A Lachmannian Welfare State? Social Policy in a kaleidic World

Working Paper

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Abstract

While renewed interest in Ludwig Lachmann's oeuvre can certainly be observed over the last few decades, policy-implications drawn from his works have been relatively unexplored. This shortcoming can be easily explained by reference to Lachmann's own relative reluctance to formulate policy advice. We try to fill the void by examining Lachmann's writings on the market process and applying them to better understanding recent efforts to introduce market-processes in the provision of social policy via quasi-markets. A frequent criticism of the use of (quasi)-markets in social policy is the inherent complexity of social markets, which should not be compared to conventional market-settings. With respect to this, the Lachmannian vision of non-equilibrating market-processes and kaleido-statics as the proper way to understand those, seems like an ideal tool to better understand where quasi-markets might be a viable policy option and where they are not. We argue that the previous neglect to apply Lachmannian ideas to questions of social policy is unfortunate for at least two reasons: Firstly, Lachmann's deep insights into the workings of markets (and their shortcomings) might be able to improve contemporary schemes of welfare provision and, secondly, his openness to influences beyond the Austrian School of Economics - and the usually more moderate policy-conclusions associated with this - would enable Austrian approaches to gain more influence in the shaping of social policy by not denying its usefulness from the get-go. A concluding chapter summarizes a Lachmannian take on quasi-markets and illustrates potential learnings for policy-making. As the main takeaway, we distil the concepts of "prudence" and "contact with reality" for the conducting of a Lachmannian social policy.

Structure

1) Introduction, Outlook and Scope of the Paper

"Economic theorists are as a rule pleased if for once they can feel they have something to say that may be of relevance to the world around them." (Lachmann 1986: 44)

The German economist Ludwig Lachmann, even though he evidently had quite a lot of useful things to say that were of great relevance to the world around him, usually refrained from formulating or voicing policy prescriptions.[1] It will be our task in this paper to dwell into Lachmann's writings and distil from them a consistent Lachmannian position on social policy as it pertains to the use of (quasi-)markets in social services – a topic that has never been directly addressed by Lachmann, but which might actually benefit a whole lot from being exposed to the ideas of this relatively unknown economist.

In order to do this, we will take some of Lachmann's writings and "*pick up threads covered by the sands of time, dust them, and try to connect them with the new skein of thought*" (Lachmann

[1] Lachmann's almost universal reluctance to formulate policy advice is actually quite a striking feature of his oeuvre as an economist and also an element that strongly distinguishes him from other members of the Austrian School. His broad background and exposure to a wide range of schools of thought during his lifetime certainly had a lot to do with this: writing his PhD-thesis with Werner Sombart and then immediately switching to the LSE to work for and study under F.A. Hayek can certainly be seen as quite a dramatic shift. Furthermore, throughout his career Lachmann dealt extensively with thinkers as diverse as Mises, Keynes, Hicks and Shackle. Furthermore, Lachmann viewed - as will be elaborated in detail later on - the social world as an essentially complex entity, in which mechanisms and forces, whose effects are extremely hard to pin down, are at work. Lacking absolute confidence concerning the proper understanding of the forces that shape and bind economic and social life, it seems appropriate not be too vigorous in the conclusions one draws about which measures should be implemented by policy-makers and not generate loud, self-confident and blatant manuals about what ought to be done.

1976b: 229)[2], that is, by developing a genuine "Lachmannian" view on the market process and using this framework to determine viable solutions for the conducting of social policy in today's world. In determining Lachmann's theory of markets as such, we will be drawing on his writings about uncertainty in economic life, subjectivism as the proper role to understand social phenomena, his contributions to institutional economics and – to a slightly lesser extend – to his capital-theory.[3]

The paper will be structured as follows: Right after this brief introduction, we will examine Lachmann's oeuvre and distil from this his general understanding of markets and the processes unfolding on them. Thirdly, Lachmann's view of economic institutions and their role in the market process is briefly described. Chapter four introduces and defines the term "social services" and explains in which ways markets for social services differ from conventional markets. The fifth chapter will introduce the concept of quasi-markets and highlight in which fields these market-like structures have been used to provide social services, how they operate and what advantages as well as downsides are associated with their use. Chapter six will take Lachmann's insights about the nature of the market process – as exemplified in chapter two – and apply them to markets for social services. The goal of the chapter is to develop a consistent "Lachmannian" position on the use of markets in social policy, which – once clearly elaborated – can serve as a starting point for further engagement with Lachmannian solutions to social policy. Even though Lachmann's position as to policy can be interpreted in the way that is more important to avoid implementing bad policies than to actually implement good ones (cf. Lewin 2013: 4) we will still try to sketch the most important elements of a hypothetical "Lachmannian tool kit" for the provision of social services and the measures that might be useful to implement, while obviously also hinting at those measures that will have to be viewed with suspicion in a Lachmannian framework for social policy. Chapter seven briefly concludes.

In the face of a widely perceived "*crisis of welfare states*"[4] (cf. OECD 2013) and actual problems of most governments to fund present – and even more so: future – welfare measures

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[2] While Lachmann used this description in the context of disputes in the field of the history of economic thought, we deem the passage suitable for a more general description of the practice of dwelling back into the works of economists of bygone ages and try to distil learnings of relevance for today's world from them.

[3] The potential fruitfulness of extending Lachmann's ideas about capital from the strictly physical representation of capital also to the realm of human capital – quite an important concept when dealing with questions of social policy – has first been hinted at by Lewin 2013: 13.

[4] Following a Lachmannian framework (as will be shown in detail later on), people's perception about the social security systems they happen to live under are as relevant as the actual performance of those. Following the well-

in light of sovereign-debt problems, demographic change and unusually high unemployment rates, it seems worthwhile to take a closer look at the ideas of a thinker who has not actually contributed to the theory of welfare states, but who's contributions might nevertheless be able to greatly enrich current debates about the topic. A Lachmannian approach to social policy might also find acceptance by Lachmann himself, given his often-described (e.g. Caldwell 1991: 142, cf. Boudreaux 2012) openness to learning from other approaches, fields and people with different political orientations.[5]

2) Change, Subjectivity & Complexity: The Lachmannian View on Markets

The following chapter will attempt to distil a coherent Lachmannian position on the nature of markets and the processes unfolding on them. In doing so, we will separately elaborate on four particularities[6] in the way Lachmann thought about markets, which may all be described as atypical approaches given his positions. Indeed, Lachmann has frequently been described as "*a maverick*" (Böhm 2000: 396), "*a dissident member of a dissent school of thought*" (Lavoie 1994: 1), "*wonderful and strange*" (Koppl 2000: 391), "*the scourge of determinism, the apostle of disequilibrium*" (Langlois 1986: 171) and indeed "*an outsider*" (Grinder 1977: 3). Despite,

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known Thomas-theorem – "*If men define situations as real, they are real in their consequences*" (Thomas and Thomas 1928: 571f.) – one can clearly see how a Lachmannian approach may help us to see how societal perception about the long-run viability of maintaining an adequate level of social security and the provision of social services will have an impact on the real capacity of governments and other providers to actually carry out their various programs in an effective manner.

