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Ludwig M. Lachmann: Last Member of the German Historical School*

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Abstract

Ludwig M. Lachmann is well known for his embrace of certain aspects of Max Weber's sociological work. While subjectivism in value theory is often regarded as a distinctive Austrian insight, the attempt to understand the content of subjective purposes is largely associated with historical and sociological perspectives. That Lachmann came to study with Hayek in England only after his graduate years with Werner Sombart thus raises interesting questions about the degree to which his Austrianism came to be influenced by his earlier German Historical School (GHS) training. That he also often included Weber in the Austrian School underscores the importance of this question, especially since Weber himself claimed membership in the youngest generation of the GHS. Was Lachmann in fact the very youngest member of that tradition?

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1. The Lachmann Identity

Ludwig M. Lachmann (1906 – 1990) is widely recognized within the Austrian School for the thoroughness with which he applied the concept of subjectivism to economics. Indeed, so consistent was he, that he has frequently been accused of creating more problems and paradoxes than answers to the fundamental questions of his field. The Nobel laureate, James Buchanan, famous for his own forays into the nature of subjective choice and political rules, was both impressed and repelled. In a late interview, Buchanan observed, "Once you become a full-fledged subjectivist, you can't say anything" (2001, v. 2)! Lachmann's brand of subjectivism has earned the special appellation in certain Austrian circles of the "Lachmann Problem," or the "O'Driscoll / Lachmann Problem," where subjectivism is seen to undermine any basis for traditional equilibrium analysis (O'Driscoll 1978, 130; Koppl 1998, 61 – 77; Lewis 2008, 832 – 836).[1] In each instance, Lachmannian subjectivism is regarded as so indeterminate as to leave little or no room for the most basic models of neo-classical equilibrium or even the less stringent Austrian concept of the "evenly rotating economy" (Lewin 2000, 383).

At the core of Lachmann's distinctive brand of theory is his concentration on the complexity and particularity of individual motives, expectations, and plans. In his later writings he was particularly fond of illustrating this approach through the use of terms more reminiscent of the Austrian School's rivals in the early years of the *Methodenstreit* (Parsons 1998, 31 – 32). Thus we find ideas of hermeneutics and the concept of "*verstehen*" in such works as his elegantly composed essays on Max Weber or his later work in *Economics as a Market Process* (1986). So concerned were some of his fellow Austrians that they took special pains to explain the similarities. In their insightful introduction to a special collection of essays in memory of Lachmann, Roger Koppl and Gary Mongiovi noted Lachmann's own insistence that there was nothing particularly unusual in the use of *verstehen*. It was, they remarked, just part of "the traditional method of classical scholarship," and had been originally applied to biblical interpretation (Koppl and Mongiovi 1998, 7).[2] Interestingly, this was the very position of the Historical School itself, at least of the youngest generation forward – its unique defining characteristic vis-à-vis classical and neo-classical economics. It was in alignment with Lachmann's own dissertation adviser, Werner Sombart, who had made exactly the same point in his *Die Drei Natio-*

[1] Though it may be regarded, as Roger Koppl noted, as "more acute in some contexts, less acute in others" (1998, 72).

[2] In fact, in the sentence following this qualification, Lachmann also noted that it was the "'positive' method of the German Historical School that Weber took over and adapted to his purposes" (1971, 10). It is also why Weber himself continued to claim membership in the Historical School, an approach he shared with his colleague, Werner Sombart.

nalökonomien [The Three Political Economies] (1930, 157–158), written and published when Lachmann was his student. Was Lachmann thus actually the very last member of the youngest generation of the German Historical School?

In response to that question this essay argues in the affirmative, though not in the sense that he affirmed all of the various prescriptions and applications of that tradition, but indeed in the sense that from his earliest training with Sombart to his essays on Austrian business cycle theory to his critique of static equilibrium, Lachmann remained impressively consistent. More specifically, Lachmann remained deeply committed to applying the idea that one needed to *understand* the highly variegated content of purposes and their institutional manifestations in society and culture, rather than simply purposefulness in general in treating the problem of the economic coordination of human actions (Hennis 1987, 34–35; Loasby 1998, 210).

What Lachmann saw in the Austrian school was the potential to introduce this more thorough-going content-laden form of subjectivism into the very heart of Menger's more abstract categorical theorizing, but the origin of this approach he took directly from his training in the methods and practices of Max Weber's generation of the Historical School, and more specifically, from Sombart. In the course of trying to account for Lachmann's different approach, many have been quick to point to the influences of Hayek, Shackle, Lange or even Keynes during Lachmann's time at the LSE in the mid-1930s (Grinder 1977, 12, 20; Koppl 1998, 64–67; Gloria-Palermo 1999, 118–119; Sauce 2014, 1115–1131). The reality, however, is far more complex and interesting. It was rather Lachmann's prior orientation to what Sombart termed *verstehende Nationalökonomie* that directed Lachmann's attention to these later thinkers, rather than any substantive influence of their thinking on his ideas.

Indeed, Lachmann's brand of radical subjectivism is derived from a notion of historical contingency that is only to be found in this earlier tradition, and it's very particular conception of the complicated variability of individual purposes. In the case of the Austrian school, purposefulness has usually been handled, more often than not, categorically. While always subjective, it was understood in its general sense, rather than with respect to any particular set of purposes, so as to maintain the claim to apodictic certainty within an *a priori* theoretical framework. Lachmann's approach, on the other hand, looked at the variegated content of that category among persons, derived from each individual's particular historical context in time and place, to explore what Weber called the problem of "the heteronomy of ends" or what Sombart called, "*eine heteronome Willensbildung*" (Hennis 1987, 34; Sombart 1930, 267). Except among a few directly influenced by him, Lachmann's early contribution to the idea of expectations in economic thought has gone largely unrecognized in neo-classical circles, nor have the origins of the idea of expectations in the German Historical School been much appreciated (Ebeling 1986, 39; Fehl 1986, 72; Garrison 1986, 87; Torr 1986, 295; Sargent 2008, 432–435; Sauce 2014, 1115–

1131). A closer look at Lachmann's career will reveal why this lacuna ought to be corrected.

When later members of the Historical School spoke of a "*verstehende Wirtschaftswissenschaft*," they persistently emphasized the quality and character of the content of purposes or motives ("*Inhalt des Motivs,*" Sombart 1930, 268). It was this orientation to the variability of thought that Weber had in mind when he consistently counted himself a member of the youngest generation of that tradition (Ghosh 2006, 74, 77–78; Beiser 2011, 542–543; Maclachlan 2017, 1161–1175). And it was this that Lachmann carried forward into modern Austrian economics.

2. Weber, Lachmann and the Austrians

When Lachmann undertook to write his extended reflections on the work of Weber, it is safe to assume he was already well aware of Mises' strong feelings on the subject. Mises had long respected the work of Weber, but had specifically denied that Austrian analysis owed anything to the Weberian *Ideal Typus* (See Lachmann 2003 [1976], lvii-lxiii). The fundamental axiom of human action was not, according to Mises, itself an ideal type, but rather a general category from which formal theory could be safely derived. In spite of how clever Weber was, Mises insisted, in regard to economic matters "he failed and had to fail because by sociology he understood something entirely different from the nomothetic science of human action, the subject of which had constituted the subject of the *Methodenstreit*." And even more explicitly, Mises attributed Weber's failings to historicism itself (Mises 2013 [1933; trans. 1960], 72–73). Some later students of Mises would emphasize precisely these two points.

Indeed, the strong position on praxeology favored by one of Mises' most prolific students, Murray Rothbard, asserted that the core of economics "is deduced from the apodictic axiom of action, and most economic theory, including the laws and implications of uncertainty, time preference, the law of returns, the law of utility, etc. can be deduced directly with no further assumptions" (1951, 945; see also Block 1989, 220–221). The tendency here was to explicitly invoke purposefulness in its generic categorical form, and Rothbard went so far as to insist that specific valuations were not particularly important to the analysis of what was transpiring, hence "no further assumptions" were needed (1970, 67–71). At the very least, Lachmann must have been aware that he was reopening a controversial methodological issue when he implied Weber's membership in the Austrian tradition or said that Mises' *Human Action* was "carrying on" Weber's work (1977 [1951], 95; 1971, 13; Grinder 1977, 4).[3] By doing

[3] It should also be noted that Lachmann (1976a, 56) sometimes denied the direct association, only to assert that Weber had been "influential" on Mises. The controversy over

so he contradicted Mises directly and implied that the divide between the two schools was really not so great after all. It would also suggest that to the degree that Lachmann regarded Weber as an Austrian, we may perhaps regard Lachmann as a member of the German Historical School.

