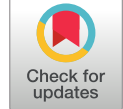




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Lachmann and Veblen: Institutions versus Neoclassicism



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Abstract

In this study, an intellectual relationship endeavour is constituted between Lachmann and Veblen through the lens of institutions. Their mutual perspective lies in their efforts to understand economics through institutions, diverging from orthodox neoclassical economics. Simultaneously, the authors share a similarity in their ways of defining institutions. The foundations of institutions, as conceived by Lachmann in the plans within the human mind and the institutions expressing Veblen's habits of thoughts and life, are closely aligned. This proximity established through institutions also provides an opportunity to address the enduring problem of the actor-structure dilemma in social theory. In other words, the article offers a different resolution to the ongoing debate between methodological individualism and methodological holism in social theory through the developed connection between Lachmann and Veblen. Furthermore, the hermeneutic approach, which has found limited traction in economics, persists firmly with Lachmann and Veblen. The hermeneutic approach, overt in Lachmann and more implicit in Veblen, presents another possibility for establishing an intellectual relationship between the two scholars.

Keywords


Lachmann • Veblen • institutions • neoclassicism • plans • process.

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Lachmann and Veblen: Institutions versus Neoclassicism

Ludwig Lachmann played a significant role in the revival of the Austrian school of economics in the aftermath of the 1970s. By comprehending capital structure through human action, Lachmann opened up to social theory and developed influential ideas on institutions. With these ideas, he made substantial contributions to the Austrian school of economics. He constituted connections between the Austrian school of economics and various other economic schools, such as Keynesian subjectivism, Shackle's kaleidoscopic approach, and Weber's interpretative sociology. Despite the relevant contributions discussed in different aspects (Dekker & Kuchar, 2019; Foss & Garzarelli, 2007; Stoor, 2019; Torr, 2019), the relationship between Lachmann's theory of institutions and the original institutional economics insufficiently emphasised. Indeed, studies identifying intellectual differences and similarities between institutional economics and the Austrian school of economics are very common (Boettke, 1989; Braun et al., 2016; Perlman, 1986; Rutherford, 1994a; Samuels, 1989; Wynarczyk, 1992). Furthermore, a relationship based on instincts and human nature leading to cultural evolution identified between Veblen and Hayek (Leathers, 1990). However, no connection was established between the original institutional economics or Veblen, the founding figure of the institutionalism school, and Lachmann.

This study develops a comparative analysis of Veblen and Lachmann's thoughts on institutions. Lachmann's theory of institutions, grounded in plan-based human action, share similarities with Veblen's institutional theory, which is based on habits. In other words, the plans in the human mind that Lachmann considers as the foundation of institutions and the institutions representing Veblen's habits of thought and life have a variety of meanings. Most importantly, both thinkers have adopted the idea that the static equilibrium perspective of orthodox neoclassical economics cannot comprehend the existence and evolution of institutions in a changing world.¹ In a continuously changing and complex society, the acceptance of the neoclassical individual typology, which assumes optimising behaviour with complete information, is not feasible (Rutherford, 1994a, p. 530). The principal reason for the vehement opposition of both Veblen and Lachmann to neoclassicism lies in this understanding. Methodologically, if not politically, Lachmann's theory of institutions can be linked to Veblen's institutional thought based on opposition to neoclassicism. According to Boettke (1989, pp. 74-76), while the Austrian school of economics' criticism of neoclassicism is based on Veblen, Veblen's economic action is similar to the praxeological science of the Austrian school of economics. After Mises, the most prominent figure emphasising human action in the Austrian school of economics is Lachmann. With an emphasis on human action, Lachmann critiques neoclassicism and develops a theory of institutions based on plans.

The first notable obstacle in establishing a connection between Veblen and Lachmann is that Lachmann adopts methodological individualism, while Veblen reaches holism from his methodological writings. However, it is essential to note that Veblen tends to integrate historical processes with individual action in the concept of institution (Weed, 1981, p. 72), and Lachmann's individualism is not akin to the abstract and passive individualism found in neoclassicism. The individualism here is not isolated from society; instead, individual preferences are explained through cultural interactions. "Human action in society is interaction" (Lachmann, 1971, p. 12). An individual's plans, actions, and preferences are interconnected with others, finding meaning in an institutional order that reduces uncertainty. In this regard, Veblen's emphasis on institutions does not conflict with the methodological individualism of Lachmann, and more broadly,

¹In this study, orthodoxy and mainstream are used in a similar sense as neoclassicism. However, there are many opinions in the literature that orthodoxy and mainstream are different (Colander, 2000; Colander et al., 2004; Dequech, 2007; Dequech, 2021; Hodgson, 2021).

the Austrian school of economics. In both scholars, there is a path from individual interactions to institutions. There is also a path from institutions to individuals. The influences are not unidirectional; instead, a bidirectional relationship is evident. Thus, Lachmann's conceptualisation of plans as the mental constructs of individuals, unfolding towards institutions and viewing institutions as orientation points, bears a resemblance to Veblen's understanding of institutions as established habits of thought and life.

Additionally, the Veblen-Lachmann connection provides a clear solution to the debate known as the "Lachmann problem" (Koppl, 1998; Lewis, 2008). In other words, the intellectual relationship between Veblen and Lachmann offers a suitable resolution to the enduring problem of the actor-structure duality, a fundamental issue in social theory. In addition, while the hermeneutic approach that Veblen left incomplete or neglected in economics (Mirowski, 1987) continues strongly with Lachmann, Lachmann's agency is entirely understandable with Veblenian social institutions.

