourth hypothesis: Lachmann the Austrian capital theorist adopted a pragmatic policy stance during a time of acute economic crisis. And from Boettke and Sullivan's standpoint, why not? After all, Boettke did this in his *Why Perestroika Failed* book (1993). (I've told him this for years.) Boettke spent pages in that book discussing how fundamental and beneficial economic change won't result from putting "good people" into positions of political power (1993, pp. 47, 51, 54, 90). Nevertheless, he concluded that, in order to accomplish lasting economic reform in the post-communist system, "the political actors need to have tremendous conviction and power. This, of course, is potentially one of the great paradoxes of reform" (p. 80). (I wonder if the word "contradictions" or the phrase "incoherent aspects" could be substituted for "paradoxes.") Why was Boettke advocating political agents with "tremendous conviction and power" (i.e., good or right-thinking people who wield almost terrifying levels of power), when the whole theoretical thrust of his book suggests that we should not bet on putting good people in positions of power? Did he forget what he had written elsewhere in the book? A charitable interpretation would say No. He instead took the pragmatic path—he called for putting good people in power because he thought it was the best way to get the ball of lasting economic reforms rolling forward. Why not, then, interpret Lachmann as calling for some "dosed" intervention to simply begin the economic recovery? Perhaps Lachmann, too, adopted a pragmatic position in times of extreme uncertainty and crisis.

Subjectivism and Economic Analysis: Essays in the Memory of Ludwig M. Lachmann is most likely the last festschrift that will bear Lachmann's name. The book as a whole is quite satisfying. It is nondogmatic, critical, and productive, and I'm sure most students of Austrian economics and subjectivist methodology will find it a valuable source of new ideas. The compilation is an honor to Lachmann's vision, and the analytical diversity that he has inspired among this present generation of economists.

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David L. Prychitko
Department of Economics
Northern Michigan University
Marquette, MI 49855
USA