Following Lachmann's lead, many Austrian economists have consistently pointed to the fact that Weber was influenced in his understanding of the key role of social theory through his engagement with Menger's work (Boettke and Storr 2002, 164; Caldwell 2004, 97; see also the recent discussion of the same in Maclachlan 2017, 1162). It is also frequently noted that Weber taught Mengerian principles, much to the chagrin of some students during his time at Heidelberg, and had later even initiated the effort to secure an honorary doctorate for von Böhm-Bawerk (Swedberg 1998, 184 – 185; Schön 1987, 60). And there is conjecture about Weber's short time in Vienna where he became friends with von Mises and interacted with members of the Mises Circle, though apparently none of this was sufficient to convince him to accept the offer of a permanent position (Kurrild-Klitgaard 2003, 60 – 61; see also Hayek 1992 [1973], 144; Swedberg 1998, 198 – 199; Ghosh 2006, 73 – 74). Indeed, in his own declarations, Weber never wavered in proclaiming his adherence to the Historical School. From the famous celebratory birthday letter to Schmoller (Schön 1987, 60) to the essay on objectivity in the social sciences (Weber 1922 [1904], 208),[4] Weber persistently understood his work to be the offspring of the historical perspective in German economic and social thought, remarking shortly after his stay in Vienna that he was not, after all, a member of the Austrian school (Ghosh 2006, 74). The reason as to why he remained so steadfast in this conviction is to be found in how he handled the question of the nature of purposeful human action.

In defending Menger's assertion that theory was necessary to social scientific study (Schön 1987, 61 – 63), Weber stopped short of Menger's notion that the concepts of social science represented or corresponded to actual relations in nature. Where Menger erred, Weber asserted, was in his association of his theoretical assumptions with real or actual types (Beiser 2011, 523, 526, 547). Weber was equally critical of members of his own tradition for errors which he regarded as analogous to the assumptions of Menger's followers. For example, Brentano's endorsement of psychology as a basis for social action was considered by Weber to be just such an error.[5] Human purposes were sufficient in

how one should interpret Mises continues to the present time (see Zanotti and Cachanosky 2013).

[4] Peter Ghosh (2010, 71 – 100) has argued that the foreword to the objectivity essay was principally the work of Sombart and only lightly edited by Weber. Be that as it may, it rather strengthens the claim of the journal's origins in the Historical School.

[5] On Menger's "*epigones*" see, Weber 2012 [1906], 75; on Brentano see Weber 2012 [1908], 248; on Weber's attempt to steer a middle course between the two schools, see Zöller 2007, 215 – 217.

their own right for economic theory and required no auxiliary assumptions about some underlying physical reality or truthfulness. In essence, the search for actual types or natural laws or physical processes in nature was to be regarded as *insufficiently historical*. And it was precisely on this ground of inconsistency that Weber relentlessly critiqued those members of his own tradition such as Roscher, Knies, Schmoller and Brentano. Indeed, he called Brentano's use of psychology "Schmollerism" (Schön 1987, 62). Weber's persistent profession of loyalty to the historical tradition thus arose from the fact that he was *more historical* than his own colleagues in the same school of thought.

In his extended critique of Roscher, Weber actually followed the lead of the historian Otto Hintze in pointing out the contradictions between an historical interpretation and a natural organic analogy which characterized Roscher's typology of states (Weber 1922 [1903, 1906], 23, 29 n.1).[6] Thus above all, as Manfred Schön pointed out some years ago, the social scientist should not "confuse 'laws' of economics as equivalent to the way laws are constructed in the natural sciences" (1987, 61). Precisely to the extent that Austrians were apt to assume objective reality in their operative assumption of the axiomatic nature of purposefulness, they too ran afoul of Weber's historicism (Weber 1922 [1904], 188 – 189). Understanding this distinction between the handling of purposefulness categorically versus substantively is the original historical basis for understanding the distinction between the two schools, and for fully appreciating the thought of Ludwig Lachmann.

3. Weber, Sombart and the *"Inhalt des Motivs"*

Austrians have long characterized the German Historical School along various lines to better accommodate their own admixtures of agreement and disapprobation with particular figures. Hayek (1979, 112) made use of the distinction between the lesser evils of the first generation of Roscher and those of the second under Schmoller. Mises (2013 [1969], 6 – 7; Hülsmann 2007, 600 n. 66) often referenced the division of the Southwest German Historical School from those in Berlin, to separate out Rickert and even Weber from Schmoller's student, Sombart. Another way to parse these differences, however, is to apply a distinction that arises directly from how each thinker in the Historical School addressed the problem of what Weber often called the "heteronomy of ends." On the question of the origins of purposes and aims, the various branches of the Historical School agreed on the importance of language, values and beliefs

[6] It is interesting that this point is almost never commented upon. Hintze (1897, 767 – 811) published his essay just prior to Weber's physical collapse. That the article stuck with Weber throughout his convalescence to reappear in his first post-illness review of Roscher is a fact of some significance to my mind, but it is rarely mentioned (see for example Kocka 1987, 284 – 295).

emanating from the historical contexts of lived experience. But there was no necessary agreement among them as to how closely those ideas would always correspond among persons even within a given culture or nation. The divisions within the school thus arose from how each thinker handled the heteronomy issue, the question of the quality and function of historically received concepts and ideas.[7]

For Weber, ideal types were necessary to explain *tendencies* in certain directions of human action, but they were only approximations of a wide range of concrete motivations and aims informing widely varying subjective purposes. As shared points of reference, ideal types could interpret actions as moving in general directions, but individual patterns would remain unique and particular. Ideal types were thus, broadly speaking, descriptions of essential beliefs around which individuals could meaningfully order their activities, but there was no exact or timeless correspondence to some greater reality (Ghosh 2006, 84). And Weber (1978, pp. xxviii, 15, 20–21) consistently cautioned against their reification, emphasizing their provisional and subjective nature. Thus the degree of interpersonal congruence and orderliness always remained for Weber an open question for scientific study and investigation.

Sombart, on the other hand, largely agreed with Weber on matters of methodology and meaningful concepts (1930, 258), but was far more inclined to emphasize the capacity of ideas to shape individual subjective motives into a "*geistige Einheit*" (*ibid.*, 212–213). Concepts and ideas could thus form, in his view, more powerfully integrated meaningful wholes through the convergence of shared beliefs, or the "*Gleichförmigkeit der Motivation*" (*ibid.*, 258–259, 265). "Is there not," Sombart asked, "the possibility for laws and law-like regularities in the realm of understanding" (*ibid.*, 251)? Yes, he answered, in those core concepts that directed the relations among the parts and the whole ("*die Glied-Ganzes-Beziehungen*," *ibid.*, 257). It was this belief in the capacity of shared overarching constructs to order individual activities along the same or similar lines well beyond what Weber was willing to admit that led Sombart to his specific and more holistic interpretation of institutions, economic systems, cultures and even nations.[8]

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[7] Heteronomy was originally contrasted with an earlier idealist notion of autonomy. Here, however, it signals the distinctive approach of historians to look to context for the sources of individual motives and actions. Individual ends are not spontaneously generated in some idealist sense, but originate from unique circumstances of inheritance, history and past experiences. Due to the fact that individual histories are unique, the heteronomy of ends is thus also fully compatible with their heterogeneity. While thoughts are derived from culture and context, there is no assurance of inter-personal conformity in the content of thoughts, especially when it is understood that no one can occupy the same space in time as another. Thus variation in aims will be a perpetual challenge to social coordination and interpretation. The heteronomy problem was one of Weber's preferred ways of identifying the differences within the Historical School (see Weber 1975 [1903/1905], 80, 87; or Weber 2012 [1903/1905], 21, 25; Hennis 1987, 34, 55 n. 48).

Here Sombart (*ibid.*, 257, 258–259, 301) explicitly and persistently raised the analogy of the rules of chess to contend that each system has its own regularities, its particular schemata, for which the social scientist had to construct ideal schematic concepts as a first step towards their interpretation or understanding. To be viable such rational schemata had to be logically understandable so that individuals could be properly interpreted in conformity with the particular ends being pursued. Citing Husserl, he noted, it was through such schemata that the *verstehender Nationalökonom* could come to grasp the rules of an economic system as a whole, "ein *Ganzes*." In this way one could properly understand the rules of the game as a meaningfully integrated totality or as he also wrote: "A rational schematic applies only in relation to a specific meaningful context [*Sinnzusammenhang*], which, as we know, always bears the imprint of history" (*ibid.*, 301).[9]

"Homo œconomicus," Sombart (*ibid.*, 212, 227, 259) argued, was just such a schematic rationale, a tool used to understand capitalist production, but there was no reason to think that other systems could not be imagined to coordinate human activity along any number of other dimensions: "Usually certain data are taken from life, but it is also possible to process any cases which are merely imagined or conceived in a scheme: investigating economic actions for their rationality in a system of economics that has never yet been realized" (*ibid.*, 260).[10] Such *Schemata*, or what he also called "*Grundsätze,*" were conceptual constraints necessary for gaining *a priori* insight into actual events (*ibid.*, 251, 253), but they were certainly not laws in the natural scientific sense. Every such scheme had to be subject to rational scrutiny to see whether or not it could serve such a purpose, because it had to be conformable to human reason and choice: "Its value or validity," he contended, "rests with the rationality of its contents" (*ibid.*, 260; see also *ibid.*, 300–302).[11] But its ultimate validity and relevance to the interpretation of reality had to be confirmed by investigation into actual motives: "*nur im Rahmen eines bestimmten Wirschaftssystems*" (*ibid.*, 301).

