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G. L. S. Shackle

Excerpt

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I

THE MEANING AND METHOD
OF ECONOMICS

I

THE UNITY OF EUROPEAN
ECONOMIC THOUGHT

To cope with life, a person needs a system of explanation of it. When I am watching a game of cricket, I do not know what will happen next, but I know the sorts of things that can arise as a sequel to this or that event or situation which has just come into being, for I know the rules and purpose of the game. Looking back on the course of a morning's play, I can see a pattern in it. I can trace the successive re-appraisals made by each captain, see the point of his shifts of policy and of his detailed tactics, perceive how the course of play was affected by his decisions, how the effect of these decisions depended on the other side's reactions and responses, and how, in general, the sequence of events 'makes sense'. The rules and purpose of the game constitute my system of explanation of what goes on in the field of play. Were I watching a game of billiards, or an Eastern ritual dance, or an abstract painter at work, I should by no means have the same sense of *familiarity with the strictly unprecedented*. No two events on a cricket field are ever exactly alike, yet to a follower of cricket every event on any cricket field, at any time anywhere, is understandable, and can be seen as in some degree the upshot of recognizable endeavours and constraints.

It is this purpose, of rendering familiar, when they have happened, the unprecedented events of life, which theory serves. Now harmony and concert among any set of nations depends partly on their all interpreting any given event in one and the same basic fashion. If they can see any act as the natural response to a set of circumstances which all of them view in the same light, there will be a basis for ordered discussion and adjustment among them, for 'give and take', for exchange of concessions, for collaboration and even for eventual unity and complete singleness of entity. Theory, therefore, whether political, cultural or economic, is not abstract, remote, unreal, negligible, but practical, immediate, insistent and the very essence of action. Theory is the root of peace.

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Science in general can still show enormous differences of opinion. The most striking example is perhaps that of cosmology, where we have the contrast between the steady-state hypothesis which pictures a cosmos with no temporal beginning or end, limitlessly expanding everywhere by a universal mutual retreat of the galaxies and their continual replacement by the creation of fresh matter; and the hypothesis of a primeval atom of unimaginable density, embracing all of what has now been spread, by a vast explosion, through thousands of millions of light-years of space. Some scientists have supposed that by choosing the former hypothesis they could rid themselves of the idea of a creation and of all that goes with it, and some have found that this release admirably suits their political leanings. Theology, indeed, carries us from cosmology to politics. Politics, too, is the background of the question, in biology, whether there can be inheritance of acquired characteristics. The detached, impartial attitude of the natural scientist seems to be something of a myth; he is human like the rest of us.

If even astronomy is political, and the radio-telescope is called in to decide the right form for human institutions, how much more so is economics! How can nations hope to live in friendship, to unite their markets in order to exploit yet more fully the division of labour, to grope, however cautiously, towards a sinking of national identities in a re-created Europeanism such as existed in what we call the Dark Age, if their basic economic preconceptions are radically different?

Those polar opposites, towards one or other of which the world's economic systems approximate more or less, are often compared on the basis of their supposed *efficiency*. Surely this is a misconception or an abuse of language. Efficiency is the ratio of end achieved to means employed, so that if we are concerned with getting mechanical work out of coal, we might measure the efficiency of an engine in foot-pounds lifted per ton of coal burnt. Two different engines might then be legitimately compared. But would it make any sense to say that, for example, a university student was more efficient than a marksman shooting at a target, because the student got 80 per cent of possible marks while the marksman only got 50 per cent of possible bull's-eyes? Is a preacher who converts 10 per cent of those who listen to him less efficient than an advertiser who sells his product to

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15 per cent of those who see his advertisement? Because my moving pencil absorbs far fewer calories than a spade, am I more efficient when writing than when gardening? The answers in these examples are too obvious for words. Yet we are constantly told that free enterprise is more, or less, efficient than the exact and detailed planning of the economy. If one country or another is the first to put men upon the moon, that will be a superb, an incomparable achievement. But will it be *more efficient* than enabling 50 million people to choose freely from a great diversity of individual and personal satisfactions? One purpose may be nobler than the other; but if the *ends* are different, and chosen by different people, then comparison of the quantity of *means* will be meaningless. When a nation's economic choices are made by its Government and not, even indirectly, by its citizens, the purposes to which effort is directed will be different from those of a nation of individual decision-makers. We may, on non-economic grounds, hold one scheme of things superior to the other, but we cannot, on economic grounds, claim that one is more efficient than the other: authoritarianism is neither more, nor less, efficient than democracy; it is different in nature and aim. To compare the respective aims themselves is, needless to say, no task for an economist.