[5] Economists of the Austrian School are usually not well known for their engagement with – let alone their support of – social policy. Especially the former is – at least in our opinion – a grave intellectual mistake. Welfare states are – whether one wishes it or not – an integral part of the social and economic framework of modern, industrialized and wealthy societies, and economists – even if their political convictions drive them to hold critical views of the welfare state – ought to engage in careful and thorough analysis of the systems of social security. Only by properly understanding their working and the societal perception of welfare states will (Austrian) economists be able to offer viable solutions to existing social problems. Even if they deem the solutions to said problems to be found in market-settings rather than in the welfare state, adequate understanding and appreciation of the workings of the latter will be necessary to state their case convincingly to bureaucrats and politicians immersed in the provision of welfare services and to the general public who has learned to depend on the public provision of these services.

[6] It may be argued that Lachmann's take on the market process was actually too complex to be depicted with the help of only four points. This is most probably a fair criticism; however, a more detailed discussion of some elements of the Lachmannian system will be undertaken in chapter six, when Lachmann's ideas are finally applied to the workings of quasi-markets.

or maybe especially because of this, we deem that there is indeed a whole lot to be learned from Lachmann's writing, not least for questions about the proper conducting of social policy. In what follows, Lachmann's views about subjectivism, the role of expectations in economic life, the heterogeneity of markets and complexity of market interactions are briefly presented.

Subjectivism

Economists of the Austrian School are well known for their conviction that economic processes have to be understood by reference to the individual decisions[7] - and the subjective valuations – of the people active on a market.[8] This adherence to subjectivism goes back to Menger's important role in the marginal revolution.[9] However, Lachmann's subjectivism famously extends beyond the one of Menger and of other Austrians, most notably Hayek and Mises. While he credited Menger[10] with the introduction of subjectivism to the individual valuation of goods and services and thus its role in prices formation[11], and Hayek/Mises with the extension of this framework onto the production-process itself[12], he felt as if the role of expectations – and especially their heterogeneity and subjectivity – had not been adequately dealt with by his forerunners. (cf. Lewin 2012: 6)

Lachmann himself extended the conception of subjectivism onto "radical subjectivism", or "Subjectivism with a capital S". In his framework, "*the Social World consists not of facts but of our interpretation of the facts.*" (Lachmann 1943: 14) Lachmann extended subjectivism to the analysis of rhetoric, to the interpretative understanding of economic events and the role of individual foresight of future circumstances. He found the neglect of the subjectivity of

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7 For a comprehensive treatment of the relation between the Austrian School of Economics and methodological individualism cf. Prychitko 1990 or, for a more recent contribution, Martin 2015.

8 Donald Lavoie – himself heavily influenced by Lachmann – goes as far as to say that „*subjectivism … stands for the school [the Austrian School of Economics] itself.*" (Lavoie 1991: 470)

9 For an Overview of Menger's role in the marginal revolution, his definition of subjectivism and the differences between him and Jevons/Walras cf. Jaffe 1976.

10 Cf. Lachmann 1978a: 214f.

11 Yet Lachmann claimed that Menger thought that while "*men are free to choose their ends, the means they have to employ are subject to many limitations, and that economic laws ultimately inhere in the scarcity and specificity of means.*" (Lachmann 1978a: 216)

12 Cf. Garrison 1986 for a helpful overview about the differences between the formulations of Mises/Hayek and Lachmann.

valuations in contemporary micro- as well as macroeconomics almost sinful. (cf. Lachmann 1978b: 219)

The Role of Expectations

As was already hinted at in the previous paragraph, Lachmann credited expectations – and especially their subjectivity and thus heterogeneity – with a defining power and vast influence in the market-process. For him, expectations were indeed paramount and the proper subject matter of the social sciences. The role of expectations was especially pronounced and momentous when analysing markets on which the goods or services traded pertained to the future, as is the case for instance on the stock market. But for Lachmann, expectations did play a role in almost every situation of interest to social scientists, because "all *human conduct (as distinct from mere behaviour) presupposes a plan. We now have to realise 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.*" (Lachmann 1943: 72) Thus, Koppl 1998 (62ff) has even termed the task of properly integrating expectations into economic analysis „*The Lachmann Problem*", a problem he deemed of utmost importance for economics to deliver profound insights into human behaviour. With respect to expectations, their necessary subjectivity and heterogeneity was – according to Lachmann – especially important, since the mental picture of future circumstances that a person projects "*will be drawn differently by different individuals confronted with the same observable events.*" (Lachmann 1943: 72)

Heterogeneity of markets

One more important characteristic of a Lachmannian view on markets is the need to differentiate between various forms of markets. For him, ordinary supply-and-demand analysis was missing the bigger picture, or even the point of what economic science should be about. Lachmann was convinced that *"(...) different markets are characterized by different constellations of market forces.*" (Lachmann 1988: 270) and that *"(...) the relative strength of equilibrating and disequilibrating market forces"* was not at all the same in every market and an economist thus *"must, in each instance, take account of the facts enumerated.*" (Lachmann 1986: 124) Given that for Lachmann, "*in the real world there are markets and markets, and some function more successfully than others*" (Lachmann 1988: 263), we may read this as a vigorous call for the conducting of empirical research on the matter in order to investigate the

differing forces that are in play in particular configurations of markets. Lachmann felt that this insight had not been properly understood by his fellow Austrian economists, let alone by the mainstream of the profession.[13]

Complexity and constant change

According to Lachmann, the social world is best described as a highly complex system, in which the variables giving rise to the concrete manifestations of social phenomena interrelate and coordinate with a great many of other variables. Moreover, even if economists or policy-makers somehow were to figure out the complexities of the world around them, this precious knowledge would not be to last. The world humanity inhabits is, according to Lachmann, a place of unpredictability and constant change. The metaphor used by Lachmann to describe his outlook on markets is a kaleidoscope: "*In a kaleidic society the equilibrating forces (...) are always overtaken by unexpected change before they have done their work, and the results of their operation disrupted before they can bear fruit.*" (Lachmann 1976b: 239) In other words, no matter how quickly decision makers learn about changes, their efforts are always overtaken by dis-equilibrating forces. On this matter, Lachmann was strongly influenced by the post-Keynesian economist George Shackle, from whose "Epistemics and Economics" he frequently quoted to illustrate the main properties of a kaleidic world.[14] Given his strong focus on discoordinating mechanisms and potential problems for actors to orientate themselves in a highly complex world, he may be referred to as a forerunner of present-day complexity economics. (cf. Rosser 2015)