The study is organised as follows. Despite historical precedence lying with Veblen, the initial focus will be on Lachmann's theory of institutions due to the "Lachmann problem". Following this, help will be taken from Veblen's institution theory to solve the "Lachmann problem". Subsequently, efforts will be made to present ideas to develop the Veblen-Lachmann connection. Lastly, the hermeneutic vein in economics will be offered through the lens of these two scholars.

Lachmann's Theory of Institutions: From Plans to Institutions

Lachmann's theory of institutions is grounded in the plans that individuals develop based on divergent expectations in their actions. According to Lachmann, all economic actions are future-oriented, and "the future is unknowable but imaginable" (Lachmann, 1976, p. 55). Individuals plan to take action to overcome the unknown of the future and eliminate the uncertainty created by different expectations. These plans are interconnected with the plans of other individuals. Therefore, the plans of different individuals can be either compatible or conflicting with each other. In situations where plans conflict, revisions are necessary. This revision occurs by the institutions in society. Institutions help eliminate uncertainty. In Lachmann's terminology, expectations, individual actions, plans, and institutions are intertwined. There is a path from the individual to the institution and vice versa. Individual actions both influence institutions and are influenced by institutions.

In this case, institutions have a praxeological character. They are associated with human action. Institutions serve as guidance maps for the future actions of the collective comprising other actors. They help the planner by making the social world less uncertain (Lachmann, 1971, p. 13). Institutions enable individuals to coordinate their actions by directing them towards a familiar signpost. A plan is a mental schema through which an action is coordinated.

On the other hand, institutions function as second-order guidance schemas, directing planners' plans as planners guide actors' actions according to a plan (Lachmann, 1971, pp. 49-50). According to Lachmann, views based on human action closely align with the works of Mises and Shackle. Action is thought. Action is guided by plans, i.e., thoughts, and all actions, if they are to have a chance of success, should be interpreted as the external manifestation of such consistent plans. Indeed, all economic phenomena can only be understood due to planned action (Lachmann, 1976, p. 57). Whether sending a letter, waiting for a train, or writing a check, our action in each case is directed towards a complex network of human actions for which we may have little knowledge, but enough information to serve our purposes. This is the internal working order of these institutions. The existence of such institutions is fundamental for civilised society. They allow us to rely on the actions of thousands of anonymous individuals about whom we know nothing regarding their individual goals and plans (Lachmann, 1971, p. 50).

For Lachmann, the relationship between plans, which constitute the foundation of human action, and institutions unfolds as follows. Successful plans gradually crystallise into institutions. Within the realm of freedom of action, new institutions emerge as additional points of orientation that can replace outdated, no longer valid institutions. The imitation of what is successful, as elsewhere, is a crucial form whereby the methods of the elite become the property of the masses. Institutions are remnants of the pioneering efforts of past generations from which we still benefit. Institutions serve as the sociological counterpart to the competition theory in economics (Lachmann, 1971, p. 68).

In Lachmann's terminology, institutions are divided into two categories. The first consists of external institutions that form the legal order of society. The second encompasses internal institutions that gradually develop due to market processes and spontaneous forms of individual action (Lachmann, 1971, p. 81). External institutions constitute the legal framework that protects society against coercion and fraud. The existence of this framework guarantees the presence of the market. On the other hand, internal institutions are structures that evolve slowly due to the market itself and presuppose the existence of the first category. Examples include the stock exchange and insurance. According to Lachmann, the market can modify these structures according to its needs without affecting the framework (Lachmann, 1962, p. 178). Therefore, according to Lachmann (1971, p. 88), institutions serve in the coordination of plans in large societies. However, these external and internal institutions in society do not serve a function that restricts individual actions. They simultaneously define opportunities for the realisation of individual actions. According to Lachmann (1971, p. 61):

"In our terminology, the rules of the game constitute a set of orientation points, limiting the range of action of each player but also permitting him, because his rivals' actions are equally subject to limitation, to guess with greater confidence what they will do. Within these limits human action here as elsewhere remains free. Weber's argument thus follows the general line of anti-determinism."

In this case, Lachmann's theory of institutions diverges from that of North. In North's (1990, p. 3) perspective, institutions are seen as constraints created by humans, whereas in Lachmann's thought, institutions are both constraints and signposts of liberation. Institutions command certain behavioural patterns and discourage others. It is evident that individuals who conform to them should attribute meaning to them (Lachmann, 1990, p. 137). In a sense, institutions are structures that facilitate human action. They assist in solving the problem of social coordination, enabling actors to perform many of their actions without having to read each other's minds. They can coordinate and adjust plans. Institutions are the embodied forms of standardised and widespread plans (Foss & Garzarelli, 2007, p. 799). Lachmann regards social institutions as instruments of human action. These instruments serve as indicators and constraints of human action in situations of uncertainty. Recognising that these instruments continue to be part of human action and, over time, may be realised, perhaps transformed, is crucial (Lewis & Runde, 2007, p. 174).