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8 This division within the Historical School is drawn from Lachmann's own understanding where he observed that "Weber's rejection of the *Volksgeist* theory of institutions, espoused by some, though not all, adherents of the Historical School, is emphatic" (Lachmann 1971, 58).

9 "Ein rationales Schema gilt nur im Rahmen eines bestimmten Sinnzusammenhangs, der immer, wie wir wissen, historisches Gepräge trägt" (See Sombart 1930, 301).

10 "Man nimmt üblicherweise gewisse Daten aus dem Leben, kann aber ebensogut irgendwelche bloss vorgestellten oder erdachten Fälle in einem Schema verarbeiten: etwa wirtschaftliche Handlungen auf ihre Rationalität hin in einem Wirschaftssystem untersuchen, das noch niemals verwirklicht ist."

11 "Ihr Wahrheitswert liegt in der Rationalität ihres Inhalts." On this point, Friedrich Lenger (1994, 326–327) has pointed to Sombart's ambivalent use of such rational "*Schemata.*" On the one hand, they were essential tools of *verstehen*, but on the other hand, they represented a diminution of the significance of rationality as the peculiar expression of capitalist relations.

Thus, according to Sombart, the task of the social scientist was principally to evaluate the content of the motives for individual action, "*Inhalt des Motivs*" (*ibid.*, 268), for the specific ends or purposes of any given social system. The aims and the rational structures of the rules coordinating individual pursuits thus still directed him, like Weber, to an interpretive understanding of the content of purposes, not merely to the category of purposefulness. His belief in their uniformity and directing power, however, was far more robust and extreme.

Specifically, for Sombart, knowledge of the interiority of human purposes gave to the social scientist considerably more relevance than Weber's all too reserved articulation of ideal types would allow. Rather, he looked to the capacity of types and schemata to anticipate and imagine whole new forms of social cooperation. More powerfully still, he would assert, "We and we alone are the 'Creator' of culture, and [we] move in this little world as God in the greater [natural] world" (*ibid.*, 199).[12] He saw his own work as an improvement and extension of Weber's initial insights, and it was precisely at this time, while he was still composing these arguments in his three part historical typology of political economy that Ludwig Lachmann came to study with him.

4. Understanding Lachmann

It is here then that one arrives at a bit of a conundrum. For most of his professional life, Lachmann claimed membership in the Austrian School. It is generally the rule among historians to work within an historical subject's professed self-understanding until such time as good reasons are found to argue otherwise. While Lachmann was initially trained by Sombart, he had left Germany in 1933 for England to escape National Socialism but also to undertake further study with Friedrich Hayek. While many have noted Lachmann's earlier training in Berlin, they have generally taken for granted that the period with Hayek was the more formative influence, but there are good reasons to think otherwise. In his illuminating introduction to Lachmann's central essays on the nature and practice of economics, Walter Grinder usefully characterized the principle endeavor of Lachmann's thought as the "pursuit of the subjective paradigm." That framing of the issue comports well with Lachmann's own assertion that he had taken to heart Hayek's claim that all the great advances in modern economic theory had come through the more thorough "application of subjectivism" (Grinder 1977, 23). But what exactly did this mean in the context of the Austrian School and for Lachmann in particular?

It has been a longstanding assertion of some adamancy among Austrians that subjectivism was the single most important contribution of Carl Menger (Mises

12 "Wir und Wir allein sind die 'Schöpfer' der Kultur und bewegen uns in dieser kleinen Welt wie Gott in der grossen Welt."

2013 [1969], 127–128; Horwitz 1994, 17–22). In this regard, however, the works of Erich Streissler and Carl Milford have revealed the much older roots of subjectivism in continental thought (Streissler 1990, 31–68; Streissler 1994, 493–499; Milford 1997, 89–160; see also *Hülsmann* 2007, 115). Indeed, one of the reasons provided by Streissler (1990, 31–68) for Menger's dedication of his book on principles to Wilhelm Roscher was Menger's expectation of a favorable reception in Germany precisely because of Roscher's own interest in subjective value. Following Streissler's research, Menger is now generally understood as having more thoroughly and consistently applied the concept of subjective purposeful action to the theoretical derivation of market processes. Two essential points were at the heart of his work: 1) Abstract theory had to be based upon the simplest and most general attribute of human behavior and 2) it had to be rigorously logical in its derivations to be universally applicable (Menger 1976 [1871], 46–47).

That human value was established subjectively in the mind of each person appeared to satisfy the first criterion, and the remainder of the work drew out its logical implications in respect to goods, exchange, prices and money. Thus it was that the general subjective category of human action could be applied to explain these more specific economic phenomena. In doing this, Menger made no hard theoretical separation of the natural from the social sciences, but in fact went so far as to equate ends and means with causes and effects in the same way that was common to positivists (Lachmann 1971, 57–58). In the context of the day, such an argument was bound to upset the more historically minded in Germany and obscured rather than furthered his point about subjectivity (Yagi 2010, 24–25). It also signaled a tendency that has remained, to a degree, a part of the Austrian School to this day – a tendency towards its own sort of abstract formalism, verbal to be certain, but no less logically rigorous and proceeding from the most generic and universal attribute of human action as *axiom*. It is, in other words, to emphasize purposefulness in its *categorical* form rather than in its specific aims or historical character. Thus in Mises' essay on method, one could come away with the sense that no consideration of particular ideas of value or aims was even remotely necessary to the fullest application of economic interpretation: "It [praxeology] does not enter into a discussion of the motives determining the choice. It does not ask why a customer prefers one pattern of a necktie to another or a motor-car to a horse and buggy. It deals with the choosing as such, with the categorical elements of choice and action" (Mises 2016 [1942], 22).

Yet, as Mises (2013 [1933, trans. 1960], 120–121) also pointed out, there need not have been such a strong separation of the *a priori* idea of the categorical cognition of human purposes and the *understanding* of their historical meanings. One can certainly see here the *potential* for addressing questions of content and the implications of such notions as expectations, but the concentration on purposefulness as a category persisted, a holdover from the initial natu-

ral scientific orientation of Menger with his focus on the most essential and generic aspect of action. Lachmann recognized and seized upon this opportunity. For there was little else to be done to extend the subjectivist paradigm in the 1930s, nowhere else to go, other than to plunge head-long into the content of the category itself. This had in fact already been the essential position of the Historical School and of its youngest generation in particular. And it was Lachmann who realized and developed this insight to its fullest extent using methods and tools he learned from Sombart while composing his dissertation.

5. The Dissertation and the "Inhalt der conscienza corporative"

The two main tasks to which Sombart directed his student was the study of Weber (Lachmann 1978, 1–6) *and* to find a dissertation topic to which he could apply Sombart's particular interpretative framework. And here is where Lachmann's focus on particular aims and concepts, on the contents of purposes, was established. The theme chosen was to evaluate the degree to which Italian fascism presented just such a new form of *Wirtschaft* coming into being, one that had not yet been realized but which might be in the process of becoming. Italy was then already some eight years into the rule of Mussolini and the question was simply, was Italian fascism a new kind of economic order? Here we find all the hallmarks of Lachmann's radical subjectivism being deployed for the first time. What becomes readily apparent is that the same approach he applied to neo-classical and Austrian economics later in his career, he first applied to the claims of fascist economy; that is to say, he was already complicating the foundational claims of theory through the radical analysis of the contents of individual purposes. In fact, his later turn from ideal types to individual plans in his essays on Weber was nothing less than the use of a term first articulated by Sombart but modified so as to compromise between Weber's too static ideal type and Sombart's too encompassing "rational schemata." But in either case, the *verstehende* approach was concerned with the formulation and application of conceptual tools to interpret subjective purposeful actions. As Weber had also noted "the aim of 'empathy', 're-experiencing' – in short, of 'interpretive understanding' – … remains the specific characteristic of the 'subjectivising' sciences, insofar as they are *historical* sciences and not normative disciplines" (Weber 2012 [1906], 57). When Lachmann took up his studies with Sombart, he did not need to explicitly endorse or defend either Weber's ideal types or Sombart's understanding of rational schemata to focus as he did on the contents of purposeful action.[13] All he needed to do was deploy the interpretive method-

[13] By focusing on the *content* of individual motives, Weber, Sombart, and Lachmann can be said to be deploying the same *verstehende* method, even though their conclusions could differ depending on their assessment of interpersonal conformity in such content.

ology to which both had contributed, and ask about the nature of the aims and ideas of this supposedly new kind of order and this new fascist man. Was this a new form of economic life, a new meaningful whole of context?

