The Kaleidic Economics of G. L. S. Shackle

## Introduction

The English economist G. L. S. Shackle was an important heterodox thinker who was influenced by and influenced both Keynesians and Austrians. He was a student of F. A. Hayek at the LSE, a careful reader of Keynes, and a close colleague of Ludwig Lachmann. His importance for our story is his sharp criticisms of the formalistic, “rational” methods adopted by the economic mainstream.

One of the aims of these volumes has been to explore what, exactly, was being criticized by various ‘critics of rationalism’: were they all shooting at the same target? Thus, it is of interest to understand what Shackle’s target was. Luckily, he made that easy, by offering a concise definition himself:

Rationalism [is] the belief that [human] conduct can be understood as part of the determinate order and process of Nature, into which it is assimilated by virtue of the fact that men choose what is best for them in their circumstances…” (2017: 239)

It is also of note for our purposes that Shackle’s work bears clear resmblances to that of other anti-rationalist thinkers. For instance, Parsons writes that “Shackle is specifically objecting to the understanding of reason in terms of calculation, or technical expertise…” (2013: 129) That is quite close to Michael Oakeshott’s characterization of rationalism as the belief that all knowledge is technical: “Rationalism is the assertion that what I have called practical knowledge is not knowledsge at all, the assertion that, properly speaking, there is no knowledge which is not technical knowledge.” (1991: 15)

## Science, Time and History

Shackle did not directly reveal much about his own philosophical positions. As Earl and Littleboy note, “correspondence in archives indicate how coyly unresponsive he was to suggestions about philosophical or theological influences” (2014: 16). Nevertheless, the broader philosophical framework in which Shackle’s economic thought is set might generally be characterized as a consistent belief in the genuine creative nature of human action: our choices are *influenced* by our circumstances, but not *determined* by them.

Let us take a brief look at some particular philosophical topics upon which Shackle has something to say. When it comes to the philosophy of science, Shackle appears to stand firmly in the tradition of Berkeley and Hume. For example, in discussing causation, he writes “if one of two frequently associated states seems each time to proceed the other, we are tempted to call it a *cause* of the other state” (1990: 180). Contra scientism, Shackle dismisses the claim that science is a specially privileged form of knowing: “Science tells us what to count on, what to rely on. But in doing so it merely imitates and refines the process by which we build, each of us for himself, the homely technology of every day living” (2017: 6). Discussing Hayek’s work on *The Pure Theory of Capital*, Shackle rejects the idea that science is pure ratiocination, disparate from emotion and belief: “There must be some inspirational idea…before a man can gather the moral and nervous force which such a [scientific] task requires. He must be seized by a faith. ” (2014: 184)

Shackle’s work is continually concerned with the topics of time and history. In particular, he argues, if human choice is real, then future history is open-ended, and not possibly subject to “rational” prediction. As he put it:

When a person decides he innovates; he destroys the possibility or meaning of attempts based on knowledge, no matter how perfect or complete, of what was the state of affairs before his decision, to predict what would be the state of affairs, or the sequence of such states, after his decision. ” (1961: 3)

## Rational Choice

If we look at Shackle’s definition of rationalism quoted in the introduction, we see that, for him, its key feature is the attempt to study human conduct using the methods of the quantitative natural sciences, and a major impetus working in that direction has been rational choice theory. Interestingly, this has taken both a descriptive and a prescriptive turn: sometimes, theorists have held that, once we fully understand a person’s situation as he perceives it, we will see that the person’s choices *are* rational, i.e., they are all made according to a ‘rational’ cost-benefit calculation. (These theorists of course don’t deny that people make decisions they later regret, but that is only because they had an incorrect view of the costs or benefits of some action, not because, given that view, they acted irrationally.)[[1]](#endnote-1) On the other hand, there are those who treat rational choice as an ideal to be strived after, and whose work thus often criticizes various choices as irrational.[[2]](#endnote-2) But according to Shackle, economists are making a mistake if they limit their explorations to what can be captured in the ‘pure logic of choice’:

By tacitly assuming that the right conduct can always be discovered by taking orderly thought, and that this is how men’s conduct is formed, economics has precluded itself from understanding the vast area of human enterprise where disorder is of the essence of the situation, the areas of break-away, of origination, of poetic creation or innovation… Of conflict and cut-throat struggle. ” (2017: 23)

Shackle devoted some time to examining whether the application of probability to choice could yield an economic science in which choice was susceptible to precise mathematical analysis without being strictly determined in advance. He concluded that this hope was vain:

Choice is amongst imagined experiences. And when a man sums up an array of imaginations, how does he know what action-course will actualize any one such picture? Or when, instead, he reviews his rival available acts, how does he know what outcome to attach to each? He does not and cannot know… If a thought can contain an element undeducible from any record of the thinker’s past no matter how perfect, by any logical process no matter how powerful… distributive probability can have no application to his problem of choice amongst actions. For probabilities can only be meaningfully assigned to the items of a complete list of contingencies, or to the intervals of a variable whose meaning is in stable dependence on such a list” (1990: 186-187)

Furthermore, Shackle was not impressed by attempts like ‘fuzzy logic’ to patch up the shortcomings of a probabilistic theory of choice: “I have to express the conviction that this great arabesque of brilliant intellectual endeavor [represented by fuzzy logic] has still the same essential purpose: to eliminate the true unknowledge which gives us imaginative freedom” (2014: 14) One of the centerpieces of the rationalist project has been the effort to lift morality from the realms of tradition and revelation and turn moral choice into a matter of calculation based on “rational” criteria. The most famous of those endeavors is utilitarianism, championed by Bentham, the father and son Mills, Henry Sidgwick, and modern adherents such as Peter Singer.

Shackle’s analysis of the meaning of “possibility” in the context of choice is devastating to the notion that utilitarianism offers a rational means of deciding ethical conundrums. He notes that the chooser cannot possibly assign meaningful probabilities to all potential outcomes of a choice, since:

any such skein of the imagined sequels of some one action must be deemed always incomplete and uncompleteable. The mutual rivalry alone of the members of any skein would obscure the meaning of the assignment of degrees of positive confidence… in the members. Their liability in principle to an indefinite extension of their numbers seems to destroy any such meaning. (2014: 13)

If the utilitarian moralist cannot even conceivably imagine all of the possible outcomes of her potential action, let alone assign a meaningful probability to all of them, how can she possibly calculate the probable utility gained or lost by choosing to so act? In practice, this usually means the utilitarian can just declare that he has done the calculation, and do what he wanted to do anyway: “If I don’t sleep with my friend’s wife, she’ll probably leave him, and that would be much worse for the kids, so…”

## Static-World Economics

Shackle never denied that mainstream, rational-mathematical economics has achieved praiseworthy results. [QUOTE HERE] But he was critical of this style of economics for failing to recognize the presuppositions of its models; in particular, for failing to acknowledge that the world of perfect competition and general equilibrium is a timeless world without real choice.

(That is because the perfect competition and general equilibrium models yield unambiguous answers as to what an economic agent ought to do, and such an unambiguous answer does not leave any room for the agent to choose A rather than B: the agent’s choice is fully determined by the model.) He claims that “rational general equilibrium owed its encompassing completeness, exactness and certitude to its neglect of all that is essentially implied by *time*. The rational, sure and pre-reconciled world is timeless” (2017: xv). Shackle offers an historical explanation of how economics went astray: “When the time came to invent economic theory, a number of established, exact and thoroughly explored modes and schemes of thought were ready to hand… The procedure of invention was often to accept some such self-suggesting analogy and make the economic questions fit it…” (2017: 3). But to adopt such a mode of thought from say, physics, and apply it to economics, meant ignoring a central aspect of economic action: the uncertainty of the future. As Shackle put it, “the natural, inevitable and irremediable insufficiency of what is at any moment known was assumed away and largely neglected.” (2017: 3).