In short, Lachmann's solution to the coordination problem in society lies in his theory of institutions. Coordination exists at two levels: Individual plans and societal institutions. These two levels are complementary. Repetitive patterns of behaviour at the social level are effective in realising individual plans by reducing the variability in the plans of other factors. Plans can also contribute to the changes in social institutions. The two levels of coordination address the central issue of radical uncertainty, which Lachmann places at the core of his thinking (Foss & Garzarelli, 2007, p. 801). According to him, institutions are instruments of human action. In other words, institutions serve as both instruments and constraints of human action. It is possible to weave a thread connecting the complex structure of the institutional order in its political form to the simple unit movement of an individual actor and the guiding plan. This understanding is rooted in Weber's perspective (Lachmann, 1971, p. 141).

Moreover, Lachmann's theory of institutions also dispels the nihilist accusation (Rothbard, 1995, p. 48) levelled against him. This is because Lachmann has tied knowledge and expectations to the traditions, norms, and laws of society as institutions. He explained that what simplifies our actions in society is our understanding anchored in institutions. Lachmann developed a perspective on institutions and how they assist in societal action over time. In Lachmann's view, institutions present the social landscape by stabilizing actions and expectations. Ultimately, Lachmann views institutions as a form of knowledge capital understood interpersonally and over time, enabling us to coordinate, align, or guide our actions, expectations, or plans with a certain degree of success (Foss & Garzarelli, 2007, p. 791). In other words, according to Lachmann, the beliefs, expectations, and plans of individuals do not shape themselves in a social vacuum. He sees people as social entities shaped by the institutional environment in which they live (Lewis, 2008, p. 839). However, there are also criticisms that Lachmann was unable to create systematic thoughts from individual actions to institutions and failed to organise the social system (Koppl, 1998; Lewis & Runde, 2007; Lewis, 2008; Prychitko, 1994). In other words, these criticisms, known as the "Lachmann problem", express the tension between methodological individualism and social institutions.

The Lachmann Problem and Proposed Solutions

In a framework where the subjectivity of individual actors is excessively emphasised, the question of how social institution coexist becomes a central concern for Lachmann. Lachmann has sought assistance from various thinkers to reconcile the tension between the subjectivity of active minds and institutions that reduce uncertainty.

He aimed to make the Austrian school of economics more consistent by confronting subjectivism with the reality that market processes are uncertain or kaleidoscopic and expanding it to develop expectations and uncertainty theory. In accomplishing this task, he did not hesitate to turn to Shackle and Keynes (Prychitko, 1994, p. 304). Simultaneously, in his theory of institutions developed to overcome this uncertainty, he proposed the concept of plans instead of Weber's ideal type concept (Lachmann, 1971, p. 12). However, Lachmann faced various criticisms for these endeavours. It has been observed that radical uncertainty leads to nihilism, and there are some problems in developing a market process theory. For instance, according to Karen Vaughn (1992, p. 271), Lachmann needed to independently develop a market process theory despite providing significant insights into explaining the human condition and criticising orthodox neoclassicism. He focused on individual trees and missed the forest. Roger Koppl (1998, p. 61) noted that Lachmann directed attention towards an expectations theory where the spontaneous activities of a free human mind enliven each individual's actions. The problem of creating a radically subjective expectations theory is the "Lachmann problem".

Many philosophical or sociological solutions have answered the problem of the coordinated relationship between individual actions and the social order, expressed based on Lachmann's thought. Vaughn (1992) and Prychitko (1994) stated that this problem remains unresolved in Lachmann's thought. On the other hand, it has been stated that this problem can be solved with realist social philosophy (Lewis & Runde, 2007; Lewis, 2008). Koppl (1998, p. 62) proposed bringing Schutz and Hayek together to solve the "Lachmann problem". However, it is difficult to talk about a problem called the "Lachmann problem" according to this study. Because Lachmann supported the insistence on theorising subjectivity by emphasizing the crucial role played by institutions directing our actions in an uncertain world (Storr, 2019, p. 65).

Indeed, the co-existence of Lachmann's radical subjectivism and theory of institutions constitutes one of the most challenging aspects of his thought. However, overcoming this difficulty is possible by drawing more from the ideas of Weber and Veblen rather than from the works of Schultz and Hayek. Because while Lachmann (1971) started his theory of institutions with Weber, he based his criticisms of orthodox

neoclassicism on Veblenian thought, although he does not explicitly say so. Human action plays a pivotal role in this context. Therefore, the claim that Lachmann failed to integrate individuals with the general social system (Prychitko, 1994, p. 313) can be addressed with help from Veblen's theory of institutions. This assistance relies more on human action than on Veblen's invoked biological evolution. The intellectual bridge between Lachmann and Veblen occurs through human action and institutions. Lachmann (1971, p. 9) examined the significance and functioning of institutions from a praxeological foundation rather than relying on the questionable power of biological analogies. It is based on a theory of action in which the plan is a starting point, based on the method of interpretation, and a general theory of institutions built on Weberian foundations (Lachmann, 1971, p. 9). Despite numerous differences between them, Weber and Veblen also exhibit an intellectual parallelism. This parallelism revolves around "social rationality". The manifestation of social rationality in the modern industrial world (Hedoin, 2009) led Weber and Veblen to think on the same subject.²

Rick Tilman (2004, p. 155) claimed that Mannheim, Weber, and Veblen contemplated the role of social rationality in human relationships. He stated that Veblen's concept of social rationality would bring significant insights to contemporary European theory. Veblen and Weber wrote about the role of rationality in primitive societies and ancient empires. However, they also focused on social rationality in economies that surpassed the stage of primitive accumulation in industrial societies. At least, they pondered on social orders carrying the foundations of modern transportation, communication, exchange, and the industrial economy's corresponding scientific and technological basis.