Concluding, we may summarize the Lachmannian outlook on markets as follows: Markets are highly complex, very heterogeneous and ever changing institutional settings, on which actors meet to exchange goods and services. Not only do said actors interpret the present state of

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[13] Cf. Lachmann 1986: 131. Lachmann's hunch, that even economists of the Austrian School lack proper understanding of this issue, is affirmed by the fact that Boettke et al 2004 (who should, given their background, hold some affinity to Lachmann's works), when writing about the "many faces of the market", do not reference Lachmann even once – thus their treatment of faces of markets is also somewhat superficial. While recognizing that the institutional (both formal and informal, though the latter somewhat less so) surroundings in which markets are embedded are taken heed of, no mention is made of genuine differences in the workings of the (dis)equilibrating mechanisms between markets.

[14] "*Shackle's kaleidic society, (...) a society 'interspersing its moments or intervals of order, assurance and beauty with sudden disintegration and a cascade into a new pattern*'" (Lachmann 1976b: 230)

affairs in diverging ways; when it comes to predicting future developments and the economic consequences of those, possible interpretations diverge even more.

3) Lachmann's Institutional Economics

And yet, despite all this complexity and uncertainty, we do not observe chaos and disorder in everyday economic life. For Lachmann, it was economic institutions that rendered social interactions more predictable and indeed help individuals to align their diverging expectations onto each other. Thus, for Lachmann "[*a]n institution provides means of orientation to a large number of actors. It enables them to co-ordinate their actions by means of orientation to a common signpost."* (Lachmann 1970: 49f)

With respect to this, Lachmann distinguished between three types of institutions: external, internal and neutral ones.[15] External institutions represent those institutions that are necessary preconditions for markets to even come into existence and without which modern, diversified societies, heavily relying on the division of labour, would not be possible. (cf. Lachmann 1940: 49) The most important external institution certainly is the legal framework provided by governments.[16]

Internal institutions however are frameworks that spontaneously emanate from the market process in order to fulfil a function or solve a problem that has not been addressed yet. Examples of this kind of institution would be stock markets, futures markets or the insurance industry.

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[15] This terminology or classification is not found in all of Lachmann's writings on institutions. In most instances, he only distinguishes between external and internal institutions, treating neutral institutions as a subcategory of internal ones. The essay "Wirtschaftsordnung und wirtschaftliche Institutionen" (1963), best translated as "Economic Order and economic Institutions", seems to be the only instance in which he introduces the term of the "neutrale Institution", or neutral institution. We were not able to find the use of the concept of neutral institutions in any of his other writings on the matter (let alone in the secondary literature), where neutral institutions are you usually classified or used as a sub-category of internal institutions (which is precisely what they are, technically speaking).

[16] In his discussion of external institutions, Lachmann's argument do somewhat resemble the ones brought forward by members of the Freiburg School and other exponents of Ordoliberalism – and he does indeed reference Eucken's *Grundsätze der Wirtschaftspolitik (*"Principles of Economic Policy") on the occasion. What's more, in a different article (cf. Lachmann 1979: 259) he credits the entire "ORDO school" with having developed an elaborate and useful theory of institutions. For a thorough overview of Walter Eucken's work and influences, that also demonstrates interesting connection to the Austrian school, cf. Goldschmidt 2013. The general connection and influence between Lachmann and the Ordoliberals is still under-researched, however.

(cf. Lachmann 1963: 67) The most important characteristic of these types of institutions is the fact that they can spontaneously come into existence when they are needed and that there exists a feedback-mechanism which works to deconstruct them again once their purpose has been fulfilled. This is very much evident in the case of futures, stock and insurance markets. Thus the market process, once it has started to get going, is an efficient mechanism for developing institutions to cope with the inherent unpredictability and complexity of modern life and get rid of those again, in case they do not fulfil their intended purpose.

However, the most interesting form of institutions are perhaps those that Lachmann terms "neutral". Like internal institutions, those are born within the market-process in order to overcome certain perceived problems, to set standards for the actions individuals may undertake or to facilitate the realization of exchanges in a market economy. Again, like in internal institutions, the process of their emergence is usually spontaneous and driven from the bottom up. However, the feedback mechanism active for internal institutions is completely absent in the case of neutral institutions. Agreements reached and codified as neutral institutions, once active, may be impossible to get rid of. The prime example Lachmann gives with respect to this are standardized work-contracts or the establishment of collective bargaining. Those institutions – at least in most societies – emerged spontaneously and the intentions behind their implementation were usually noble ones, he thought.[17] Obviously one can also clearly make the case that collective bargaining can indeed be a practice hugely beneficial for the effectiveness of the market-process, by dramatically lowering transaction costs and potentially increasing social harmony.

Neutral institutions can also be a gateway through which societal preferences and moral convictions held within a community make their impact on the embodiment of markets, Lachmann thought. Over time, the convictions and moral preferences of people acting on a market will diffuse on the very structures that make up the market in question. This may be unavoidable, but it certainly poses grave dangers to the preservation of a functioning market

[17] Cf. Lachmann 1963: 68f. Whether this is actually true is a question for another day; suffice it to say that the emergence of modern welfare states – a process in which many neutral institutions were first exposed to governments starting to take over parts of their functions – certainly was not only driven by benevolent motives. For further information on this cf. Zerche and Gründger 1996:22, who demonstrate that sturdy political interest did indeed play a role – besides social motivations, which were of course present as well – in the establishing of the German welfare state. Bismarck viewed these early measures of social policy as being complimentary to the "Sozialistengesetz", a series of laws intended to weaken social democracy. By making concession to workers, he thought, further support for social democratic and socialistic parties may be prevented.

order. Neutral institutions have to conform to societal attitudes, but they must not – and may not – conform to the market.[18] The reason for this Lachmann found in the fact that, societal perceptions about what is desirable and socially unbearable[19] may not at all be analogous to economic and political reality or – in extreme case – even diametrically opposed to it.

