

FROM
 "PRICELESS: THE MYTH OF FAIR
 VALUE AND HOW TO TAKE
 ADVANTAGE OF IT"
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The long-suffering Machina has posted Allais's paper on his website, under the heading "News, Gossip & Games." I'll confine myself to saying a little about why Allais' paradox was so intractable. The stumbling block isn't the certainty effect per se. It's the way that smart people are influenced by mere words, by the way the choices are framed. As Amos Tversky later wrote, "We choose between descriptions of options, rather than between the options themselves." For the most part, economists were not ready to accept that fact of life.

To a select following of economists, psychologists, and philosophers, the Allais paradox became a sword in the stone. Great minds tested themselves against it, few managing to get much of a grip. In later years, Allais himself thought and wrote extensively about his puzzle. In true economist fashion, he tried to lay out axioms of human decision making and show that they were subtly incompatible, leading to contradiction.

"His paradox was great," one scholar said of Allais. "But if you read his own papers on what he thought the right theory was, they're very hard to understand . . . He's also cantankerous. There were a few conferences of a group called FUR, Foundations of Uncertainty and Risk, and I went to a couple of them. Allais would give this talk, and someone would say, 'Your axioms are wrong, you claim you've proved something that's not proved.' Allais would bluster, and [UC San Diego economist] Mark Machina would literally stand up and try to defend Allais. Then Allais would turn on Machina."

Allais continued his attack in a prickly 1995 paper subtitled "Unceasingly Repeated Errors or Contradictions of Mark Machina." ("As a matter of fact," Allais wrote, "I haven't been able until now to answer Machina's paper. My time has been entirely used up, on one hand by the task of editing the first printed version of my 1943 work, in view of which I have [been] awarded the 1988 Nobel Prize in Economic Science, with a new and long introduction, and on another hand by the task of publishing an important book on Europe . . . The reader will understand that I cannot accept to spend too much of a scarce time to correct Machina's mistakes, *line after line* . . .")