Additionally, Veblen addressed the problem of rationality in the machine age at the individual and social levels. Individual rationality pertains to the nature of human action. Veblen rejected the rational, calculating action of orthodox neoclassicism. On the other hand, social rationality is an evaluation of the fate of the machine age. According to Veblen ([1919] 1961), the process represents the distinctive features of modern industry. The machine process infiltrates modern society and determines all kinds of social actions in that society. Habits of thought disciplined by machine processes rationalise the irrationalities of society's price system (Yılmaz, 2007, p. 841).

Therefore, while it is possible for Veblen to provide insights into institutional orders in modern industrial society through Weber, it is also possible for Veblen to gain insights into Lachmann through Weber. This can be characterised as process-oriented institutionalism (Boettke, 1989), interpretive institutionalism (Foss & Garzarelli, 2007), or praxeological institutionalism (Lachmann, 1971). According to the claim made in this study, if an intellectual bridge is to be established between Veblen and Lachmann, praxeological institutionalism emerges as the most suitable option. This is not economic equilibrium but a theory of economic action and interactions (Boettke, 1989, p. 82). Lachmann (1951; [1956] 1978) placed his entire thought at the centre of the study of institutions related to human action that he initiated based on the capital structure. He positioned the examination of institutions related to human action, which he associated with plans, amid economic sociology (Lachmann, 1990, p. 138). Veblen's theory of action is situated between two extreme points known as "undersocialized" and "oversocialized" (Granovetter, 1985). Veblen's theory of action criticises the neoclassical action model and forms a broader framework by addressing how economic action should be conceived (Yılmaz, 2007, p. 842). In this regard, Veblen's theory of action is very similar to the human action found in praxeological institutional theory. In praxeological institutional theory, the existence of institutions is explained as the unintended outcome of many actors pursuing their individual plans. Institutions are a product of social forces, not a product of social design (Lachmann, 1971, p. 57). Veblen and

²Although Veblen and Weber analyse the situation that comes with modernity, their methods of handling modernity are different. According to Weber, while modernity is the disenchantment of the world, "Veblen's modernity is not very disenchanting." (Plotkin & Tilman, 2011, p. 4).

Lachmann conducted studies on institutions in economic sociology, which is the intersection of economics and sociology.

Veblen and Institutions

According to Veblen, human nature is defined by individuals' ability to take action (Weed, 1981, p. 69). In this respect, Veblen's perspective asserts that human action exhibits a creative characteristic. In Veblen's view, the calculative action theory of orthodox neoclassicism is criticised, and in its place, pragmatic, creative action is presented (Yılmaz, 2007). Instincts, habits, and institutions are crucial in carrying out human action.

In Veblen's social theory, an individual comprises a consistent structure of tendencies and habits. Tendencies are based on instincts as hereditary characteristics, while habits refer to an individual's "past experiences cumulatively wrought under a certain body of traditions and material conditions". The entire process of social action is seen as the interaction between an individual's natural tendencies, expressed in the form of instincts. The role of habits can represent or hinder these tendencies (Weed, 1981, p. 69). The economic life history of an individual is a cumulative process of adapting means to ends that change cumulatively as the process progresses. The individual is both an actor and, at any given point, the result of the past process, with habits of life imposed on him from yesterday (Veblen, 1898, p. 391).

Human instincts are constantly transformed into new rationalisations that become new institutions. The institutions of society cluster around human instincts. However, instincts do not determine the character of institutions. The concept of instinct is one of the cornerstone of Veblen's teleological action and cumulative causation theory (Weed, 1981, p. 72). Instinctual purposes are determined by habits known as the pattern of life. Instinctual tendencies are fundamentally simple and directly oriented towards achieving a concrete, tangible goal. Instinctual tendencies and purposes gain consistency through habits, traditions, and rules, thus transforming into an institutional character (Veblen, 1918, p. 7).

Instincts constitute the starting point of human action. When instinctual equipment is established, it provides the group with the environmental context and the cumulative developmental conditions of habits and institutions. Differences in instinctual equipment lead to different cultural developmental paths. However, what matters is the subsequent cultural development. In the later stages of cultural development, instincts are layered with social traditions and norms. Instincts do not entirely disappear but rather recede into the background (Rutherford, 1998, pp. 466-467).

Later, habits come into play, making significant contributions to the formation of the picture. It is not possible to understand Veblenian institutions without making reference to the concept of habit (Taioika et al., 2020, p. 750). Habits are the foundational materials of institutions, providing them with durability, power, and normative authority. By reproducing everyday habits of thought, institutions create robust mechanisms of conformism and normative agreement (Hodgson, 2006, p. 7). Institutions can structure, constrain, and enable individual behaviours, shaping the capacities and behaviours of actors in fundamental ways. They can alter desires, not just allow or restrain them. Habit is the fundamental mechanism of this transformation. Institutions are social structures that, to some extent, act according to individual thought and action habits, involving a downward causality that can be reconstituted (Hodgson, 2006, p. 7). According to Veblen, individual actions are guided by the interaction between the various institutions within a society and are transmitted through habits of thought (Taiko et al., 2020, p. 750). In this regard, habits and institutions are twin concepts in Veblen's social theory. While instincts constitute the starting point, habits prevent biological determinism from instincts and significantly contribute to the formation of institutions.