Lachmann's subjectivism (as described in chapter two) also extended to his theory of institutions. Even economic and social institutions may – in a Lachmannian framework – not be seen as sterile and somewhat mystical entities that structure or govern human behaviour, but rather as social phenomena whose effectiveness – or we may say: influence on economic outcomes – will depend not first and foremost on their design, but more so on the way in which they are perceived by the acting individuals exposed to them. (cf. Lachmann 1991: 139ff) For Lachmann, "*an institution is a network of constantly renewable meaningful relations between groups of persons who may not all ascribe the same meaning to the same relation. The task of the student of institutions is to distil such meanings from his observations and to interpret them to his audience.*" (Lachmann 1991: 137)

Furthermore, with Lachmann we are also in a position to better understand the strong influence of the concrete arrangement of the institutional framework on economic outcomes: Writing that*"(...) the market economy is embedded in a framework of legal and other institutions. The quality of the market depends, among other factors, on the quality of this framework.*" (1979: 259), Lachmann clearly can be seen as a forerunner of present-day comparative institutional analysis (cf. Langlois 1992) and perhaps even development economics.

Thus we can find quite an elaborated theory of institutions in Lachmann's oeuvre, that not only differentiates between three different types of institutions with diverse origins, but also an evolutionary view of how the three types of institutions change over time and how that might affect economic outcomes in a society. Lachmann's institutional theory is important for the question we are trying to answer for three reasons: Firstly, as we shall see, Lachmann's idea about neutral institutions is highly useful to understand many processes taking place in markets for social services. Secondly, the complexity present in many of those markets are on a daily basis mitigated by economic institutions, the emphasis on the role of institutions in overcoming uncertainty and complexity laid by Lachmann will be extremely helpful in carving out the role

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[18] „*Die neutralen Institutionen müssen (...)* ***gesellschaftskonform*** *sein, aber sie brauchen nicht, und noch weniger zu jedem beliebigen Zeitpunkt,* ***marktkonform*** *zu sein.*"

[19] „recht und billig" und „sozial untragbar" (Lachmann 1963: 76)

played by institutions for quasi-markets. Thirdly, there is the insight that – depending on the institutional surroundings to be found in an economy – the functioning of quasi-markets will be invigorated or impeded.

4) Social Services and Complexity

We can define social services as measures to solve (perceived or actual) social problems and abolish or ameliorate the situation of vulnerable or disadvantaged individuals or social groups. Emphasis is also placed on the prevention and aggravation of future problems. Services usually summarized as "social services" are health services, care-services for the disabled and elderly, family-, child- and youth-services, help for people with migration-backgrounds or in special life-situations (excessive indebtedness, homelessness, incarceration). Furthermore, active measures to re-include unemployed people into labour markets (e.g. training, re-education, on the job training combined with wage-subsidies) can be understood as social services as well.[20] It is easy to see from this brief listing that almost every person will be a consumer of one or many social services at one point in their lives. (Cremer et al 2013: 12)

Social services as such are classified as private goods – consumption is mostly rivalrous and excludability can be usually be established, albeit sometimes at a cost and with large efforts. However, markets for social services still exhibit a number of particularities or "market failures"[21] that distinguish them and the processes unfolding in those markets from other types of, perhaps more standard, markets, e.g. the market for potatoes. Among those particularities,economies of scale[22], limited consumer sovereignty[23], lock-in effects and

[20] This definition leaves out other measures of the welfare state, such as distributional measures, passive unemployment benefits or public welfare.

[21] For a discussion of the suitability of this term cf. Badelt und Österle 2001: 90f.

[22] As is relevant for instance for hospitals or medical rescue services in small cities, where providers of said services usually hold a natural monopoly. (cf. Bartlett and Le Grande 1993: 20) For a discussion of "indivisibleness" – translated from the German word "Unteilbarkeit" – in the provision of social services cf. Cremer et al 69f.

[23] A person needing an urgent heart-operation or rescue-service after a car-crash is not in a position to "shop around" and will thus have to rely on the first "provider" of rescue-services he or she can get or will crucially depend on agreements that had been made ex post, i.e. in the form of insurance contracts. (cf. Shackle and Ryan 1994 for a theoretical assessment of the issue, as well as Sirgy 2011 for a more recent examination of the problems involved. Furthermore, Arrow's (1963: 948) declaration that demand on health markets is per definition irregular and unpredictable, merits mention here.

dependencies[24] as well as a very strong societal preference for the non-exclusion of non-contributors[25] seem to be the most important. Therefore, it is easy to see, and well established[26], that markets for social services range among the most complex type of existing markets. Given the special complexity of these markets, it is probably not surprising that the provision of social services is a domain in which governments have historically intervened a lot. Even nowadays, most social services are provided either directly by or at least with considerable assistance of some governmental measures. In the last decades however, provision of social services has started to be delegated more and more to markets. The form in which this has been accomplished can be described as a quasi-market, a topic to which we will turn in the next chapter.

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[24] Path-dependence and lock-in can best be observed in the field of long-term care – even if the placement of a person might turn out to be far from perfect, the incentives to change the provider should be fairly small, given that a switch of providers would entail vast costs for the consumer itself, but also to the family or friends taking care of him, especially in the form of psychic uneasiness. (cf. Cremer et al 2013: 76)

[25] Collectively run insurance schemes for health, unemployment and retirement could hypothetically be run on the basis of excludability – non-payers could be removed from receiving benefits from the various programs. However, if that would mean to endanger the livelihoods of the people thus left outside the programs and especially if this would be visible in public, a policy of that sort is just very unlikely to find acceptance by a democratic majority. Societal preferences thus are designed in a way as to not exclude these groups that are not in a position to actively contribute to the provision of various social services – on the contrary, usually motivation to provide social services for these specific groups to a greater extend will usually be quite strong. From this it follows, however, that governments cannot tolerate people to freeride once the promise to for those in need has been need: Because people might rationally decide not to get insurance for themselves if they know that government programs will assist them if need be, every citizen capable of contributing to collectivized insurance schemes must be coerced to "do one's bit" for the various system of social security. Moreover, once collective insurance systems have been set up, the level of provision to be financed by the collectivized insurance scheme has to be defined and monitored. Thus, it should be easy to see how the societal preference for not letting down people in need creates all sorts of far-reaching market particularities.

[26] For an engagement with the vast complexity of legal structures prevalent in the provision of social services and the redistribution of wealth and incomes in the United Kingdom, cf. Harris 2013. For an overview (in German) about changes to welfare provision taking place because of increased complexity in social affairs, cf. Cattacin 2007.

5) The Use of Quasi-Markets in Social Policy

Since this paper is applying Lachmann's ideas to the theory of quasi-markets (and especially so to their use in social policy), it seems necessary to quickly introduce the concept of quasi-markets and their uses in policy.

