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G. L. S. Shackle

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THE NATURE OF  
ECONOMIC THOUGHT

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# THE NATURE OF ECONOMIC THOUGHT

SELECTED PAPERS 1955-1964

BY

G. L. S. SHACKLE

*Brunner Professor of Economic Science in  
the University of Liverpool*



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*To*

HENRI GUITTON

GUY DEVILLEBICHOT

PAULIN BOISSEAU

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## PREFACE

Economics has been defined as the logic of choice. Amongst what, then, are men free to choose? Not amongst situations or events which exist or occur in some objective reality, for when something is actual the time is too late for choosing something else. Not amongst perfectly specified situations or events whose occurrence in some future is somehow guaranteed, for there is no such perfect knowledge and no such guarantee. Men choose amongst their own imaginations of what rival available policies will bring them. Each conceived policy or course of action will in general provide a basis, more or less firm, for many different imagined outcomes. Who knows whether, in seeking to list such outcomes, a man is wholly constrained by his experience and his present circumstances, so that these thoughts are determinate and, if we knew enough, wholly explicable by reference to the past? If they are not capable of being thus wholly explained away, there is room, in this process of listing rival imagined outcomes of a policy, for both *freedom* and *reason*: freedom in creating the objects amongst which there is choice, viz. the bundles of rival outcomes, one bundle for each available policy; and *reason* in choosing amongst these bundles and thus amongst these policies.

Economists have said that their subject is about reason, and some of them have developed it by reason alone from a brief and simple list of axioms taken for granted or even declared to be self-evidently true. But almost none of them have said that their subject is concerned with imagination. Business life may be 'aleatory', but only in the strict sense. The *alea* has six sides and one or other of this known list of contingencies must come up at any throw, for the list is known to be complete. There is no room for new, additional contingencies to be invented; the business man is a gambler but he must not aspire to be a poet. Business may be a game, but the economist treats it as having a book of rules which enable all contingencies to be listed and each to be assigned a probability, a value of a distributional variable. The probabilities may be 'subjective', they may be mere personal judgements and not objective, observed frequencies, but by binding these judgements into a distribution

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we ensure their coherence. The assumption of complete knowledge (though tacitly assumed as the basis of traditional value-theory) may be absurd in the form of 'perfect foresight', but the assumption of completely listable contingencies, however complex and however astronomically numerous they might be, is regarded as natural and necessary. It is in repudiation of this view that the essays of Part II of this book have been written.

Such radical heresy necessarily colours a man's whole work, not only that part of it where his case comes up to be explicitly argued. Thus in the essays of Part I there will be found my more general view of the nature and value of economics in its past and present forms. In the essays under *Business and Psychology* in Part III I have sought insight, from that same personal viewpoint, into the world of enterprise where the psychic act of *decision*, the chief focus of my own interest, is the fount of success or failure. Part IV is more conventional, but illustrates my many endeavours to appeal direct to business men themselves.

The market system in all its complexity of detail and simplicity of principle is nothing but a vast information-dispenser. It gathers from all persons, businesses and nations information concerning the buying and selling propensities of all these sources of action, computes their resultant in the form of a price and re-transmits this guiding datum to them so that, substituting it for the unknown in their action equations, they can decide what to do. Amongst these prices, or ratios of exchange, there are those between goods here and now and promises of goods later. These *interest rates* play an elusive and tantalizing role in the life of society. They are the chief formal and precise link between today's facts about itself and today's conjectures, hopes and fears about tomorrow. Time is the reason and condition of their being; must they not then be the central lever for controlling the economy? It has long been argued that they are, and Keynes himself wrote largely as though they were. Yet belief in their efficacy and importance fluctuates continually. The circumstances which govern them, their power to influence action, are still the subject of debate. This debate, as it proceeded during the first fifteen years from the end of the second world war, is surveyed in Part V, which consists of the article commissioned by the *Economic Journal* and financed by the Rockefeller Foundation.



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Lastly I have included my reviews of three books. Each of these books, in its own way, gave me stimulus and scope for relating my idiosyncrasies to the views of others, and allowed me to illustrate that truth which more and more impresses me, the oneness, the undividedness of the study of man. History and philosophy, political theory, psychology of some sorts and economics all belong in a single Great Theme. Economics is not pure logic but, quite in contrast with such a character, it is part of the endeavour to describe the integral nature of man.

G. L. S. S.

*November 1964*

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- 'The Unity of European Economic Thought', in *Le collettività locali e la costruzione dell'unità europea*. I.S.A.P. (Milan, 1963). (Essay written in March 1961.)
- 'The Hedgehog and the Fox', *The Indian Journal of Economics*, vol. 34 (1964).
- 'Keynes and the Nature of Human Affairs', *Weltwirtschaftliches Archiv*, vol. 87 (1961).
- 'The Ruin of Economy', *Kyklos*, vol. 14 (1961).
- 'The "Great Theory" in Eclipse', Italian version published in *Mercurio*, vol. 5 (1962).
- 'Time, Nature, and Decision', in *Money, Growth and Methodology*, ed. Hugo Hegeland (University of Lund, Sweden, 1961).
- 'The Description of Uncertainty', *La Scuola in Azione*. E.N.I. Scuola di Studi Superiori sugli Idrocarburi, no. 21 (Milan, 1961-62).
- 'Decision and Uncertainty', French version published in *Futuribles*, no. 26. (Société d'Etudes et de Documentation Economiques, Industrielles et Sociales, 1 March 1962.)
- 'The Dilemma of History', essay not previously printed, written May 1962.
- 'Models of Conjecture', essay not previously printed, written June 1963.
- 'Brief Testament', *Weltwirtschaftliches Archiv*, vol. 82 (1959).
- 'The Economist's Model of Man', *Occupational Psychology*, vol. 32 (1958).
- 'Theory and the Business Man', *Scientific Business*, vol. 1, no. 1 (1963).

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- 'Business Men on Business Decisions', *Scottish Journal of Political Economy*, vol. 2 (1955).
- 'Business and Uncertainty', *Bankers' Magazine*, vol. CLXXXIX (March 1960).
- 'Scale, Risk and Profit', essay not previously printed, written June 1961.
- 'Resources and Demands', essay not previously printed, written May 1963.
- 'The Nature of Inflation', *Company Accountant*, Conference number (1955). (An address given at the Scarborough National Conference.)
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- 'Battles Long Ago', *Weltwirtschaftliches Archiv*, vol. 89 (1962).
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- 'Values and Intentions', *Kyklos*, vol. 15 (1962).