The particular terms used, however, derived from Sombart's definition of "*Wirtschaft*," and the categories he thought essential to a proper analysis of economic phenomena. These categories comprised three essential elements or *Bestandteile*: 1) an interpretation of the subjective aims of "*der subjective Geist,"* or "*die Wirtschaftsgesinnung,*" 2) the coordination of those ideas along specific courses of action, or what he termed "*der (subjective) Plan*" out of which a social order could arise, a "*Geordnetheit*" or more simply an "*Ordnung,*" and 3) the development of specific institutional practices and tools by which to effectuate those plans or "*Technik*" (Sombart 1930, 181, 184). The application of *verstehen* arose out of the formative processes of the first two categories: "As soon as several people follow a rational course of action laid down by a (subjective) plan," Sombart wrote, "it becomes the objectivizing ground for directing the course of others. Such an objective plan we call an order" (*ibid.*, 181).[14]

Readers familiar with Lachmann's later work will immediately recognize the importance of the idea of "the plan." While the elemental forms of that idea (i.e. means and ends) certainly suffuse the dissertation, at this stage of his labors, Lachmann focused on the *Bestandteile* to identify what a "rational course of action" might mean for this new fascist man. It is then Sombart's categories that supplied the foundations for Lachmann's first application of *verstehende Nationalökonomie* to uncover the culturally objective grounds upon which meaning was founded and by which individual actions were directed (*ibid.*, 198–199, 210).[15] Thus Lachmann would apply the *Bestandteile* to the Italian political order of Mussolini, and in so doing, would try to tease out the ideas that informed the institutional structures of this "new" order. The first step, however, was to make room for the possibility of interpretation, of the application of *verstehende Wirtschaftswissenschaft*, because of the peculiar claims being made by the leading theorists of Italian fascism.

The most critical problem for understanding fascism, according to Lachmann, was the explicit assertion that it represented a movement towards some-

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For a discussion of Weber's methodological individualism, see Vanberg (1975, 101–109). On Sombart's holistic conclusions from the same, see Lenger (1994, 326).

14 "Sobald aber ein vernünftiges Handeln unter mehreren erfolgt, bedarf der (subjective) Plan, der ihm zugrunde liegt, einer Objektivierung, wodurch allein er richtungweisend für die mehreren wird. Einen objektivierten Plan nennen wir aber eine Ordnung."

15 "Die Kultur ist 'Objektiver' Geist, der erkennende Mensch ist 'Subjektiver' Geist, weil in seiner Seele eine Ideen denkende, Ziele steckende, Normen setzende Fähigkeit ruht, die ihn von allen Lebewesen unterscheidet und die ihn allein befähigt, Kultur zu schaffen, das heisst sein Wesen in äusseren Einrichtungen und Symbolen zu objektivieren."

thing that was always in the process of becoming. In this modified form of the Hegelian dialectic, the leader supposedly represented the simultaneous embodiment of thought and action. The implication of such a view, Lachmann (1930, 2–3) observed, would appear to make fascism impervious to the application of *verstehen*, or even to any form of mere historical description. The first chapter therefore had two principal goals: 1) to make room for hermeneutics and 2) to identify the objectives or aims of this particular *Sinnzusammenhang.* Both in journal arguments presenting fascist theory and in the Italian Charter of Labor of 1927, Lachmann thought he had found inroads to achieving both.

The mere fact that there existed a journal of fascist thought meant there was something to discuss with relation to ends and means. That there was also law, pointed to the existence of policy and institutions or *Technik.* And the presence of all three – of ideas, policies and institutions – implied that there existed criteria by which the goals of fascism could be articulated and schemata applied to evaluate their efficacy (*ibid.*, pp. 3–6). Having thus made room in theory for *verstehende* analysis, Lachmann then critiqued some of the main authors formulating and interpreting fascism in thought and practice. In each, the state played a central role. The question was posed, who will set forth the aims that will decide among the inevitable differences in perspective among individuals, such that they will be unified along a new historical trajectory (*ibid.*, p. 7)?[16] This line of inquiry formed the persistent core of his treatment. The essential aim to be understood was the Hegelian claim itself, the idea of movement towards something not yet fully realized or specified, a movement of continual "becoming" in which the ends of the individual person in capitalist society would somehow be replaced by the aims of the nation. In this transformative process, the entry way for the application of *verstehen* had to be the aims of the Labor Charter itself where the stated objective was to subsume all previous interests of labor and capital under the aims of the whole (*ibid.*, 10–12). To achieve this, the authoritarian nature of the fascist state sought to compel the economy into the corporatist mold, but to do what (Lachmann 1930, 13)?

Where the first chapter employed the first category of interpretation to identify the subjective ends of Italian fascism, the next chapter would try to understand the particular means and institutional forms of fascism or its *Technik* by which it would integrate, both intensively and extensively, the various levels of society in conformity with its goals or *Forza e consenso* (*ibid.*, 16–17). And here too Lachmann thought he had found some formidable barriers to understanding. More specifically he examined Walter Heinrich's interpretation of the

16 "Wer stellt fest, welches diese historischen Ziele sind? Welche Instanz entscheidet bei den doch unvermeidlichen Meinungsverschiedenheiten, die schon daraus entstehen müssen, dass das einzelne Individuum doch nicht umhin kann, die historische Zielsetzung durch Einschaltung seines weltanschaulichen Apriori hinwiederum zur Zwecksetzung zu machen?"

corporatist form as an end in itself. But if the stated official aims were in fact to be the driving motif of understanding, Lachmann reasoned, then this more traditional academic approach would not do, for it took a particular moment as its end, and not the overt intention. Corporatism by itself was only a means and constituted no new principle, no new idea. Moreover, in the process of folding the pre-existing capitalist order into its corporate hierarchical system of bureaus, fascism was actually compelling the various interests to organize into guilds. This merely begged the question as to the existence of a new course of action and from where it might arise (*ibid.*, 17). The spirit of the new state order must at some level distinguish the Italian nation from other states, but it seemed that the forms of the fascist state had assembled the different industries and professions along their given, previous parameters. These corporatist and guild-like aspects, he pointed out, were in conflict with one another. While both might coexist as a matter of historical fact, the corporatist notion was top down and hierarchical, while the syndicalist principle of a guild within a particular industry was supposed to be egalitarian with respect to its members. Even more troubling, guilds were also potentially monopolistic in their economic tendencies (*ibid.*, 18 – 19).

Where, then, was the defining spirit that would integrate this new order? In which aspect of its two institutional forms was this new spirit to be found? More pointedly he asked,

> But how is it with the bank clerk who loses his position and enters a commodity business? Does he change his stand? Is not the characteristic of his position, his 'in-standing', persistent? Is there any conceptuality at all, which can be changed from today to tomorrow (*ibid.*, 19)?[17]

A military-style corporate hierarchy to achieve order was no real solution. He sought in vain the rationalizing principle, noting only that "at a minimum we see the collision of the authoritarian idea of hierarchy with the established layers of organized interests" (*ibid.*, 20).[18] And directly citing Sombart's interpretation of modern capitalism, Lachmann noted that the principle of profit would still give rise to class tensions if there were no new intervening norm to constrain it. What would keep the various organized bodies, the various guilds into which the industries were being arranged from themselves seeking their own advantage? And what would alter the usual competition of the workers and entrepreneurs? "So the question remains open:" he insisted, "What can be done to get the workforce out of the condition of class struggle" (*ibid.*, 25)?[19]

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17 "Wie aber ist es mit dem Bankangestellten, der seine Stellung verliert und in ein Warengeschäft eintritt? Wechselt er damit etwa seinen 'Stand'? Ist nicht das Charakteristikum des Standes das 'In-ihmstehen', das Verharren? Gibt es denn begrifflich überhaupt Stände, die man von heute auf morgen wechseln kann?"

18 "Hier wenigstens sieht man ganz deutlich den Zusammenstoß des autoritären Gedankens der Hierarchie mit dem ständischen der Aufstaffelung zünftischer Gefüge."

Where, in essence, are the requisite norms ("*durch welche Normen*") to accomplish the task?