What characterizes a quasi-market is the application of the principle of competition, with various (and ideally heterogeneous) providers competing for funds. In that regard, a quasi-market actually seems like an ordinary market. Those funds however are not ordinarily provided directly by consumers – as would be the case in the before mentioned ordinary market – but by some third party, usually a government agency or a publicly run entity, which concentrates the purchasing power of individuals in one single entity. Another option for the financing of services via quasi-markets would be the allocation of purchasing power to consumers via vouchers.[27] Additionally, in quasi-markets consumers are oftentimes represented by agents, either because they are not deemed capable of navigating these markets themselves or because the financing-mechanism involved directly call for agents to define benefits and their extend, as is usually the case once services are financed via insurances. These measures should allow for two things: firstly, the practice of funding the various services by publicly run entities should make sure that non-economic considerations (such as equity, distributional issues, equality of opportunity, and affordable provision for the poorest of any society)[28] can be taken heed of. Secondly, by enabling competition between the providers of the goods or services in question (the companies in the market still need to court for the approval of consumers, even though they are directly paid by the public companies already mentioned), quasi-markets intend to make use of the positive effects of competition and improve service delivery. The fact that quasi-markets are usually introduced by bringing more elements that are private to service-areas that initially were parts of welfare states often gets them labelled as measures of "deregulation". This view may be considered a bit simplistic, since it is decisively not the case that quasi-markets in health, education or labour market activation are completely unregulated and freed from any governmental regulation or other mechanisms of oversight. The mere pursuit of the

[27] The allocation of purchasing power via vouchers is especially common in the realm of schooling. For an overview about quasi-markets in education with a special emphasis on the use of vouchers, cf. Institute of Government 2012.

[28] Cf. Bartlett and Le Grand 1993: 13-18.

goal of "equity" is usually taken a justification to hold on to a great variety of government interventions into those markets.[29]

Typical fields of applications for quasi-markets include health services and education, but their usage extends much further nowadays. Most recent developments in the field include the application of quasi-markets in labour market activation services in the Netherlands (cf. van Berkel and van der Aa 2005) Quasi-markets have gained popularity only fairly recently; first large-scale introductions have only started in the 1980's, first detailed examinations of the phenomenon and the consequences of their introduction date back to the 1990's. The bulk of research about the topic certainly stems from the welfare-reforms in the United Kingdom, where the re-designing of the previously completely centralized and government-run NHS has made ample use of quasi-markets.[30]

As with any intervention in the workings of markets, unintended consequences and undesired effects may arise; also with respect to quasi-markets, certain problems may arise: the practice of cream skimming, the discrimination against more expensive users, has been found to be practiced in quasi-market settings. (cf. Bartlett and Le Grand 1993: 31f) Other problems comprise potential problems in the motivation of both, consumers and especially providers of services[31], low trust between providers and consumers (cf. Le Grand 2007: 16ff), high transaction costs, market structures not suitable for competition, uncertainty and informational issues.[32] Additionally to questions of efficiency or utility of the use of quasi-markets, the introduction of markets in new domain inevitably also raises some previously neglected ethical considerations.[33] As far as empirical investigations about the overall effectiveness of quasi-

[29] For an overview of the various mechanisms of control, regulation and oversight cf. Challis et al 1994.

[30] For overview about the emergence of quasi markets and the historical setting cf. Le Grand 1991: 1256ff. For a listing of more recent developments cf Le Grand 2012.

[31] Le Grand 2003: 51-70 gives a good oversight over the topic. Firstly, the introduction of market elements may lead to a crowding out of altruistic motivation. (Cf. also Rothschild 2012) Secondly however, the entire concept of incentivizing better service-delivery via market settings assumes that providers are, at least to a certain extend, motivated by financial considerations – an assumption that may not always hold in the realm of social services.

[32] For the last three points cf. Barlett and Le Grand 1993: 19-30, but keep in mind that the discussion – especially as it pertains to the market structure – is mostly focused rather basic institutional prerequisites and does not really extend to the potential for huge differences in the workings of markets for particular goods.

[33] For an overview of these cf. Le Grand 2011.

markets have gone so far, the verdict about the effectiveness of quasi-markets in ensuring both, efficiency and equity, has to be a mixed, albeit moderately positive, one.[34]

Having briefly introduced the workings of quasi-markets, hinted at the ways in which they are used and shortly hinted at some known problems with their practice, we will now turn to the main chapter of this paper, in which we develop a Lachmannian position on the use of markets for the provision of social services.

6) Lachmannian Insights for the Use of Markets in Social Policy

Given that we have hinted at the inherent complexity of markets for social services and displayed the potential benefits and downsides of a more frequent use of markets in the provision of these services, it shall now be our task to apply Ludwig Lachmann's understanding of markets and their working onto markets for social services.

There is very little doubt that Lachmann would generally be open to the idea of the usage of markets and would appreciate the increased efficiency in provision and consumer welfare resulting from increased choice for customers and provider-responsiveness. We find in his works many pronouncements of him being "a friend of the market order" (e.g. 1988: 273 or) or attesting the effectiveness of markets via alternative institutional arrangement to them. He certainly may be described as a proper "classical liberal" economist (Grinder 1977: 20). However, A Lachmannian perspective shields us though from an uncritical application of the desirability of market competition onto every market and from viewing the introduction of quasi-markets as desirable "just because markets are a good thing" under all circumstances. It rather encourages us to look at quasi-markets in detail in order to learn how they operate. Only after a proper understanding of the working of quasi-markets has been reached, decisions about their desirability should be made. In the following several key points in which a Lachmannian perspective helps us to identify various particularities prevalent in (quasi-)markets for social services.

[34] In general, most authors draw moderately positive assessments of the effectiveness of quasi-markets in social policy. For a good overview of these cf. Le Grand 2007. Greener and Powell 2009 (as does Lipsey 2005) offer some reason for scepticism and especially hint at the heterogeneity of the various quasi-markets, suggesting that they work better in some sectors than in others. Additionally, they hint at various measurement problems and float the idea that the indicators chosen for evaluation might not always be objectively chosen.

Every market is unique

First and foremost, a Lachmannian framework enables us to view markets for social services in all variety in which we can in fact observe them in reality. Not only are the characteristics of markets for social services (as a group) completely different than, for instance, the famous[35] market for potatoes, the various markets for social services do also differ amongst each other to a considerable extent. Given that Lachmann was convinced that "*It [was] generally wiser to speak of markets than of the market*", his view on markets enables us to look at quasi-markets in social policy with the appropriate assumption of heterogeneity on these markets.[36] This also has concrete political consequences in the sense that Lachmann warns "*friends of the market order*" that "*they will have to emphasize the range and variety of markets and their modes of operation. In each market a different balance of forces can be found, co-ordinating and disco-ordinating, and each such balance will certainly tilt over time. A balanced assessment of the strengths and shortcomings of market forces calls for exactly such a perspective and entails a flexible strategy.*" (Lachmann 1988: 274f) In that sense, Lachmann's plea not only concerns questions of economic analysis, but also hints concerning strategy for the dissemination of a market-based order; a cause he did not think was helped by oversimplifications and ideological exclamations about the supposed lack of alternatives to anything but a completely market-based economic order. This diagnosis is relevant for us in a twofold sense: First of all, we may use the Lachmannian insight to determine that quasi-markets do indeed differ very strongly from other markets investigated by economists. Secondly, we can apply Lachmann's analysis to identify differences between the market processes on heterogeneous (quasi-)markets for various social services, a practice that is still not all too common in the relevant literature.