Let us, then, put aside the vast and intractable question of how non-elected and elected governments can come to tolerate and live with each other, and concern ourselves only with countries where power and responsibility reside ultimately in the great body of citizens. When the professional economists of these 'western' nations assemble, or meet in private, how far is their mutual understanding and sympathy ready to come to life at a touch because they possess a *general economic theory* in common? Let us consider the shape and method of such a theory, as it would emerge from the works of the most celebrated national representatives of our profession. And to systematize the affair, let us list the questions we would put to each of our witnesses:

1. How do you conceive the source of human action? Is it a mechanical response to objective circumstances, or to circumstances as they are known to the acting subject? What if his knowledge of them is incomplete or false, and indeed how can it be other? What precisely is the role of knowledge, with its inevitable

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deficiencies differing from person to person, in allowing the circumstances to elicit action from the individual? Or is action in part spontaneous, creative, uncaused; perhaps constrained but not determined by the subject's knowledge? How in this case can we construct a predictive science of the genesis of events? If action is guided by a *policy*, how can this policy best be condensed into an axiom or axioms? How are human motives to be summarized?

2. The 'total event' in each moment of the whole economy, that is to say, the matrix of proportions in which the numerical values specifying the situation at one instant are changed into those describing the situation at a second instant, will be the combined effect of the efforts of individuals and firms each to realize its own aims. The combining of these efforts will not be a mere addition but an interplay. How does this interplay work? Is the economy to be seen as a machine, an organism, a battlefield or a drill ground, or is its history like an oral saga maintained and embellished by a hundred generations of individual poets?

3. Is economics an explanation of how the economy works and an indicator of what sort of things *can* happen in it, or is it a means of knowing in advance what will in fact happen? Can it support a detailed, exact and far-reaching plan or only guide the continual improvisation of the moment?

In the first of these questions, it will be seen, we are reaching down to the bedrock problem concerning the human condition, the choice of assumption between determinism and non-determinism, a problem which I suspect economists of answering, by implication, in various ways according to the convenience of the argument in hand. Some would say these waters are too deep. I can only ask whether, if we wish to make *decision* an originitive act giving its own unpremeditated twist to the spinning yarn of history, we can then consistently claim a *predictive* purpose for economics. But if economics is adrift on these deep waters, we cannot usefully discuss the navigational prospects.

Question 2 is more manageable. To think of the economy as a machine still leaves us free to suppose that its forces take effect instantaneously to produce an equilibrium, or after various time-lags to produce a path of change; or that a pace of change,

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as in dynamic schemes like those of Harrod, is itself one of those forces. If by contrast we opt for the battlefield model, we need the Theory of Games, and if we elect the drill-ground model we are of course outside the Western world altogether.

The answer to question 3, given by the leaders of a nation's ruling party, will broadly determine the method of economic government adopted. If foresight is possible, then the weight of policy can be allowed to rest on detailed forecasts. The capacity of street and road systems, of railways and airports, of electricity generating stations, of universities and hospitals, that will be required in ten and in twenty years' time, can be discovered and planned for. In short, a *plan* can be made to whose realization the whole current national economic effort can, by fiscal and monetary means, be geared. But if foresight is not of this order of clarity and sureness, if what is *unexpected in detail* (in technical character and in *timing*) must be *expected in general*, then *plans* must give way to *policies*, grand strategy to inspired improvisation, calculation to virtuosity.