This remained the basic style of Lachmann's analysis in the third and final chapter where he went into more minute examination of Gino Arias' thought, the leading political economist of fascism in Italy. Here an examination of the problem of interpreting economic data, of accounting for costs under such a system can be found. How are they to be determined if not in relation to the particular ends and aims? What then are the particular costs or "*volkswirschftlichen Kosten*" (*ibid.*, p. 46)? And how would they be measured? Subjective theory, Lachmann noted, would not help here either, because in this case the acting subject was supposed to be the nation and not the person or the entrepreneur (*ibid.*, 47, 48–49)![20] Little was therefore to be found to realize a new economic system in Sombart's sense of a meaningfully integrated economic context or whole. Was this in fact a free or a controlled economy, Lachmann asked (*ibid.*, 56)?[21] He searched in vain to locate something he could interpret that might give rise to a distinctively fascist course of action through the study of its "forms" as they developed in reality ("*in der Wirklichkeit entwickelt*") from the standpoint of a "*verstehende Wirtschaftswissenschaft"* (*ibid.*, 37, 56–65).[22] It was, Lachmann wrote, the aim of fascism, the aim of its *corporativa conscienza*, to overcome class conflict. It was not at all certain, however, that the new system would not itself degenerate into monopolistic syndicalism with particular segments of industry assuming interests at odds with that of the nation (*ibid.*, 72, 77, 82). The chapter concluded with a summary of the three interpretive categories or *Bestandteile* taken directly from Sombart, beginning with the corporate and syndicalist structures of the fascist state as a whole. The effort here may be seen as an attempt to reverse engineer the entire social experiment

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19 "Bleibt also die Frage offen: Was da denn noch geschehen könne, um die Arbeitschaft aus ihrer Klassenkampfposition herauszulösen?"

20 "Die Nation wendet doch nicht die zur Produktion nötigen Arbeitsmengen auf, sondern ihre Glieder, und nur diese sind überhaupt imstande, die Arbeit als 'Sacrifizio' zu empfinden. Der Nation als solcher fehlte dazu doch vor allem das Organ, für sie sind 'volkswirtschaftliche Kosten' also schon deshalb keine Beziehungsgröße, weil die zu beziehende Größe ihr fehlt. Wir vermögen also nicht, die Lösung für geglückt zu halten."

21 "Das ist im übrigen Schriftum strittig, Costamagna bejaht, Arias verneint es, besonders im Hinblick auf die Freiheit der wirtschaftlichen Initiative."

22 Failing to provide objective data or measures due to his being a *richtender* or prescriptive type of economist, Gino Arias's deferred to Massimo Fovel, whom Lachmann classified as an *ordnender Nationalökonom* (see *ibid.*, 40, 44, 54). Fovel's work attempted to show how individual welfare and state power could be reconciled through a general plan, ("*die Erreichung diese Zwecke planmäßig anstrebt*.") but was beset with insurmountable logical and factual errors ("… *die allzu offenliegenden schweren Irrtümer in logischer wie tatsächlich Hinsicht, denen Fovel zum Opfer gefallen ist* …") with respect to his application of such concepts as social and individual welfare, economic rationality, and equilibrium under conditions of state corporatism.

beginning with "*I Die Wirtschafttechnik,*" through "*II Die Wirtschaftsordnung,*" and concluding with "*III Die Wirtschaftsgesinnung.*" But in the end, corporatism could not of itself reveal any clear path by which the economic interests of the nation would ever be identical with those of the individual person (*ibid.*, 78–83).

Still searching for the economic norm or principle to which the new system might give form, Lachmann could do no more than present the assertion of its leading political economist that a new ethos was being realized in historical practice. It was not, according to Gino Arias, the individualist postulate of hedonistic capitalism, nor some opposite postulate of altruism, but its own postulate "to dominate, with its creative will, the entire production economy."[23] But here, Lachmann noted, we are faced with not inconsiderable difficulties when trying to grasp the *content* of the corporate conscience, "*den Inhalt der conscienza corporative*" (*ibid.*, 82). Lachmann evaluated Arias' statement by pointing to what he contended was the most difficult of the challenges facing the fascist economy. He employed a term known only too well to both Sombart and Weber (Sombart 1930, 267; Hennis 1987, 55 n. 48): The inescapable problem of the "heteronomy of ends," or what Lachmann described as "*Heteronomie der wirtschaftlichen Zwecksetzung*" (Lachmann 1930, 83). In deciding the question – was this a new economic order? – he was raising the central theme that Weber had set before Sombart as the barrier to any too easily posited assumptions about the reordering potential of society.[24] Ideal types were approximations of ends held by individuals who always represented far more than just a single externally imposed aim or purpose. In his chapter on *verstehende Nationaloekonomie,* Sombart had tried to deal with that point directly. It was this problem that his schematic ideal was meant to address by interpreting or rather avoiding the problem of the variety of heteronomously given ends through the formation of some new rational trajectory (Sombart 1930, 267).

The degree then to which this problem could be solved would be the degree to which the fascist economy would count towards fulfilling the requirement of a freely coordinating meaningful whole. Lachmann could only conclude by quoting Gentile to the effect that this problem would have to remain imminent, to be solved only through the working out of the dialectic of history. Wisely perhaps, Lachmann (1930, 84) ends his analysis here, concluding that we could not follow the philosopher along such speculative heights.[25] Thus Lachmann

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23 "… per dominare, con la sua volonta creatrice, tutta l'economia della produzione."

24 This is given by Weber in an ironical tone in his letter to Sombart dated 8 February 1897, congratulating him on arriving at the "liberal solution of the heteronomy of ideals" (see again, Hennis 1987, 55 n. 48)!

25 "Wir müssen es begreiflicherweise, schon um den dieser Untersuchung gezogenen Rahmen nicht zu sprengen, ablehnen, auf diesem schmalen Pfade, der geradeswegs in das Reich der Spekulation führt, zu folgen."

left his subject with more and not fewer questions, with greater and not fewer conceptual challenges, rooted in the problematic nature of the highly variegated content of human motives and perspectives. Carefully considered, one can see in this work the foundational roots of Lachmann's concern with the complexity of individual purposes – on the diverse and specific content of individual minds. One might also infer from his open-ended conclusion that he was already more inclined to Weber's more cautious side of the *verstehende* spectrum within the Historical School. But all the tools of *verstehen* are to be found here in the dissertation.[26] Three years after filing his work with the university, Lachmann would leave for England to begin a new phase in his career. The question is: in what way did this impact his later work?

6. Grafting an Historical Branch to the Austrian Tree

Much is often made of the fact that Lachmann studied Austrian theory independently with Emil Kauder while in Berlin, and then with Hayek at the London School of Economics in 1933 (Grinder 1977, 8–9; Egger 1986, 56). But one can view much of the time spent in England as simply retraining in the techniques of the Anglophone world, what Sombart had called the techniques of *ordnende Nationalökonomie*.[27] This was, in fact, a necessary step for anyone wanting to continue in economics after leaving Germany, for as another student of the same department in Berlin found out after coming to America, his training had not prepared him particularly well for teaching in his chosen field, compelling him to seek a position in history instead (Redlich 1964, 30–31; Eicholz 2014, 53–55).[28] Lachmann's new contacts with Hayek, Hicks,

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26 Lachmann would continue this same style of relentless questioning in his first post-dissertation article on the same topic, but would emphasize the conceptual problems of state and society and the role of elites in a corporatist system (see Lachmann 1933, 193–212).

27 I interpret Lachmann's work between 1936 and 1941 in just this way. Certainly traces of what Don Lavoie has called Lachmann's "economics of meaning" can be found in these writings, especially in his 1940 essay (Lavoie 1994b, 11–13), but they are left understated relative to the ideas prominent in the English debates of the time. Thus his "Preiserwartungen und Intertemporales Gleichgewicht," tried to salvage aspects of equilibrium theory with reference to time (Lachmann 1937, 33–46); and his, "On the Measurement of Capital," made the case for empirical quantification, noting that "to renounce all measurement would be to rule out all possibility of empirical verification." This was precisely Buchanan's worry as noted earlier. Certainly Lachmann hinted at his real interests (Lachmann 1941, 368, 376), but only after the 1941 essay, as Lavoie's account also makes clear, did he fully resume his abiding interest in historical meanings (Lavoie, 1994b, 6).

28 Lachmann (1977 [1966a], 127) would strongly recommend Fritz Redlich's work, but there is no evidence that the two had ever met. Like Lachmann, Redlich had taken courses with Sombart and other notable scholars at the University of Berlin, but had

Shackle, and Keynes thus directly afforded him the opportunity to continue on as an economist. Most interesting is, however, the fact that immediately on obtaining an independent academic position, Lachmann persisted not in the *ordnende* but rather in the *verstehende* path of political economy. And here it is necessary to observe that the various ideas of those he met in England were interpreted and re-cast by him in terms that were consistent with his earlier training – terms that would have been readily apparent in Germany as Historical School insights. The first instance of this, of course, was his alignment with the Austrians and the peculiar way in which he went about doing so.