Strong emotional involvement on the part of consumers

One characteristic according to which markets of social services do differ a lot from conventional markets is the inherently emotional nature of the trading-relationship. While

[35] Interestingly, Lachmann (1975: 207) uses the analogy with markets for potatoes (contrasting them with markets for asset markets) to illustrate the same point. Another metaphor used for the same illustration („*prototype of an ‚ordinary market*") is „*the vegetable market in small town, say for cauliflower or carrots*". (Lachmann 1988: 271)

[36] This non-constricted look at markets for social services unfortunately is quite often missing in the relevant literature on quasi markets. While it is sometimes acknowledged in which ways social services as a whole are distinct from markets for other services, proper institutional analysis about the particularities of each of the single quasi-markets still does not seem to be the norm these days.

people might shop for groceries or cars in a relatively sober and un-hurried manner, consumption-decisions that involve questions of health (be it one's own health or the one of one's family or friends) are bound to involve very strong feelings and indeed uneasiness on the part of consumers. While this part is at least relatively well dealt with in health-specific publications about care (cf. for instance Ingram 2013), health economics (cf. Arrow 1963: 949) and in sociological literature about the topic (cf. Powell 2013) on the matter it is not a point that is often made in health economics or the relevant literature on quasi markets.

The Lachmannian approach to economics, though, provides an ample framework for understanding the role of emotions and feelings for the unfolding of the market process. With respect to this, his positive discussion about the Keynesian ideas of bull- and bear-markets may certainly be considered paramount. (cf. Lachmann 1978b: 221) Furthermore, when Lachmann writes that *"[t]he market (...) offers a particularly fascinating example of an area of intersubjectivity*" (Lachmann 1991: 145), this is certainly meant to also encompass emotional prerequisites of economic agent and their variation among heterogeneous individuals. Moreover, a Lachmannian approach also entails the proper methods to adequately analyse decisions that are charged with emotion: his sketch about possibilities for a hermeneutic approach to economics as well as his frequent references and application of Weberian "Verstehen" (cf. for instance Lachmann 1970: 35f) certainly help to better grasp human emotions in economic analysis.

Interpretation of actors

The inherent necessity to view economic phenomena from the – necessarily subjective – viewpoint of the individuals involved in the actions that are being examined is somewhat connected to our last point. One crucial point arising from Lachmann's view on the use of markets in the provision of social services is the question whether consumers actually want to obtain the social services they consume from markets, even if the provision of the services would overall benefit from this.[37] People might resent freedom to choose in itself[38], they might

[37] In that case potential price- or quality benefits of services would not even get recognized because market-exposure itself would be deemed as being so undesirable in itself. (Cf. for instance Le Grand 2007: 46-50)

[38] Cf. Buchanan 2005: 23.

be overburdened by the necessity to choose services themselves[39] or might feel like they get taken advantage of by better-informed service providers and middlemen. (cf. Arrow 1963: 951f) Therefore, it is not only important for economists and policy-makers to come up with schemes and prescriptions that will work, but also to find ways of "selling" them to the people concerned, or rather to change the way in which they see things. Many of the actions that individual consumers acting on quasi-markets take, will only become intelligible, if the subjective valuation that they hold are integrated into the analysis. Lachmann thought that, "e*conomics is by no means exclusively concerned with what happens, but also with what might have happened, with the alternatives of choice which presented themselves to the minds of the decision-makers. In fact, it is in terms of these alternatives alone that the decision can be rendered intelligible, which is after all the main purpose of a social science.*" (Lachmann 1971: 182) Only by understanding how actors interpret the occurrences on a market and in what sense they judge the desirability of various alternatives, economists can make progress in understanding human behaviour. Furthermore, the Lachmannian frameworks helps us to understand that efficiency – as it might be deemed a worthwhile goal for policies to an economist – is not something that the average actor on market for social services is very much concerned with.

Importance of institutions & societal perceptions as influences on the market structure

Comparative research about the effectiveness of quasi-markets has determined that the institutional surroundings are a key predictor of satisfactory service-delivery via markets. While previous research has focused on the formal institutional surroundings of a quasi-market (cf. for instance Challis et a. 1994), a Lachmannian analysis would span a little wider than this and also encompass questions about informal institutional influences. Via his concept of neutral institutions (as presented in chapter three), all sorts of cultural elements and societal influences might enter into the unfolding of the market process; his work thus is highly useful in our context. He understood that very strong convictions prevalent in a society might even completely impede the forming of markets for certain goods and services. A case in point would be the non-existence of markets for kidneys or other organs, for example. While economists might conclude that – at least in theory – a market for kidneys should bring just the same

[39] Cf. on this "the tyranny" or "paradox of choice", whereby customer satisfaction actually decreased with increasing choice after having reached a certain threshold, for instance in Schwartz et al 2002 or Schwartz and Ward 2004.

efficiency-gains as a market for pork-sausages[40], it is far from clear that the introduction of such a market is a viable political choice-alternative in most societies, at least at the present time. This has to do with societal conceptions about kidneys simply not being a good that *should* be marketable and thus will be prevented from being traded on markets, no matter what the opinion of economic experts on the matter may be.

The Lachmannian view on issues of that sort is highly complex and extremely interesting. While he cherished the view that societal perceptions do play a large role in the particular arrangement of the market process and encouraged his fellow economists to take closer looks at these attitude-based prerequisites for and continuous shapers of market-processes, he was also aware of the potential damage being done by societal preferences detrimental to the logic of the market process. If those perception would be pronounced enough and were given adequate exposure in political life so as to make their marks on markets, the entire edifice of the market-structure could eventually be endangered by this. (cf. Lachmann 1963: 69 or 1967: 295ff) Lachmann is rather unclear about what to do about this; while he was aware of the danger of many societal perceptions influencing the market process, he also was convinced that some of these manifestations were simply beyond the point at which they could still be influences by political or civil-society action.[41] Nevertheless, or maybe all the more because of this, one can not disregard those factors, especially when dealing with markets as complex as those for social services. Conception of social justice or economic inequality notoriously influence people's perception about how and to what extend social services should be provided. Lachmann's interpretative approach to economics can determine these influencing variables and help to understand why certain groups of people might hold prejudices against the use of markets in social policy that might be hard to understand for economists not versed in the skill of interpretative reasoning.

