【書 評】

Peter Earl and Bruce Littleboy, *G. L. S. Shackle*

Hampshire, United Kingdom: Palgrave Macmillan, 2014, 246 pp

This book is an intellectual biography of G. L. S. Shackle's theory of decision-making under conditions of uncertainty. As mentioned by the authors, it is considered a complement to Ford's biography of Shackle, published in 1994. The book is novel in that the authors regard Shackle as a pioneer of behavioral economics.

Shackle's theory focuses on crucial, life-changing decisions such as a large-scale investment. An individual facing a crucial decision has a notion of the possible outcomes; however, the future is "kaleidic" (like a kaleidoscope image). While a predictable result, such as loss or gain, may not be surprising, greater losses or gains beyond expectation will be. The degree of surprise is called "potential surprise." Evaluating the action, a decision maker measures the most significant gain (focus gain) and loss (focus loss) in the ascendancy function. Each alternative action is represented by a pair of focus gain and focus loss, allowing him/her to choose the optimal pair on the "gambler indifference map."

Shackle's theory is distinct from the mainstream theory of decision-making, which focuses on maximization of expected utility based on additive subjective probability. Shackle emphasized that additive subjective probability does not apply to an intrinsically uncertain situation because it assumes that all possible events

are known. The expected utility theory cannot describe many cases of actual decision-making; therefore, Shackle's theory is a possible alternative. However, it has a serious flaw: the three steps of decision-making in his theory are complicated and highly subjective, and hence, his theory cannot be verified.

In *G. L. S. Shackle*, the authors have attempted to overcome this flaw. They investigate various criticisms of Shackle's theory and examine its features and limitations (ch. 6 and 7). This may be interesting; however, their most important assertion is that the essence of Shackle's idea is simple and it was not necessary to express it as a complicated axiomatic theory.

They trace Shackle's work in the decade before he completed his theory in *Expectation in Economics* (1949) and find the origin of his idea (ch. 5). Shackle's earlier articles explain the actual psychology of entrepreneurs considering investments, using only the concept of potential surprise. The steps involve simple decisions based on "tolerable prospective loss," or considering hope and fear (enjoyment anticipating the greatest gain or the suffering in anticipation of the greatest loss). They are simple, realistic, and verifiable. However, Albert Hart criticizes Shackle stating that attention to the possible best and worst is arbitrary (Hart 1940, "Uncertainty and inducements to invest," *Review*

of *Economic Studies*, 8 (1)). Consequently, Shackle turned to axiomatic theories like the neoclassical preference theory, probably because the axiomatic approach was more acceptable to his contemporaries. It is a shame that excessive theorization had obscured the benefits of his idea.

Shackle's original idea is similar to Herbert Simon's concept of bounded rationality (ch. 8. 2–3). Both deal with decision-making in an intricate situation, when it is impossible to choose the optimal option rationally. Describing actual behaviors makes them pioneers of behavioral economics. Shackle could have avoided complicating his theory, had he accepted Simon's idea. However, for Shackle, satisficing as a decision-making strategy is for routine work and not for crucial decisions.

Shackle did not have a constructive relationship with “old” behavioral economics (the theory of bounded rationality). What about “new” behavioral economics? Though Shackle was alive when Kahnemann and Tversky's article on prospect theory was published in *Econometrica* in 1979, he did not offer his views on it. This might be because the famous S-shape value function of the prospect theory is considered a modified version of the subjective expected utility theory. Despite Shackle's lack of concern of new behavioral economics, the authors think that Shackle's theory is not inconsistent with the ideas of Kahnemann and Tversky. While a decision maker in Shackle's theory ignores unimaginable outcomes (beyond the possible range) in favor of more imaginable ones (focus gain and loss), Kahnemann and

Tversky state that highly unlikely events are ignored or outweighed if the event is impressive and clearly imaginable; indicating that they have similar ideas. We can say that Shackle was a forerunner of behavioral economics and current research can derive valuable insights from his theory, especially concerning crucial decisions.

The essence of Shackle's theory can be expressed as follows: “The chooser of action wishes to fix upon the best and the worst imagined outcome of each action that are possible enough: the best that is possible enough to be worth hoping for, and the worst that is too possible to be dismissed” (p. 164, Shackle ‘Origin of Choice’ in Kirzner ed., *Subjectivism, Intelligibility and Economic Understanding*, [1986] 1988, p. 5). Crucial decisions are based on such hopes and fears, while weighing these hopes and fears is not of primary importance.

Last, I suggest that we investigate entrepreneurs' psychology or motivation. It is probable that their decisions are based on hope and fear. In researching how entrepreneurs evaluate hope and fear, I think it is important to consider not only financial results but also psychological benefits. For entrepreneurs, the meaning of the game has a substantial effect on the “enjoyment by anticipation.” If our assumption is validated, economists should focus on factors that make the game interesting and rewarding, rather than construct theories about the foundation of decision-making.

(Takayuki Nakamura: Aoyama
Gakuin University)