In his essay on the Austrian theory of industrial fluctuations, Lachman did something unusual for one who was supposedly a student of Hayek. He both lauded Keynes for his attention to the peculiarities of an "historical situation," and then curiously noted that "[w]e earnestly believe that what we have to say will be unobjectionable to all who are counted among the Austrian school, but we may well be wrong" (Lachmann 1977 [1940], 270). But why might he have been wrong? The clue is to be found in Lachmann's interpretation of the nature of the critiques of those who came to favor Keynes over Hayek in the debate about the Great Depression. Lachmann insisted that the critics of Hayek had been mistaken in their perception of the static quality of the Austrian theory because they themselves were already too "impregnated with static equilibrium notions." Consequently they were "incapable of realizing its real dynamic significance" (*ibid.*, 268). And where did this dynamic significance rest? With its focus on *expectations*.

In a very direct way, Lachmann observed, the Austrian theory presupposed the non-reversibility of invested capital "into buildings and machinery," which implied that "any failure of events to conform to expectations will upset everything" (*ibid.*, 269). What was perhaps most telling is that he made a passing yet rather significant further observation: "As long as thought is free, there is no guarantee whatsoever that, because some men's ideas coincide at some moment, they will do so at the next. By the same token, 'schools of thought' lead a precarious life. At best of a transitory nature, they grow and wither as the human spirit moves" (*ibid.*, 270). And here was the source of the potential trouble with other Austrians, for it is not at all clear that consideration of the variability of expectations was something much considered by them at the time. In fact, it was rather that they expected investors to be similarly deceived each and every time. And Lachmann's next foray into Austrian theory would call them out precisely on that issue. More specifically, he would direct himself to a central point in Mises' own cycle theory. And it was the only time Mises felt compelled to address Lachmann directly in print.

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taken a hiatus in his academic work to attend to his father's business. During that period, Lachmann both started and completed his degree. Redlich would come to the United States in 1936 (Kocka 1979, 167–171).

In his 1943 essay, "The Role of Expectations in Economics as a Social Science," Lachmann raised again the heteronomy of ends by observing simply that "men's reactions to identical observable events will vary if for any reason these come to have [a] different meaning to them." With that insight he approved of Keynes' observation of differing expectations so as "to give shape and concreteness to his liquidity preference curve." And then went on to "defend" Austrian theory by proceeding to complicate its most basic foundational assumption:

> … Wicksellian theory appears to be based on a very special assumption, viz. of a capital market without a very strong mind of its own, always ready to follow a lead on the spur of the moment, and easily led into mistaking an ephemeral phenomenon for a symptom of a change in the economic structure. Without fairly elastic expectations there can therefore be no crisis of the Austro-Wicksellian type (Lachmann 1977 [1943], 79).

Mises' response was quite revealing. "It may well be," Mises replied coolly, citing an earlier work of his, "that business men will in the future react to credit expansion in another manner than they did in the past. … But it is too early to make a positive statement." And just to make certain that he was not misunderstood, Mises concluded that "[n]othing but a perfect familiarity with economic theory and a careful scrutiny of current monetary and credit phenomena can save a man from being deceived and lured into malinvestments" (1943, 151–152). Lachmann's theoretical orientation was obviously not to Mises' liking and served only to complicate his prescription for the boom-bust cycle, making it far less obvious and tenable. In this light, we might also wonder if Mises was reacting to Lachmann's use of the term "Austrian theory." Perhaps he thought Lachmann was invoking it in the more pejorative north German sense that Gustav Schmoller had first intended: "Why call this monetary or credit expansion theory of the trade cycle the 'Austrian' or the 'Austro-Wicksellian' theory?" Mises asked. Indeed, for him it was nothing less than "a continuation, perfection, and generalisation of the currency theory" (*ibid.*, 152).

Interestingly, Mises would never again directly engage Lachmann in academic publication. We can only speculate about his thoughts, but there were certain markers in Lachmann's essay that Mises would have readily recognized as being of a very different intellectual pedigree from his own. For here, in this new Anglophone context, Lachmann had in fact raised Weber's very own notion of the *ideal type* to expand upon Keynes' particular view of expectations, the very idea for which Mises had exactly no room in his own idealized theoretical approach to purposeful human action. More than that, however, Lachmann had related the use of the ideal type to the formulation of a schematic originally invoked by his doctoral advisor: Here the idea of the *Plan* would be invoked explicitly for the first time: "What, then," Lachmann asked, "are expectations?" His answer drew from his earlier training:

> We saw that all human conduct (as distinct from mere behavior) presupposes a plan. We now have to realize that, as a prerequisite to making a plan, we have to draw a

> mental picture of the situation in which we are going to act, and that the formation of expectations is incidental to the drawing of this picture. Such a picture will be drawn differently by different individuals … (Lachmann 1977 [1943], 72).

Here were the foundations of that approach that looked to concepts and contexts and viewed the world from the interiority of acting persons. "The Social World," Lachmann hammered home, consisted "not of facts but of our interpretation of the facts." And this was to be achieved by "understanding why the acting and expecting individuals interpreted a set of facts in the way they actually did." In building up the terms necessary for such an understanding, Lachman turned to Weber. "The next step," he asserted, "in the study of expectations, to be sure, has to consist in evolving hypothetical 'ideal types' and testing them in the light of economic history" (*ibid.*, 67–68). This was the "heteronomy of ends," the very same complication Lachmann had raised against Gino Arias and fascist political economy. Purposes were never to be assumed as constant. Human thought was free, but also contextual and therefore variable. And this was the logical next step in the extension of subjectivism: "In a properly dynamic formulation of the economic problem," he argued, "all elements have to be subjective, but there are two layers of subjectivism, rooted in different spheres of the mind, which must not be confused, viz. the subjectivism of want and the subjectivism of interpretation" (*ibid.*, 73). All men have wants but it is when individuals seek to attain those wants that they must make plans, and these must be interpreted. For a "plan" is the "product of the mind," and as such it "is both the common denominator of all human action and its mental pattern, and it is by reducing 'action' to 'plan' that we 'understand' the actions of individuals" (*ibid.*, 69).

It is possible perhaps that Lachmann's thinking about the idea of "the plan" as a concept had its origins with Hayek's *Economica* essay on "Economics and Knowledge" (Hayek 1980 [1937], 42–43), but nowhere is it cited, nor does he cite it when he sets out to develop his particular idea in his essays on Weber. Given the fact that the concept was already to be found in Sombart, as we have seen, we might also wonder if the notion didn't arise from Hayek's conversations with Lachmann. Tellingly, Lachmann's only citation with respect to the shortcomings of the ideal type was to *Die Drei Nationonalökonomien* (1971, 28). Moreover the vocabulary Lachmann used to give shape to his concept was that of Weber and Sombart, not Hayek.[29]

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[29] For example, Hayek tends to use "foresight" rather than expectations, decidedly not Lachmann's wording, and Lachmann had been aware of the German "Voraussicht" in reference to Morgenstern's writings in an essay of the same year as Hayek's article. That Lachmann (1937, 33–46) chose not to use the term later when elaborating his concept of "the plan," but rather such notions as ideal types, indicates to my mind the enduring influence of his earlier training. I am indebted to Bill Tulloh for calling my attention to Lachmann's use of "*Voraussicht*." On my overall view of the article's place in the Lachmann corpus, see note 27 above.

While Sombart had discouraged Lachmann from reading too much in the Austrian tradition, he had in fact encouraged his reading of Weber (Lachmann Interview 1978, 3). And clearly Lachmann shared Weber's interest in the Austrian School for much the same reason: To discern the limits of formal logic in the elucidation of human action (1971, 52–60; Hennis 1987, 38–39; Osterhammel 1987, 110–111; Beiser 2011, 522–528). It is certainly true that Weber defended Menger's views on the necessity of theory, but so too had Sombart (1930, 154–155). It was therefore the resistance to formalism, founded in an interest in purposefulness, not as a category, but for the complexity and variableness of its content that was the real significant defining difference between Mises and Lachmann. Subjectivism had come into German discourse as a category with Gotlieb Hufeland in the first years of the nineteenth century and had moved on by the time of the *Methodenstreit* to become the exploration of cultural differences – a search for the historical origins of the contents of the category of subjective perceptions (Streissler 1990, 31–68; Streissler 1994, 493–499; Milford 1997, 89–160). That was essentially the historical project.[30] And it was Weber's project too. He had continually reaffirmed the difficulty of coordination in the face of the multiplicity of ends arising from the different contexts of persons and groups. This appreciation of variety in the "heteronomy of ends," or rather the diversity of the content of purposes, made Weber far more cautious than Sombart to be certain, but it certainly did not make him an Austrian in the full sense of the term (Ghosh 2006, 87; Maclachlan 2017, 1161–1175).[31] And the same point applies to Lachmann.