For Veblen, another factor in the formation of institutions is self-interest. Self-interest has played a significant role in the cultural development of society, guiding the formation of a series of traditions accepted

as economic institutions, as well as influencing the methods of life and their cumulative growth (Veblen, 1898, p. 392). While Veblen proposes economic institutions as the knowledge of methods to sustain life with tradition, he also places self-interest at a central point in forming institutions. However, he does not reduce the formation of institutions' entirely self-interest. Aesthetic, religious, humanitarian and sexual interests can also influence the formation of institutions. Each of these interests is influenced by complex thought habits, forming under the guidance of everyone's life habits (Veblen, 1898, p. 393). Within the complex habits of thought that constitute the essence of an individual's life, self-interest or economic interest are not isolated or separate from all other interests (Veblen, ([1899] 2007, p. 78). Thus, a theory of institutions emerges that starts with self-interest and evolves through the process of cultural development.

Veblen asserted that at the micro level, human action is conditioned by instincts, habits, and conscious plans. Instincts provide the source of human action, while social habit guide and condition these actions. Individuals' goals and plans serve as tools to modify their habits or direct them towards specific actions. According to Veblen, in seeking a final point or objective, individual plans are influenced by instinctual qualities under the sway of habits and culture or by conscious reasoning. In contrast, socioeconomic evolution does not culminate in such a teleological outcome (O'Hara, 2002, p. 82). Thus, considering the entirety of the picture, instincts, habits, and institutions constitute the fundamental elements of Veblen's social theory (Weed, 1981, p. 71). Human action, starting with instincts, is shaped by habits, and subsequently, institutions emerge.

According to Veblen ([1919] 1961, p. 38), "habits of thought is a result of habits of life", and "institutions are settled habits of thought" (Veblen, [1919] 1961, p. 239). In another instance, Veblen ([1899] 2007, p. 126) defines "institutions as widespread habits of thought". Habits of thought reflect the habits of life concretised in the societal, institutional structure (Samuels, 1993, p. 79). Veblen (1918, p. 35) described "institutions created by the accumulating habits of life". Accordingly, for Veblen, the foundation of the institutional system consists of fundamental beliefs and values derived from the modes of livelihood prevalent during its initial formation (Rutherford, 1992, p. 126). Veblen speaks of institutions as the spiritual attitude derived from habits. In one of his recent works, he defines an institution as the "nature of usage that becomes obvious and indispensable by habit and general acceptance". Veblen references institutional behaviour patterns or functions, emphasising that these institutional behaviour patterns occur within a structural context (Waller, 1982, p. 759).

After Veblen, the authors have referred to these behaviour patterns as "functions" and the structural context as "structure" (Waller, 1982, p. 759). "The evolution of social structure has been a process of natural selection of institutions". Progress in human institutions can be linked to the natural selection of the most suitable habits of thought and the process of individuals adapting to a changing environment over time. Institutions are not only the result of a selective and adaptable process shaping dominant or prevailing spiritual attitudes and abilities. They are also specific methods of life and human relationships, making them influential factors in selection (Veblen, [1899] 2007, p. 125).

However, there is ambiguity in Veblen's and his followers' definition of institutions. While many authors quote Veblen's definition that institutions are "habits of thought", a closer examination reveals that Veblen looked at institutions differently depending on the context. Generally, an institution is seen as either a settled social practice, a habit of thought, or a form of organisation (O'Hara, 2002, p. 83). Most authors who view institutions solely as "habits of thought" overlook the general method of Veblen's economics. According to his method, instincts provide individuals with the potential for social action. Social habits structure individuals' thoughts and behaviours. Finally, institutions are patterns of social regularity, often forming a clustered set of norms and customs within an organisational environment, such as a firm, family, or

community. Veblen's versatile perspective allows him to discuss various institutions like the "leisure class", "property", "industry", "business", "personal service", and others in diverse ways (O'Hara, 2002, p. 83).

At this very point, it becomes evident why Veblen is necessary to resolve the "Lachmann problem". Veblen's contextual and socially oriented approach to institutions opens the door for thinkers like Lachmann, who initiates institutions with plans. Veblen's initiation of human nature with instincts, followed by conditioning individual actions at the micro level through individual plans, leading towards institutions, resembles Lachmann's intellectual trajectory. Because Lachmann closely parallels Veblen's social theory while advancing human action with plans towards institutions that reduce uncertainty. The only distinction here is that, unlike Veblen, Lachmann does not start his thoughts with biological instincts.

Philip O'Hara's (2002, p. 86) concept of "social individuals", characterised as the interconnection between individual and group processes, establishes connections with the research of Frank Knight, David Bohm, G.S.L. Shackle, Arthur Koestler, Ilya Prigogine, and Herbert Simon. Individuals have plans and goals influenced by group dynamics and habits. Such plans aim to be realised or implemented in a group setting. Individual action is also significantly constrained and shaped by characteristics such as relative ignorance, lack of information, the world's inherent complexity, the limitations of the human mind, the radical uncertainty of the future, and the relationship with creativity arising from social groups and uncertainty. Lachmann can easily be incorporated into this correlation. Because nearly all the emphasised aspects align with Lachmann's thought from the beginning to the end. Fundamental concepts such as individual human action, plans, uncertainty, and institutions bring Veblen and Lachmann closer.