Distinction between fix- and flexprice-markets

[40] For economists making the case for such a market cf. Barnett II et al 2001.

[41] His treatment of this problem is not all that different from Hayek's answer to the "two-world problem" (as nicely explained in Searles 2015: 127ff) in which he posits that humans will simply have to learn to live in two worlds: one, in which the moral compass of the small tribe or extended family, under which patterns for human social cooperation have evolved for thousands of years, is free to prevail in the private life among friends and family and the non-personal structure of the market-place, in which most of us operate to make a living these days.

Lachmann approvingly followed the Hicksian distinction between fix- and flexprice-Markets.[42] A fixprice-market can be characterized as a market where the prize of a good is not subject to bargaining or does not move "*under the impact of supply and demand*", but rather "*in accordance with criteria regarded as relevant by the pricefixers.*" (Lachmann 1986: 123) Lachmann thought that a great number of markets in today's world actually were fix-prize markets.[43] Indeed, he went as far as to claim that our world is one in which market forces do not play a decisive role because "*we simply no longer have a price "system" worthy of this name*" (Lachmann 1967: 302), which certainly is an unexpected claim coming from an economist. Lachmann believed that especially the downward movement of prizes was seriously impeded in modern times on most markets. (cf. Lachmann 1986: 112) Lachmann's willingness to differentiate between markets in which prices are free to move and those where they are not, is crucial for the understanding of markets for social services, as they exist in contemporary societies. This is highly relevant for dealing with quasi-markets, who often display properties of fixprice-markets. Due to the common purchaser-provider split and the ample prevalence of insurance companies on these markets, prizing decision are often made by third parties and therefore not directly exposed to forces of supply and demand. Furthermore, on (quasi)-markets for social services a fair deal of (price)-regulation on the part of governments is to be expected. (cf. Ferlie 1994)

What follows from this for the practice of (Austrian) economics? Quoting Mises[44] (cf. Lachmann 1986: 130f) he asserts that the Austrian School had actually demonstrated interest in dealing with prices as they are paid in the real world and would – given its unique analytical toolkit – be in an optimal position to carry out this endeavour. Surprisingly and unfortunately however, Lachmann found that economists of the Austrian School were just as reluctant to dwell into these matters as those of others schools of thought.[45] For him, this omission actually posed a convincing argument that economists did not even care to understand the processes unfolding on markets that much, which "*In the light of this insight all statements suggesting*

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[42] Lachmann 1967: 291, where he quotes Hicks' "Capital and Growth": "*It is not implied ... that prices are never allowed to change-only that they do not necessarily change whenever there is demand-supply disequilibrium.*"

[43] He followed Hicks concerning the reasons for this changes (growth in the size of the firm, standardization), but also added the decline of the role of wholesale merchants (1986: 124) as well as political and societal interventions as potential explanations. (cf. Lachmann 1967: 293f,)

[44] The following passage from ‚Notes and Recollections': „*The Austrian School endeavours to explain prices that are really paid in the market, and not just prices that would be paid under certain, never realizable conditions.*"

[45] Cf. Lachmann 1986: 129, in which he credits Post-Keynesianism as the only school of thought that has shown some interest in the formation of the forming of actual real-world prices.

that the market will produce this or that result must be regarded with some suspicion. It is better to speak of ***market****s than of* ***the market****.* (Lachmann 1986: 124, original accentuation) Therefore, analysis of supply-demand relations and prices formed on quasi-markets for social services needs to go beyond the usual tools employed by economists.

Complexity & government intervention

A naïve and sloppy reading of the preceding pages could give the impression that – since a Lachmannian outlook entails a view on markets for social services, which hints at potential limitations to the proper working of markets – Lachmann might have proposed strong governmental involvement and oversight in markets for social services. This would be a serious misinterpretation. Simply because markets are subject to many particularities and strong presence of complexity, it does not automatically follow that policy-makers or technocrats will be able to effective overcome these. On the contrary, much in line with the views of some of his Austrian contemporaries[46], Lachmann clearly saw the problems of decision making-power being concentrated in the hands of small groups. (cf. for instance Lachmann 1963b: 328f) Furthermore, only because an economist was able to diagnose various shortcomings of a particular market, *"(…) it does not follow at all from this admission that a confession of 'market failure' must be made."* (Lachmann 1988: 273) Thus the imperfection found to be prevalent on a market must not be compared to some hypothetical perfect state of the world, but rather to potential alternatives realizable in the real world.[47]

In light of this, what are economists to do? How should they properly grasp quasi-markets for social services? And which recommendations should they be making to policy-makers? Or, as Lachmann might have put it: "*By now, the reader will probably have grown impatient to see our theory of economic action go into action."* (1943: 73) Thus, in the final pages of this paper, we shall be elaborating two concepts that follow from what has been written in the last twenty pages: "Prudence" and a certain "contact with reality" or "a foot in the real world."

[46] Cf. for instance Hayek 1945 or Mises 1929, the latter of which he explicitly mentions (approvingly) in 1956: 308.

[47] In this regard, Lachmann's positions is not that different from Demsetz's „Nirvana Fallacy", as explained in Demsetz 1969.

Prudence as a virtue for economists and policymakers alike

An approach that – according to our reading – can be distilled from Lachmann's oeuvre which seems promising in this respect is the concept of *prudence*. While not very prominent in his writings[48], the attribution of the word "prudence" as guiding principle for economic policy seems nevertheless justifiable and helpful. Following Viktor Vanberg's use of the term "*arguments of prudence*" seems to fit the Lachmannian narrative about markets quite well. Vanberg initially developed (cf. Vanberg 2013) the idea about "*arguments of prudence*" in order to distinguish them from "*arguments of principle*". He used these two concepts to differentiate between conceptions of economic liberalism that would resort to natural rights ("principle") on the one and effectiveness or empirical workability ("prudence") on the other hand.[49] Following Vanberg, we can clearly attribute Lachmann's outlook on markets and the resulting prescriptions for economic policy to arguments of prudence. The case Lachmann made for economic liberalism – and thus the case he would make for or against various

[48] We first became aware of the concept in Lachmann's writings in the German translation of „Capital, Expectations and the Market Process", section V, titled „On economic policy", which would translate to „Über Wirtschaftspolitik" in German, is actually translated as „Über nationalökonomische Klugheit" – „On economic Prudence". We are not aware whether Lachmann actively contributed to the translation or whether the use of this word is entirely crafted by the translator, Leonhard Walentik. However, we do also find other uses of the concept of "prudence" in Lachmann's work, such as in Lachmann 1940: 284 *("We are inclined to think that such a society would, indeed, be relatively immune against the type of crisis (*note: he is writing about the great depression of the 1930's*) that has been sketched out in this paper. Yet, as we had to learn our grief, not even such* ***prudence*** *will protect us from other calamities of a dynamic world. The extreme complexity of such a world in which almost any constellation of circumstance is capable, without notice, of giving rise to destructive forces, defies all facile generalisations.",* my accentuation). Thus, while the concept of prudence certainly does not take an all too prominent role in Lachmann's oeuvre, the term *is* used in some contexts and thus seems applicable to be used as a description of his overall vantage point on policy-issues.