7. The Later Work of Lachmann

Both Stephen Parsons and Laslo Csontos have shown the significance of Weber to Lachmann's later works, and in Parsons' case that significance has been explicitly identified as using a Historical School method. But neither Parsons (1998, 33) nor Csontos (1998, 94–95) went further back than Lachmann's specific writings on Weber. Don Lavoie (1994, 1–19) and Roger Koppl (1998, 63, 68) have bridged some of this divide by looking to Lachmann's very early invocation of meaning and expectations, and in Koppl's case, pointing out that this interest followed on from Lachmann's "psychologically detailed picture of

30 This is the subject of another essay (Eicholz forthcoming) dealing with the twin origins of subjectivism and *Historismus*. Suffice it to say, Menger was aware of these earlier sources of subjective thought which he cited in an appendix to his *Principles* (Menger 1950 [1871], 287–288).

31 That some of Weber's students reported him as such only proves that they failed to see the significance of the methodological debate he was attempting to convey, resenting having to think through Menger's arguments. That is hardly surprising and does not in the least impact his published record, which preceded and postdated his active teaching.

action." But here again the point of this essay is to highlight the continuities of Lachmann's work with his earliest training.

Perhaps no more curious example of this continuity of thought is to be found than in Lachmann's direct address to Mises, in his review of *Human Action*, the *magnum opus*, as he called it, of the leading Austrian theorist. The review, when read carefully, set forth a veritable blueprint for the course of Lachmann's later work, and is essentially a refashioning of Austrianism along lines more congruent with the Historical School approach of the youngest generation. Mises must have been utterly startled by Lachmann's assertion that "we must never forget that it is the work of Max Weber that is being carried on here" (Lachman 1977 [1951], 95), when in fact Mises had only mentioned Weber to emphasize that "he was not sufficiently familiar with economics and was too much under the sway of historicism to get a correct insight into the fundamentals of economic thought" (Mises 2007 [1949], 126). The review, however, proceeded step by step to re-interpret Mises in a way that made Weber's historical framework the very foundation of Misesian thought! In doing this, Lachmann invoked Hayek's term for the praxeological *a priori* method as the "pure logic of choice" (Lachmann 1977 [1951], 96), but he did so to question the very possibility of such a pure theory, asking if in fact all the propositions of economics could indeed be so counted as *a priori* true and still "convey knowledge of real things"? Were "all the fundamental economic theorems" in fact "*a priori* valid" (*ibid.*, 96)? After contrasting Mises' position on the logical character of economics with Mises' own scathing criticisms of mathematical economists and their theories of equilibrium, Lachmann subtly rephrased his inquiry. Clearly plans are directed by a "controlling mind," he reasoned, but "the plans of different individuals may be, and as a rule are, inconsistent with each other." If that is in fact the case, then such plans, such data "cannot belong to the province of logical economics, for the acquisition of knowledge is *not* a logical process. How does our author overcome this difficulty" (*ibid.*, 101)?

The answer Lachmann gave to that question was not in actuality Mises' answer, for as Lachmann explained, the explicit response given by Mises, namely the logical principle of the division of labor, "cannot be regarded as accurate." Instead we are presented with Lachmann's interpretation of what Mises is supposed to have *implicitly* meant by his use of the concept of the entrepreneur, which, the reader is informed, is "Professor Mises' real answer." What this then meant, apparently, was that the market process is a matter for interpreting market data in the form of profits: "In a symbolic form they convey knowledge, but the symbols have to be *interpreted*. In this ability men differ widely; its comparative rarity is the ultimate cause of human inequality" (*ibid.*, 101–102). And what would have startled Mises even more was that his theory of the credit cycle was made even more historically attenuated, because the "heterogeneity of capital resources" simply demonstrated that "a theoretical one-model show

must needs fail to give an adequate picture of the range of analytical tools required to cope with these baffling complexities" (*ibid.*, 105–106). By the end of Lachmann's treatment of his theory, there was really very little left standing that Mises would have recognized as his own. Lachmann concluded with one last ironic twist: Quoting Mises' assertion that a failure to observe these economic principles would not annul their truth, but simply "stamp out society and the human race," Lachmann very modestly stated, "[i]t will be for history to judge" (*ibid.*, 110). Not theory, not the *a priori* truths of praxeology, but history. What is going on here, the historian might ask?

There is unfortunately only a very brief, if suggestive response in the curious and intermittent correspondence between Lachmann and Mises not long after the review was published.[32] It would appear that Lachmann had been worried about his interpretation of Mises, and had written to express his concerns. Apparently, Mises responded on 4 January 1952 to reassure Lachmann that his reading was sound. Exactly what this meant, however, is not quite clear because neither the initial inquiry nor the reply have survived. Considering the references as set forth in the context of Lachmann's later letter of 1 June 1953, however, we must wonder about the sense in which they were agreeing.

Was their agreement about the nature of the questions confronting economics and how they should be approached? Or was it about the specific answers proffered?[33] Here we also find Lachmann thanking Mises for correcting him on the use, or misuse, of what he had then "called the 'Austro-Wicksellian' theory." Yet Lachmann did not adopt Mises' assertion that it was the *perfection* of the economics of money and credit, nor did he stop using "Austrian theory," which Mises had also included among his objections. More curiously still, Lachmann noted Mises' association with *The Freeman*, only to observe that "I always read them with great interest, even where I cannot agree." And by way of illustration, he specifically raised the subject of the Marshal Plan, which Mises was on record as opposing.[34] In characteristic form, Lachmann saw complications:

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32 I am indebted to the anonymous reviewer of this article for bringing my attention to this brief but very interesting collection of letters exchanged between Lachmann and Mises which begins shortly after Lachmann's 1951 review of *Human Action* and held at the Grove City College Archive, Von Mises Collection – Lachmann File. Thanks are also due to the archivist for her prompt and helpful response.

33 In fact, to Don Lavoie's interpretation of Mises as an "interpretive" thinker, Lachmann could only remark in an essay published posthumously: "Whether von Mises, who was inclined to assign 'interpretation' to historiography only, would have liked the appellation is quite another question" (1991, 284). Of course, if Mises' assurances in the earlier correspondence had concerned this essential point, then surely Lachmann would have already had his answer. Apparently he did not, or had forgotten it.

34 Mises had given his views on the Marshal Plan at a Mont Pelerin Society meeting in 1951 which Lachmann may very well have attended. In his remarks Mises took a position very nearly the opposite of the one Lachmann was raising here, observing that the program had allowed European governments to partially cover up the "disastrous

"But I ask myself," he wrote, "whether even what little 'liberalization of trade' there has been in Europe in the last 6 years would have been possible without it" (Lachmann to Mises, 1956). And here we have an excellent example of that skill in disputation which Lachmann possessed to a highly refined degree: An ability to articulate criticism in the warm tones of affirmation. One must always be attuned to Lachmann's use of language, his articulation of context, and his phrasing of questions not to be lulled into the impression that he has agreed, when in fact he has not.

Thus in the next letter of substance, dated 17 September 1956, written in German, Lachmann pressed Mises on a number of further points. The first concerned Lachmann's book on capital theory. It had, he said, been written in the spirit of the Austrian school but was it an adequate manifestation of that spirit? He very much wanted Mises' opinion on it and asked him to please clarify a statement from their last meeting where Mises had apparently remarked that the neo-Kantian contribution to the theoretical foundations of modern social science represented the intellectual "highpoint" of Wilhelmine Germany. Lachmann took this to mean that Mises was affirming the "logical form" implied by the categories of ends and means, but quickly went on to press him in which direction this insight should be taken today? Had not Rickert's work actually denied the possibility of a theoretical social science, he probed? But perhaps Mises really meant Weber's work? Yet if that was the case, he asked, in which direction should we take Weber's ideas now? Alfred Schütz, he observed, seemed to think there were possibilities here, but to emphasize his point further, Lachmann wrote out in longhand between the typed lines of his letter: "In what direction" (Lachmann to Mises, 1956)? One gets the distinct impression that Lachmann was driving at something – something he very much wanted Mises to see, but which might not have been taken as abiding within the "Austrian spirit" if simply spelled out. His questions were genuine, but they were also strongly suggestive of a specific answer.

And that answer, to my mind, was made clear enough in Lachmann's 1966 essay on "The Significance of the Austrian School," a topic to which he had obviously given much thought. In this article Lachmann once more reinterpreted the entire Austrian *oeuvre* by reconfiguring the implications of its theoretical foundations along lines more conducive to his own way of thinking. His critique of the "critics" of Austrianism is a particularly interesting case in point. Both Schumpeter and Sombart, he noted, wanted to equate the Austrians with the French Lausanne School, but they "were mistaken because they misunderstood the cognitive aim and intellectual trend of the Austrian school." But even more curiously for a self-proclaimed Austrian, Lachmann remarked that Sombart had made this association with Lausanne simply because he had wanted

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effects of the various socialist measures they have adopted" (see Mises 2008, 166; Hartwell 1995, 92 – 93, 204).