To question 1 I doubt whether economists have ever set out to give a deliberate and explicit answer. They seem to me, with a few notable exceptions, to have been, unconsciously, split-minded on this subject, regarding it as interesting and important to trace the psychological mechanism by which there comes about an inevitable and determinate reaction to circumstances. In other words, they have treated the human being as a machine, they have found in self-interest a sort of economic 'force of gravity' whose dictates communicate themselves unmistakably and infallibly to the acting subject; and yet they have used such words as 'cause', which seem out of place in a purely determinist model of the economic universe. If I look at a nearly finished painting, where some human figures are poised, as yet unsupported, above a lake, it may be clear to me that the painter intends to paint a boat in the vacant space. Does it make sense, however, for me to say that the presence of the human figures, and of the water below them, 'causes' the boat to be painted there? It is surely something in the artist's mind, in his total plan or situation, which must in the end be linked with his act of putting a boat in the space upon his canvas? Can we properly say that human needs, and human possession of resources, 'cause' people to work and consume, unless we free

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them somehow from imprisonment in an inevitable and predestined pattern of events? I would say that if there are to be 'causes' there must be *unpredictable* choice, creative choice, that a 'cause' is a lever which an acting subject is free to move *or not to move*.

It may be that this question, which seeks a *basic statement of the human condition*, though on a general view the most important of all, is for our purpose not very important, since the same two mutually contradictory answers are given by all Western economists: for their own technical purposes, these economists treat men's actions as *wholly analysable*, as capable of being exhibited as the necessary consequence of given circumstances or antecedents; but in their private, intuitive, practical coping with life, in their sense of personal responsibility, in their moment-by-moment decision-making, they treat men's, that is, their own, actions as creative, as spontaneous, as undetermined. Thus, all of us in the Western community of nations are, in this matter, of one mind, or rather, we are all of *two* minds, but the same two. It does not seem to matter.

So to question 2, about the nature of the interplay of rival efforts or opposing forces in the economy. Here, for sixty years, we had near-unanimity. From Walras to the nineteen-thirties the answer about mechanism was general interdependence and a universal tendency towards a comprehensive state of equilibrium which no one would have both the power and the desire to alter in any one particular way. The general equilibrium model was the most intellectually satisfying, the most generally inclusive, efficient, incisive and beautiful construction which economics has ever produced. It answered all questions, it accommodated all forces, factors and facts, it showed the Grand Design of the economy, it left us without doubts or qualms of conscience, with almost nothing to solve, say or do. To this great model many of the greatest figures in the history of our subject contributed, and they came from every quarter of the Western world. Gossen was a German, Jevons an Englishman, Menger an Austrian, Walras a Frenchman, Wicksell a Swede, Pareto an Italian, John Bates Clark an American. These have differed from each other in detail, sometimes have made much of their differences. This very willingness to criticize and this ability to see sharp and clear the lines dividing one version of the

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Western theoretical tradition from another were an unconscious tribute and acknowledgement of a fundamental unity. Family quarrels are unintelligible and meaningless, except to members of the family.

The general equilibrium model is no longer looked on as sufficient, for the economic scene of today and yesterday is full of features that it cannot explain. The most omnipresent and inescapable of these features is the use of money. General equilibrium uses a *numéraire* to reduce all goods to a common measure, but it does not include a money in the full modern sense, a money which people can hold as an asset, which is valued only for its general acceptability in exchange and not for any technical qualities which are wanted for their own sake, a money which can be manufactured by mere decree at almost no cost in productive resources; for such a money is incompatible with guaranteed, stable, sustained equilibrium. Such a money enables people to sell goods without buying them, and thus to cause general massive unemployment in defiance of Say's Law. Such a money is valued partly because it makes possible the postponement of effective decision. When we do not know what kind of real equipment, what type of enterprise, will make a profit and avoid a loss, we can retreat into money: thus we can earn without spending, we can save without investing, produce goods without demanding them.

Why does general equilibrium theory exclude, or how does it evade, all this? Because it excludes *uncertainty*, it assumes that economic man knows all he needs to know, can feed his *tastes alone* into a mental computer and obtain unambiguous directions about what to do to secure their maximum satisfaction. Some economists have in recent years made a concession to this aspect of human affairs, which is almost worse than no concession at all, since it betrays a still arrogant assumption of ultimate, unlimited human power. This concession consists in talking about 'incomplete information'. Why do I object to this formula? Because the essence of the human situation is that we can never know how much we do not know. To speak of 'incomplete information' suggests that there is such a thing as 'complete information', *known to be such*. How, in science's name, does one find out how much there is yet to be discovered?