In this regard, Veblen's context-dependent approach to institutions (O'Hara, 2002) and the ambiguity in his definition of institutions provide room for Lachmann to assess institutions through plans. Beyond their ideological positions, a methodological relationship can be established between the two. Their shared analysis of economics through the lens of institutions and their opposition to orthodox neoclassicism form the foundation of this relationship.

Veblen-Lachmann Relationship in the Context of Institutions

At first glance, it is difficult to find a clear connection between Lachmann and Veblen. For instance, in Lachmann's works, direct references to Veblen are only made twice. First, in his article titled *Finance Capitalism?*, he uses Veblen's commentary on the financial aspect of America (Lachmann, 1944). Second, in his book *The Legacy of Max Weber*, he saw Veblen's interpretation of Hohenzollern Germany as similar to Weber's (Lachmann, 1971, p. 116).

On the contrary, Veblen (1898, p. 389) perceived that Menger and Austrian economists evaluated human nature hedonistically and consequently criticised them. However, especially Lachmann, from the Austrian school of economics, did not assess human nature as hedonistic. Lachmann (1990) condemned the hedonistic assumption of human nature in orthodox neoclassicism almost as strongly as Veblen. He regarded neoclassicism as a formalism and asserted that neoclassical economics cannot explain our life world. In addition, it is necessary to distinguish between institutional economics and institutionalism by necessity (Özveren, 1998, p. 476). Veblen is an institutional economist. However, although Lachmann appears in the second category, he did not emphasise the importance of institutionalization in history. He interpreted institutions as a network of meaningful relationships between people. Although Lachmann is not directly an institutional economist, he is close to institutional economists.

Despite their differences, the heterogeneity in Veblen's and Lachmann's thoughts allows for a connection between them. Both of their ideas extend to various schools of economics and thinkers. While drawing from the heterogeneous sources of North American and Western European thought, Veblen challenged his time's

societal thinking. He became one of the social scientists who uniquely combined social theory and critique (Edgell & Tilman, 1989, pp. 1003-1004). Lachmann's thoughts are also heterogeneous, drawing from various sources, and scholars interested in Lachmann's work are diverse. Lachmann has attracted the attention of Austrians, Keynesians, Post-Keynesians, new institutional economists, original institutional economists, and even some Sraffians (Koppl & Mongiovi, 1998, p. 1). The heterogeneity in both their thoughts and the presence of various schools of thought influenced by them laid the groundwork for finding an intellectual bridge between Veblen and Lachmann. Institutionalism is a "friendly alliance" between disparate individuals united against orthodox economics (Klein, 1990, p. 381). This broad definition allows Lachmann to be associated with Veblen. Both are opposed to orthodox economics. Beyond Veblen and Lachmann, institutional economics and the Austrian school of economics also converge in their opposition to orthodox neoclassicism (Caldwell, 1989).

Austrian and institutional economists, despite seemingly divergent interests and doctrinal formulations, have focused on the analysis of institutions. They have underscored the critical role of institutions, emphasising the nature of institutional change and the supra-individual schemas or habits of thought inherent in institutions (Samuels, 1989, p. 67). These emphases not only indicate the connection between the two schools but also reveal the essence of the connection between Veblen and Lachmann. The first step in the relationship between Veblen and Lachmann is their similarity in defining institutions. Both have unfolded an expansion from individual plans to institutions. The second is their opposition to neoclassicism. The pair stands outside orthodox neoclassical ideas. The third is the persistence of Veblen and Lachmann in maintaining a hermeneutic approach despite finding a limited place during 20th-century economic thought.

How Veblen and Lachmann define institutions resembles the "institutional individualism" approach proposed by Joseph Agassi (1975), which serves as a solution to the actor-structure problem. This approach successfully integrates methodological individualism with institutions, claiming that they are not mutually exclusive. Mainly, original institutional economics align with institutional individualism or the "methodological constructivism" perspective. Most of Veblen's studies examining actions within a given institutional system are entirely compatible with the methodological principles of institutional individualism (Rutherford, 1994b, p. 38). Furthermore, as Warren Samuels contends, Veblen's understanding of economic systems comprises methodological individualism. He examined individual behaviour, such as conspicuous consumption, from the perspective of group processes and phenomena. Veblen has actively been interested in individuals who engage in purposeful planning and goal-setting (O'Hara, 2002, p. 86). "Individuals have plans and goals influenced by group dynamics and habits, and such plans aim to be realised or implemented in a group setting" (O'Hara, 2002, p. 86).

According to Hodgson (2000, p. 323), the central theme of original institutional economics, from Veblen to Galbraith, is the non-given nature of individuals. It is the restructuring of individuals by institutions. At the same time, this does not imply that institutions are separate from the group of relevant individuals. The existence of institutions depends on individuals, their interactions, and specific shared thought patterns. The institutions we encounter are based on the tendencies of other individuals. However, they are also dependent on the structured interactions among them (Hodgson, 2006, p. 7-8). In this context, the convergence of individual human action and interactions brings together Veblen and Lachmann. However, Hodgson, who emphasises these actions and interactions, and Searle (2005), who emphasizes mental institutions, are outside this connection. Despite Hodgson and Searle having a naturalistic orientation, Lachmann insists on understanding economics with a hermeneutic approach.