"to be able to deny any intellectual affiliation [with himself or his method] with the Austrians." Yet it would be no exaggeration to say that most Austrians, then or now, would have been entirely happy not only to deny such a connection, but never even to raise it as a possibility. That Lachmann (1971, 28) saw this connection, however, seems evident in his protest, and when one looks at his specific writings on Weber, the conclusion becomes inescapable, for here he called Sombart Weber's "comrade-in-arms in the early days of the *Werturteil* discussion," the same Weber whose work Mises was carrying forward!

And this underscores something else in Lachmann's work that is not often recognized or at least not often remarked upon. Lachmann never stopped citing Historical School authors, and never tried to obscure his training with Sombart. It is true that he did not overtly advertise the connection, but a close look at his texts reveals that he saw a natural link with the Austrians that provided an opportunity to fuse his earlier training with their theoretical approach. Thus he dealt lightly with Menger's use of cause and effect and simply noted off-handidly that he could hardly be faulted for such a confusion of methods because "understanding as a method of theoretical culture study was scarcely known in 1883" (Lachmann 1977 [1966], 48). And yet just two paragraphs before, he had observed the publication of Droysen's *Historik* which had been issued decades before Dilthey's work on the very same themes (Beiser 2011, 292).

The actual aim of Lachmann's research is made even clearer, however, when he noted that in economics "every concrete transaction depends on the expectations of the participants." And to understand this was to recognize that "in a dynamic world there are economic problems that the logic of choice by itself cannot master." Austrians must not rest content therefore simply to criticize equilibrium models but must also "show the fruitfulness of the *verstehende* method in its various applications" (Lachmann 1977 [1966], 58–60). And he persistently and consistently underscored this point a decade later when he wrote that "It is more important to make the world of action as it unfolds intelligible than it is to deduce the unintended consequences of action" (Lachmann 1976b, 216).[35] Here was the precise opportunity that Lachmann had identified in Austrian theory. Here was in fact the answer to the question he had posed to Mises in his 1956 letter regarding the direction economics should take in the present. Economic theorists should remove their focus from the mere category of purposefulness and its "logical form," and instead complicate their thinking with the variability of its content.

One last point might be useful here. In his interpretation of expectations some three years later, Lachmann would make this further observation: The idea of expectations, he noted, "did not make its appearance on the stage of

[35] Such a preference for the seen and intentional over the unseen and unintended, as I have argued elsewhere, was a defining characteristic of the Historical School itself (Eicholz 2014, 43–59).

economic thought in one thrust," but rather "by gradual infiltration." Because of this, "it is virtually impossible to date its appearance." But the "it" here is somewhat unclear, until you read a bit further to discover to what he is specifically referring. After recognizing the insights of Keynes, Schumpeter and Knight, Lachmann observed that "before 1930, at least in *Anglo-Saxon economics*, the problem was hardly recognized at all" [emphasis added] (Lachmann 1977 [1969], 158). Why "Anglo-Saxon economics"? Of course, if one believed that an interpretation of expectations required the application of ideal types and consideration of plans, then of course that would be exactly correct. It had been proposed previously by the German Historical School.

Clearly, Lachmann had seen the ultimate compatibility of Austrian theory with the tradition of inquiry in which he had been trained. There was really no necessity separating them in their philosophical fundamentals. In this light, Karl Häuser was surely correct when he stated that "[t]he enmity between the two protagonists which was partly inherited by their students reminds one of the enmity of two closely related families" (1988, 539). Lachmann saw this relatedness, and his good fortune was to have been retrained at the LSE where he established new and important contacts in the field. With these connections, he was able to continue as an economist, and it was through this avenue that he breathed new life not only into Austrian thought, but into economics more generally. For what is the point of inquiry if not to expose problems and challenges to our perceptions of what is? Many today write as if these aspects were always part and parcel of the Austrian School (Ebeling 1986, 39–55; Madison 1994, 38–47; Gloria-Palermo 1999, 116–117; Leube 2010, 260).[36] In point of fact, the strongest connection between hermeneutical thought and the Austrian line is the Lachmannian graft itself, and its clearest origins can be found throughout Lachmann's work. When authors write of the hermeneutical influences on Austrianism, they may begin with a few philosophical precursors such as Husserl and Gadamer, but with respect to Austrian economics specifically, they cannot help but look to the "pioneer" himself, Ludwig Lachmann (Madison 1994, 39; Ebeling 2014, 154–157, 160n19). Perhaps his closest student in theoretical matters, Don Lavoie, illustrated this point best.

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36 Leube actually begins with the *Untersuchungen*, and not Menger's *Grundsätze*, and therefore does not consider the much earlier prompting of Menger by Theophil Friedrich Hack, a member of the German Historical School, where he had urged him to consider dropping cause and effect for ends and means, a point which Kiichiro Yagi (2010, 24) has brought to light in the same volume in which Leube's article appears. Hack (1872, 183–184) was one of the publishers of, and most prodigious reviewers for the *Zeitschrift für die gesammte Staatswissenschaft*, edited by Wilhelm Roscher and A. E. F. Schäffle. Schäffle was a major pillar of the Historical School and had been Hack's *Doktorvater* (on Schäffle see Hodgson 2010, 296–315). Leube also overlooks Schmoller's (1883, 975–994, see esp. 990) review of Menger in which Dilthey is recognized for his *verstehende* approach.

In noting Lachmann's war against formalism, as so many have done from Koppl (2000, 390–391) to Lewin (2000, 383), Lavoie captured Lachmann's role within modern Austrian economics well when he noted that the hermeneutical "reinterpretation has arisen mainly under the influence of Ludwig Lachmann" (1990, 359). Prior to Lachmann, Lavoie (1994a, 55) clarified, Austrianism had suffered from its own kind of logical formalism, expressed differently from the mathematical sort that Mises disliked, but formal nonetheless. In his challenge to pure theory, Lachmann drew on many sources, but always interpreted those sources in light of his previous training. Thus in a letter written to Lavoie dated 2 January 1986, on the eve of the publication of his book, *The Market as an Economic Process* (1986), Lachmann commented that "[w]e should reexamine the main issues of the '*Methodenstreit*'. Did Menger have the whole answer? If not what do we have to say?" He then made a final observation:

> We should not hesitate to say that Shackle is a hermeneutical thinker even though he doesn't know it, and it is arguable that this also applies to Keynes. The introduction of expectations into econ. theory was a step in the hermen[neutical] direction, but Mises and Hayek fell down badly on the job. Why? As I am writing, a dozen hermeneutical tunes begin to hum in my mind, so I had better stop for now.[37]

8. Conclusion: Reconsidering Lachmann

Aside from their very early exchange in *Economica,* Mises and Lachmann did not further interact in academic print. It seems likely that this was borne out of their very different conceptions of what constituted economics and which direction Austrian theory in particular should have pursued. If nothing else, Lachmann was consistent in his opposition to formalism even in those varieties to which Austrianism was prone, and if Mises is correct, this kind of consistency should rather confirm Lachmann's membership in the Historical School:

> The concept of theory, in contradistinction to the concept of history, is, and always has been, understood as involving a regularity valid for the future as well as the past.
>
> If the adherents of the Historical School were, in accordance with the logic and epistemology of their program, to confine themselves to speaking only of the economic conditions of the past, and if they were to decline to consider any questions touching on the conditions of the future, they could at least spare themselves the reproach of inconsistency. However, they maintain that what they write about and deal with is economics (Mises 1960, lxxi).

I offer here by way of contrast a point from Lachmann's final major work, *The Market as an Economic Process*:

> Our conclusion that economists must confine their generalizations to the knowable past will be deplored by all those who see the main task of economics in the making

[37] Cited from the Ludwig Lachmann papers with the generous permission of Witwatersrand University Archives after extensive copyright investigation.

> and testing of predictions. Our answer has to be that the social world, unlike the solar system, is impelled by forces as mutable as thoughts and that no Newtonian model fits it (1986, 32).

It is rare that one finds a scholar as able as Lachmann clearly was to set any discipline – let alone that of economics at the height of its formal aspirations to mathematical and statistical glory – back upon its heels in so many basic points of analysis. From cycle theory to the concept of equilibrium, Lachmann applied a steady line of questioning that has grounded not just Austrian economics, but economics in general upon a firmer and more chastened foundation of reality. It must be argued, however, that this impressive array of achievements stemmed directly from his original grounding in Historical School methodology, rightly applied at the very point where the Austrian school begins its logical derivations from the general category of *purposefulness*, to ask instead about the implications of specific and historically concrete aims and expectations. In so doing, Lachmann has fulfilled the Misesian criterion noted above. He was in fact not only the last, but perhaps also the most thorough and consistent member of the German Historical School.

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