General equilibrium excludes a true money, neglects un-

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certainty and assumes, not complete knowledge in any full sense, but an extremely limited problem which is artificially reduced to exact and certain solvability. General equilibrium also, as a quite separate matter, excludes *change*. It allows us, of course, to compare different equilibria, and this method, which consists in changing one at a time either the supposed structural parameters, that is, the 'reaction coefficients' of the system, or else its non-economic governing circumstances, such as the distribution of resources amongst different ownerships, is called comparative statics. But this is not the study of change, which surely ought to mean the examination of how one state of affairs arises naturally, or inevitably, from another, by an unbroken evolution described without gaps of time or logic. The rival camps into which today's world is split are engaged in a desperate race to prove to the 'uncommitted' nations that one or other of the two polar opposites, in the economic and political management of affairs, is the best, by helping those uncommitted nations to emerge from poverty and primitive economy into a self-sustaining advance. Thus, instead of equilibrium, the 'take-off' and 'growth' are the engrossing themes.

Lastly, equilibrium depends, for its full theoretical beauty and formal brilliance, on the assumption of *perfect competition*, which knits together firms, industries, individuals with a simplicity equal to that with which gravity seems to bind the physical universe. This, too, has had to go. How can we assume pervasive perfect competition in a world of giant concerns each having assets of a thousand million pounds and employing hundreds of thousands of people? Theory here has responded with a mighty effort. It was not without some excuse that the authors of the *Theory of Games and Economic Behaviour* blew their trumpet and demanded that the walls of Jericho should fall down. The walls of the older economic theory, which in all its various versions depended essentially upon the notions of the differential calculus, upon continuity and derivatives, were perhaps a little shaken but they remain very serviceable. Beside them the new city has been erected, based upon that famous building block, the 'payoff matrix'.

It is, I think, question 3 which is the most dangerous to the cohesiveness of Western economists. It can divide them for several reasons, and all of these reasons seem likely to distribute

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individuals in one and the same way between two camps. The elaborate plan, to which all private interests are to be subordinated, which solves in an arbitrary but not necessarily indefensible way the problem of balancing the advantage of some citizens, professions, classes and temporal generations of men against the disadvantage of others, and which requires a highly developed statistical basis for its foundation and administration, is the typical and central instrument of socialism. It may often be looked on as the surgeon's knife, the only means of remedying, albeit at the cost of much distress, a plainly unsatisfactory state of affairs; a state of affairs which *all* thinking people recognize as bad, regardless of the incidence of any proposed remedy upon themselves. But the cost, moral as well as economic, of such a plan is deemed too high by many economists. The cost is the loss of power to manoeuvre, the discarding of personal initiative, the repudiation of self-interest as a motive power; above all, perhaps, it is the feeling that to plan men's lives for them, even in the most general and impersonal way, is a usurpation of their right to govern themselves *continuously*.

However, it is not only the *desirability* of a long-term plan, but its *feasibility*, which divides economists. The belief that unprecedented feats of prognosis are now possible has been immensely strengthened by the electronic computer. Basically, belief in the possibility of assured prognosis rests on the belief that the future is a mere *interpretation* or *algebraic manipulation* of the past. *The way things go* must be expressible in a single, stable algebraic formula, if we are to be able to calculate the future. Prognostic power consists in regarding the economic cosmos as a machine; in *describing* this machine, as to its general principles of working, in algebraic terms, the parameters of which have been discovered, statistically, by a careful examination of the historical record and a systematic gathering of current information; and in filling in the blanks of the statement, namely, the recent numerical values of variables, to give the algebra 'something to bite on'. Now the validity of such a procedure depends on two assumptions: first, that the economic cosmos is in fact a machine; secondly, that we can discover enough about this machine, can reach not merely a *superficial* algebraic description which, for some particular historical period, broadly reconciles the behaviour of the set of variables we happen arbitrarily to