As a radical subjectivist, Lachmann undoubtedly explained the emergence of institutions as an unintended consequence of human action. However, Hodgson's (1988) accusation that methodological

individualism implies a one-way path from individual behaviour to institutional forces is not entirely appropriate for Lachmann (Torr, 1992, p. 135). Institutions are necessary for the functioning of the market, and Lachmann attempted to demonstrate this by distinguishing between internal and external institutions (Torr, 1992, p. 135). Lachmann's development of thinking from individual plans to institutions is compatible with Veblen's primary concerns. According to Lachmann (1943, p. 15), before taking action, a person must make plan that includes the tools at hand and the possible obstacles he will encounter. Before setting out, one should chart the path to their goal in the topography of their mind. The plan, a product of the mind, is the common denominator of all human actions and a mental model. We understand moments by reducing the action to a plan. A plan can fail for various reasons, with attention to note that failure often arises from incorrect expectations. Therefore, expectations hold a significant place in economic action theory. Lachmann attempted to explain the inflation problem during the First World War by analysing institutions, emphasising that institutional event influence individuals' behavioural patterns. The extent to which he succeeded in this explanation is a subject for another discussion (Torr, 1992).

Veblen and Lachmann have exhibited an approach from individual plans to institutions. This can be characterised as praxeological institutionalism or institutional individualism. Their emphasis on institutions represents a middle ground between undersocialization and oversocialization. Individuals are neither entirely given nor completely under the influence of structure. Action and interactions significantly shape the social theories of these two thinkers. For both, institutions are not natural but culturally emerged (Lachmann, 1990, p. 137; Veblen, 1898). According to Veblen ([1899] 2007, p. 126), the development of institutions is synonymous with the development of society. Institutions are mutual habits of thought regarding the specific relationships and functions of individuals and communities. Lachmann (1971, p. 79) defines institutions as instrumentals associated with human action. In both authors (Lachmann, 1971, p. 32; Veblen [1899] 2007, p. 127), institutions can be understood as mental attitudes.

In Veblen, the individual behaviour is oriented by habits and instincts, where there is no perspective of future order and certainty. Veblen always said that the future is uncertain, and the historical process is a "blind drift" (Jennings & William Waller, 1994). However, Lachmann (1943, p. 12; 1976, p. 55) also believes, based on Shackle's thoughts, that the future is uncertain but imaginable. The common emphasis of the two thinkers is that the future is uncertain and unknowable.

Furthermore, the emphases on institutions by Veblen and Lachmann do not entirely align with the main orientation of the new institutional economics. Both have emphasised that institutions are not only about Northian "constraints" but also concern human meanings. For example, Lachmann, influenced initially by the last representative of the German historical school, Sombart, in the 1920s, and later by Menger and Hayek, spoke of institutions as "supra-individual thought patterns". He worked on economics guided by primary thought patterns and plans, indicating that institutions facilitate the coordination of individual plans (McCloskey, 2019, p. 53). Indeed, when expressing the theory of institutions, Lachmann also drew inspiration from Weber, using the concept of plans instead of Weber's ideal types.

On the other hand, while new institutional economics primarily emphasises the incentive aspect of institutions, Lachmann has highlighted the cognitive dimension of institutions. Lachmann's emphasis on the meaning element in his theory of institutions differs from both orthodox neoclassicism and new institutional economics. "Neither orthodox neoclassicism nor the new institutional approach generally considers the interpretative dimension of institutions" (Foss & Garzarelli, 2007, pp. 794-795). North (1990) and his followers, with their emphasis on "constraints" and "rules of the game", will not have any specific feelings, "human speech, or meanings beyond self-love". According to Lachmann, however, social rules have human meanings. "As Lachmann stated, institutions are both instrumentals and constraints" (McCloskey, 2019, p. 54).

In conclusion, seemingly distinct dissenting voices can converge against orthodox neoclassicism. An intellectual framework is needed that provides a solution to the actor-structure problem within the dynamics of institutions and historical time (Wynarczyk, 1992, p. 19). This framework could be economic sociology, which brings together Veblen and Lachmann based on institutions. Economic institutions already occupy a space where economics and sociology intersect (Lachmann, 1990, p. 138). Schumpeter ([1954] 2006, p. 518) noted that economic sociology deals with human behaviours and institutions. The convergence of Lachmann and Veblen at the intersection of economics and sociology is due to their focus on the institutions that shape the modern world. In this regard, economic sociology is an opportunity for solving the actor-structure problem based on institutions. Both Lachmann's inspiration from Weber and Veblen's being one of the leading figures of the American sociology tradition will reinforce the idea of an institution-centred economic sociology.

Veblen criticised neoclassicism in terms of hedonism and equilibrium-centred analysis (Özveren, 1998, p. 471). These two aspects are also critical in Lachmann's thinking. Lachmann (1976, p. 59) is in favour of understanding economics not as a general equilibrium but as a market process. He considered neoclassicism as a formalism. He understood and criticised the rational action in formalism as the maximisation of given functions (Lachmann, 199., p. 132).

