Who is . . .

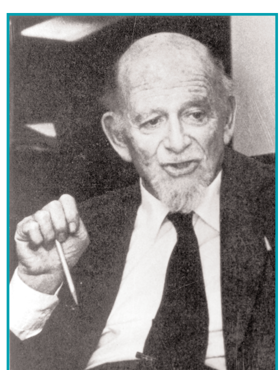
Ludwig Lachmann

BY PETER LEWIN

Economist and philosopher Ludwig Lachmann (1906–1990) made singular contributions to the economic theory of capital and expectations. But he was more than just an economist. As a social theorist and methodologist, he elucidated a subjectivist vision of the social order that set him apart from the economics profession of the twentieth century.

Lachmann received his graduate education in Germany at the University of Berlin between 1924 and 1933 where he earned his doctorate. He first became interested in Austrian economics, in particular the economics of Carl Menger, during a summer that he spent at the University of Zurich in 1926. In 1933 he left Germany and settled in England, where he spent considerable time at the London School of Economics.

The LSE was then at the peak of its influence in the world of economics and had attracted a number of very talented rising stars, among whom was the Austrian economist Friedrich Hayek,



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a future Nobel prize winner, who became Lachmann's mentor and later colleague. It was during the 1930s and 1940s that Lachmann formed his ideas on Austrian economics.

In 1948 he left England to become professor of economics and economic history at the University of the Witwatersrand in Johannesburg, South Africa, where he remained for the rest of his life. After retiring, he spent a semester of each year teaching at New York University in their Austrian economics program until a few years before his death in December 1990 at the age of 84.

Lachmann published three books, a monograph and (by my count) 68 articles. It seems that his central ideas were formed during the LSE years when he wrestled with Hayek's work on capital and published a half dozen articles on the subject. And through his work on capital he began to think about the methodology of the social sciences, which was to become the focus of his work in later years.

By the time he moved to South Africa he had formed most of the opinions that were to characterize his work from then on. Reading his articles from 1943 through to the 1980s, one is struck by the single-minded consistency of the message.

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Lachmann's notable contribution to economics *per se* is to the theory of capital. In place of the idea of a capital stock, he proposed the concept of a capital structure composed of a bewildering variety of productive elements. This bewildering variety, though not reducible to any single measure in terms of value or in terms of units of labor time, was nevertheless not a random or arbitrary collection. Rather it was an ordered structure, ordered in terms of the purposes which the individual items served.

The impossibility of aggregation is a result of the fact that the value of any capital item was a matter of speculation, a matter of individual, subjective expectation on the part of its owner. Capital owners formed capital combinations in order to earn profits. Capital combinations are part of production plans. Plans may succeed or fail. It is only in the most unlikely situation of perfect plan equilibrium, where all plans are consistent with one another, that all plans can succeed.

Lachmann builds his theory of the capital structure around the notions of complementarity, which is a phenomenon of stability, and substitutability, which is a phenomenon of change. Unexpected change causes the entrepreneur to substitute one plan for another and to reshuffle capital combinations. Lachmann calls this capital regrouping. But while there is a consistent internal logic to the plans of a single entrepreneur or single organization, there is no such consistent logic to the relationship between the multitude of different plans that exist in the economy as a whole.

The market process, through the awarding of profits and losses as determined by the consumers' pattern of expenditures, validates some plans and invalidates others. Only in retrospect, when we resort to the writing of history in some form or another, is this seen as an intelligible process. The market process as it unfolds is not intelligible to any single human mind. If it were we wouldn't need the market. And only if it were would an aggregate capital stock have any meaning.

According to Lachmann an outstanding feature of a capitalist economy is the fact that it is confronted, one may almost say bombarded, with change. The capitalistic era is the era of rapid and accelerating change. This change is not accidental however; it is the result of the superior ability of market economies to deal with change. Market economies precipitate and benefit from unexpected change.

He refined his argument and published *Capital and its Structure* in 1956, by which stage capital theory was quite *passé*. It must have been a considerable disappointment to him to have the book roundly ignored. So it is perhaps not surprising that he turned his efforts to an examination of the most fundamental foundations of economic science, to a radical re-examination of the way in which economic theory was developing. The rest of his professional life was taken up with this project.

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In his analysis of the implications of subjectivism, Lachmann uncompromisingly articulated what he saw to be the differences between his vision of a progressive society and that of the vast majority doing generally accepted economics. His interest in this subject led him to write a brilliant reflection on the contributions of Max Weber.

I would say that Lachmann's most valuable legacy concerns his principle of subjective individualism. By reminding us that individuals are different and have different tastes and expectations, he has reminded us not only to respect those differences in our everyday lives, but also to respect them in our scientific investigations. For it is only by acknowledging and referring to these differences that we will be able to understand how the market process really works. ■

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