In an essay praising Cantillon, Shackle points out that, in the 1700s, Cantillon had already anticipated Keynes on unemployment. Those arguing against the possibility of involuntary unemployment had argued that workers would be paid their marginal product, which, naturally, would keep their wages adjusted to any level of business activity. (In other words, if overall demand drops, wages will fall commensurately, meaning that there will be no involuntary unemployment.) But Shackle notes that the uncertain nature of the future makes such perfect adjustment highly improbable: “For how can he know what is their marginal product, when he cannot know at what price he will be able to sell what they produce?” (2014: 48) Shackle also noted the supply-and-demand curves are not real-world objects that businesses can use to determine where to set a price: “In the ever-changing world which Marshall pointed to, the representation of a firm’s market by a demand-curve is no more than an aid to thought. ” (2014: 17) That is because all points on the demand curve, except the one identified by the current price, are merely suppositional.

Quite in contrast to the picture of business “activity” (or, rather, the passive lack of any genuine activity on the part of business people) offered by the theory of perfect competition, Shackle understood the actual business world to be one of continual speculation in the face of uncertainty. Shackle also argued that ‘rationalism in trading’ (he did not use those words!) was not possible:

Can a dealer calculate what will take place? To think he can is wildly to deceive himself. He has some impressions. He may even call them data. There can be no knowing what other data are in the pack waiting to be dealt, or can yet be put into it by human ingenious ploys… All experience… tells him that the statement of [his trade’s] conditions, that he has in mind, are bound to be mere fragments. (2014: 19)

The employment of game theory is sometimes forwarded as a means of introducing interaction into the world of economic equilibrium; for instance, in discussing why von Neumann thought it important to bring game theory to economics, *The New Palgrave Dictionary of Economics* notes: “General equilibrium theory has also failed to account for the properly interactive nature of social behaviour, particularly that which is manifest in situations involving ‘small’ numbers of agents, be they involved in the exchange of goods or in the distribution of gains through the formation of social and political groups.” (2018: 564) But Shackle points out that it suffers from the same weakness as general equilibrium theorizing: both models exclude true creativity by assumption. He writes, “The theory of games is the product of a superb mathematical virtuosity. It illustrates a great mathematician’s originative genius. By an extraordinary paradox, it *assumes away* the whole of that aspect of business, science, art and contest, which allows originative genius to exist.” (422)

## The Rationally Planned Economy

Shackle accepted a certain amount of what might be referred to as economic planning: he saw a role for the government in managing aggregate demand, so as to reduce uncertainty, “which at times so inhibits enterprise that great numbers of people and their equipment are unemployed” (1959: 228). Many advocates of economic planing, however, would wish to go much further: “But why stop there? The government is in the position (so the argument proceeds) of a guardian who knows what is best for everybody, and it should control the economy in detail so as to give everybody what, in its opinion, is best for him. ” (1959: 228) Shackle dismisses such a system: “What we have sought to explain is the working of an economic system where the guiding principle is to give each individual person the greatest scope for his own spontaneous use of life.” (1959: 228) The sort of planning he endorses, and the sort which would seek “the detailed prescription of the outputs and prices of all goods and the arbitrary fixing of the rates of pay of all factors of production…” (1959: 229) have very different aims. The first “is like a palisade built to enclose more of the desert for men’s use,” while the latter “is like a fence built to confine them to till ground they have not chosen and do not own” (1959: 229).

In short, while Shackle was not a night-watchman state libertarian, he had no confidence in the ability of technical experts to micro-manage the economy. As Earl and Littleboy put it, “a society of Shackle’s design would rely more on the imagination and judgemnt of decision-makers and less on technical expertise” (2014: 3).