[49] Vanberg clearly put Murray Rothbard as belonging to the "principle-category", whereas he saw Hayek's and – even more so – James Buchanan's liberalism to be rooted in a conception of "prudence". Favouring the "contractarian-constitutionalist" approach of Buchanan, Vanberg states his conviction that "*markets and politics are both to be judged in terms of their capacity to allow the individuals involved to realize mutual gains, and that – in contrasting market and democracy – we must keep in mind that there is neither a "market as such" nor a "democracy as such." Both, markets and democracies exist only as arenas for social cooperation that are framed by specific "rules of the game" and their working properties will be critically dependent on the nature of these rules.*" Accordingly, he thought that *"liberals who care[d] about how the prospects for individuals to realize mutual gains, in the market arena as well as in politics, might be improved, should focus their research ambitions on comparing specific institutional alternatives for how social cooperation may be organized in both these realms.*" (Vanberg 2013: 21)

measures of social policy – is not rooted in some ideological conception of libertarianism or the inherent desirability of a capitalist economic order, but rather in the careful deliberation and analysis of which social arrangements will, in the end, lead to more favourable outcomes. In order to determine which policies might be suitable for the particular circumstances of a specific market at a specific time, economists and policy-makers alike ought to look at every single (quasi-)market with great care – in other words, they have to "get real", which shall be the content of the last sub-chapter and thus our final plea.

Get real!

Ludwig Lachmann was convinced, that "[u]*ltimately (...) the only satisfactory test of any theoretical construction is the light it sheds on some segment of reality, its making an otherwise incomprehensible set of facts intelligible to us."* (1943: 73) We believe it to be one of the most important takeaways from the exercise here conducted – and indeed from Lachmann's oeuvre as a whole – that economist, if they want to affect anything to the good in the world, have to "get real". They have to stop following idealized constructions of the economy and individual human agency, they should refrain from bringing their political preferences into the analysis and – probably most importantly – they need to realize that, however clever they themselves may be or however sophisticated their models may seem, the world they are trying to describe is fundamentally unpredictable and can never be captured in a single model.

Already as early as in of his doctoral dissertation[50], Lachmann makes a related point by providing an interesting distinction between the ability of the science of economics ability to properly explain social and economic events ("*Erkenntnis des Seienden*") and fascist economists claims to be able to determine *how* social and economic developments *should* take place. ("*wie die korporative Wirtschaft sein soll*") (Lachmann 1930: 37f.) Lachmann vigorously warns against this position of various fascists economists, concluding his dissertation with a quote by Giuseppe Bottai[51], showing that if economists started to use their analytical skills in order to demonstrate the inherent desirability or supposed inevitability of certain social

[50] cf. Lachmann: 1930, titled "Fascistischer Staat und korporative Wirtschaft" – "Fascit State and corporative economy", which tried to explore the economic positions of fascist thinkers.

[51] „*L'economia ha il suo significato solo attraverso la politica, come la società ha il suo solo attraverso lo Stato.*" (notice the capital „S" in stato) („Popolo d'Italia", Jannuary 26th 1930, p. 8, via Lachmann 1930: 84 and would translate to: „*The economy derives its meaning only in relation to politics, just like society derives its meaning only in relation to the State.*"

arrangement – as in that case: fascism – they were certainly on the wrong track. Lachmann was absolutely clear on this, and apparently has been so since 1930: Economics has to get real! Whether economists try to mould social reality in a way as to make compatible with the grand visions of fascism or whether they lose themselves in elaborate, but yet meaningless, mathematical representations of supposed exchange processes, they are mistaken. From the following quote we can see that what Lachmann was aware that what he demanded from his fellow economists may not always be the easy way and that it might come with considerable downsides by those effected, thus provoking vigorous resistance to his appeal: "*Economists, not unnaturally, prefer to do their field-work in a pleasant green valley where the population register is exhaustive and everybody known to live on either the right or the left side of an equation. Only on rare occasions-and scarcely ever of their own free will-do they embark on excursions into the rough uplands of the World of Change to chart the country and to record the folkways of its savage in habitants; whence they return with grim tales of horror and frustration.*" (1943:70)

No matter how grim those tales of horror and frustration might be, economists – according to Lachmann – ought to get out in the real world. "*Economists and others who ignore the diversity of markets"* run the risk of *"deprive*[ing] *themselves of a valuable weapon and, perhaps worse, prevent their friends and pupils from acquiring the skills required to handle it.*" (Lachmann 1988: 270) We are sure that, in the long run, a "get-real"-approach to economics will be much more fruitful and beneficial for both parties, the economists themselves, but especially also the people that are being studied.

7) Conclusion

By revisiting the writings of the economist Ludwig Lachmann, we have tried to show how the practice of using (quasi)-markets in the provision of social services may be evaluated from a Lachmannian viewpoint. Even though Lachmann never wrote about questions of social policy, we demonstrate that the practice of providing social services via markets could be greatly enriched by applying his ideas to it. Lachmann's outlook on the world as being fundamentally uncertain, kaleidic and complex shields economist and policy makers alike from jumping to conclusion about the desirability of this or that measure far too quickly. Lachmann's subjectivist outlook on human action also powerfully shows, how the interpretation of policies and institutions that are of relevance for the provision of social services should not be judged by their supposed "objective" properties, but always need to be considered according to the way

in which they are interpreted by the people subjected to them. With respect to this, economists ought to take glances over the confines of their own discipline and start considering societal influences on economic behaviour to a larger extend. Moreover, the Lachmann outlook on quasi-markets also entails the demand to look at every single market individually. Rather than postulating predictions about what results are to be expected from the use of quasi-markets on the basis of theoretical models, economists should get out in "the real world" and take a good look at the actual markets they are describing before offering detailed assessments about their workings.

Furthermore, we do believe that many of the insights of economists in the Austrian tradition could hold valuable insights and prescriptions for the practice of social policy in general. Unfortunately – most likely because many Austrians took very strong positions on the desirability of a welfare state in the first place – these insights have rarely been put to good use. We hope that, by having demonstrated how the ideas of the Austrian Economist surveyed in this paper could enrich the execution of social policy, we encourage many more „*excursions in the rough uplands"* of social policy on the part of Austrians.

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