Veblen-Lachmann Relationship as a Hermeneutic Continuity

Another step in the intellectual relationship between Veblen and Lachmann can be traced through the hermeneutic approach. Murray N. Rothbard (1989) stated that economics is under the invasion of hermeneuticians, and in this invasion, Veblen serves as a proto-hermeneutician while Lachmann is a nihilist. Rothbard criticised both Veblen and Lachmann by evaluating them on the same line. According to Rothbard, the hermeneutic approach in economics, which unites Veblen and Lachmann on the same line, is more dangerous than mathematics and positivism. The emphasis on the incomprehensibility and nihilism of hermeneutics poses a threat to economics. However, the quest for alternative thinking against orthodox neoclassicism by both Veblen and Lachmann has brought these authors closer to a hermeneutic line. Moreover, there are criticisms that both Veblen (Mirowski, 1987) and Lachmann (Prychitko, 1994) needed to have a deeper hermeneutic approach to their thoughts. Despite the historical priority being with Veblen, exploring Lachmann's thoughts on hermeneutics, which he pursued in more detail, can be initiated.

Lachmann considered that rejecting the conceptual framework of orthodox neoclassical economics was inevitable. He emphasised the necessity of seeking conceptual frameworks shaped by a thinking style entirely different from neoclassicism, as seen in the Austrian school of economics. According to him, this framework is hermeneutic. The action consists of a series of movements to which our mind assigns meaning. Therefore, the action elements are expressions of our mind and should be treated as such. Analysing action and interaction on a societal scale is an interpretive task. Human action facts exhibit an internal order that we cannot ignore. This is the order actors assign to themselves during the formulation and execution of their plans (Lachmann, 1990, p. 134).

According to Lachmann, most economic events are observable. However, interpreting their contexts is necessary for our observations to be meaningful and contribute to our knowledge. Meaningful expressions are only open to interpretation by the mind. Moreover, all human actions occur in the context of "intersubjectivity". This is the familiar context of everyday life where the meanings we attribute to our actions and the actions of others are typically taken for granted without much doubt. Therefore, every economic action should be interpreted as inherently embedded in a context (Lachmann, 1990, p. 136).

Along with context, Lachmann argued that orientation is fundamental in explaining the socioeconomic order (Lewis, 2008, p. 842). Additionally, according to Lachmann (1990, p. 139), orientation is a hermeneutic concept. Orientation undoubtedly changes over time but cannot be accepted as the “function” of something else.

While Veblen may not explicitly emphasise hermeneutics like Lachmann, his approach to scientific knowledge allows for the consideration of Veblen in a hermeneutic framework. Therefore, Samuels (1990) argued that Veblen’s mode of reasoning can be understood hermeneutically. According to Samuels (1990), Veblen’s insistence on the cumulative causation principle as a preconception is a hermeneutic circle. Thus, Veblen has adopted a position that affirms the hermeneutic circle. He stated that interpretation is specific to the system of interpretation. The selection of alternative preconceptions shows that there is no independent interpretive or evaluative perspective, as it is based on the chosen preconception.

Moreover, he does this to confirm the self-referential nature of his argument. His argument about the problematic foundations of a preconception or preconception system is valid for its verification of realism. This self-reference is the hermeneutic circle. Veblen applied his argument about self-reference to matter of fact and science and technology derived from this reality. He accepted beliefs that influenced habits of thought as a preconception. Therefore, Veblen shows “a high tolerance for uncertainty and ambiguity” (Samuels, 1990, pp. 703-704).

Furthermore, Veblen’s concept of culture has emerged as an evolving hermeneutic process. While providing a context using biological evolution metaphors, understanding culture can also be seen as an interpretive integration of material objects, behaviours and meanings. Veblen’s concept of culture can be defined as hermeneutic in the self-reflection of all definitions and the system’s complexity arising from its intricate mutual relationships. Hermeneutic systems have no disconnected terms, external constants, or super-system selection mechanisms (Jennings & Waller, 1994, p. 1002).

In summary, Lachmann emphasises the context and orientation in which human action takes place and Veblen’s belief that no independent interpreter or evaluator exists, which means that the hermeneutic approach in economics is maintained by two thinkers, albeit weaker than other social sciences. Both of their emphases ultimately revolve around institutions. However, the success of their emphases remains a subject of debate.

Conclusion

This study established an intellectual connection between Veblen and Lachmann. The internal heterogeneity of institutional economics and the Austrian school of economics (Samuels, 1989, p. 60) paved the way for developing such a connection between Veblen and Lachmann based on institutions. Indeed, the thoughts of Veblen and Lachmann are themselves heterogeneous. The structures of their thoughts possess a qualitative aspect that opens up to various thinkers and schools of thought. However, the heterogeneity in their thought structures is strictly close to orthodox neoclassicism. Therefore, the pursuit of Veblen and Lachmann for economics centred around institutions outside orthodox neoclassicism has brought them together on the same intellectual path. Both have criticised neoclassicism for its inability to comprehend the economic reality brought by modern industrial capitalism. They have embraced the understanding of economic institutions through processes and human actions rather than equilibrium.

However, the main point that brings Lachmann and Veblen together is the similarity in their modes of reasoning. This relevant reasoning involves the development of economic ideas attempting to understand modern industrial capitalism with a focus on institutions outside of neoclassicism. Veblen’s characterisation of institutions as habits of thought and Lachmann’s depiction of them as thought schemas contribute

a richness that sheds light on understanding modern industrial capitalism. Establishing a relationship between Lachmann and Veblen through the lens of institutions highlights the distinctiveness of this study from others.



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