## Shackle in Context

So what has been the reaction to Shackle’s work amongst economists and other social theorists? Shackle’s attempt to replace probability theory with a theory of possibility and surprise (when analyzing choice) drew widespread criticism – see, for instance, Arrow 1951. This is a somewhat technical topic, beyond the scope of this paper. (For an excellent summary of this literature, see Earl and Littleboy, 2014, chapter 4.) Ludwig Lachmann found the ideas of Shackle to be largely compatible with those of Mises and the Austrian mainstream: “To sum up, then, in their emphasis on the spontaneous, and thus unpredictable nature of human action, in their rejection of mechanistic notions of time and probability, [Mises and Shackle] are completely at one. They also agree that a science of human action requires a methodology *sui generis*.” (1976: 58) But Lachmann sees Shackle as going beyond Mises in three respects:

In the first place, Shackle has extended the scope of subjectivism from tastes to expectations…Secondly, there is a sense in which Shackle’s emphasis on action without knowledge poses an even stronger challenge to Austrians than to neoclassical equilibrium theory…[D]ivergent expectations give rise to a third aspect of Shackle’s model that has no counterpart in Mises’s work… [which is that] expectations… play a different part in different markets… (1976: 58-60)

In contrast, Austrian economist Murrary Rothbard takes a much dimmer view of Shackle’s work. Although his main target here is Lachmann, he clearly assigns Shackle blame for Lachmann’s going astray:

there are three very different and clashing paradigms within Austrian economics: the original Misesian or praxeological paradigm, to which the present author adheres; the Hayekian paradigm, stressing ‘knowledge’ and ‘discovery’ rather than the praxeological ‘action’ and ‘choice,’ and whose leading exponent now is Professor Israel Kirzner; and the nihilistic view of the late Ludwig Lachmann, an institutionalist anti-theory approach taken from the English ‘subjectivist’-Keynesian G. L. S. Shackle.” (2009: Preface, par. 21)

What should we make of this charge that the work of Shackle is nihilistic? Consider the following passages from his work:

In a cosmos lacking order, the consistency of nature that we think of as cause and effect, a cosmos in which no act placed any constraint whatever upon the character of the sequel, choice among acts would be pointless… Unbounded uncertainty is the third of the assumptions about the character of the cosmos and of the human condition in it that we must reject if decision is to be an interesting object of analysis. (1961: 4-5)

And:

“One of our chief endeavours will be to show that there could be inspiration in this sense in the scheme of things without its implying that human conduct is arbitrary in face of given circumstances. ” (1961: 7)

Shackle is above clearly *rejecting* the nihilistic view Rothbard attributes to him. Why Rothbard understood Shackle this way is beyond the scope of this paper.

A similar charge has been brought against Shackle by Coddington, who wrote that, if economists embraced Shackle’s methodology, “we would then be faced with a situation akin to one in which there was an outbreak of Christian Science among the medical profession, or a passion for telekinesis among airline pilots” (quoted in Parsons, 2013: 124). As Parsons says, “through exploring Shackle’s relationship to the Enlightenment project, it is possible to recognize that the charge of irrationality is not founded” (2013: 125). However, Parsons argues that Shackle himself, “despite acknowledging the limitations of reason… attempts to intellectualizes [sic] our awareness of succession [and] places a considerable burden on individual cognitive abilities” (2013: 140).

## Conclusion

During the twentieth century, neoclassical economics became one of the advanced battalions of rationalism, and reducing choice to weighing probabilities was not far behind it. Shackle’s sharp criticisms of both efforts make him an important figure in the history of anti-rationalist thought.

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1. For examples of the descriptive branch of rational choice theory, see Samuelson, 1938, or Mises, 1998. [↑](#endnote-ref-1)
2. For an example of this other branch, see Kahneman and Egan, 2018. And for an excellent discussion of rational choice theory with reference to Shackle, see Steedman, 2013. [↑](#endnote-ref-2)