

INTRODUCTION

How Should People Behave in Society?

OUR ANSWER DOES not deal with ethics or etiquette. Nor do we aim to compete with philosophers, preachers, or parents. Our theme, although less lofty, affects the lives of all of us just as much as do morality and manners. This book is about strategic behavior. All of us are strategists, whether we like it or not. It is better to be a good strategist than a bad one, and this book aims to help you improve your skills at discovering and using effective strategies.

Work, even social life, is a constant stream of decisions. What career to follow, how to manage a business, whom to marry, how to bring up children, and whether to run for president are just some examples of such fateful choices. The common element in these situations is that you do not act in a vacuum. Instead, you are surrounded by active decision makers whose choices interact with yours. This interaction has an important effect on your thinking and actions.

To illustrate the point, think of the difference between the decisions of a lumberjack and those of a general. When the lumberjack decides how to chop wood, he does not expect the wood to fight back: his environment is neutral. But when the general tries to cut down the enemy's army, he must anticipate and overcome resistance to his plans. Like the general, you must recognize that your

business rivals, prospective spouse, and even your children are strategic. Their aims often conflict with yours, but they may well coincide. Your own choice must allow for the conflict and utilize the cooperation. This book aims to help you think strategically, and then translate these thoughts into action.

The branch of social science that studies strategic decision making is called game theory. The games in this theory range from chess to child rearing, from tennis to takeovers, and from advertising to arms control. As the Hungarian humorist George Mikes expressed it, “Many continentals think life is a game; the English think cricket is a game.” We think both are right.

Playing these games requires many different kinds of skills. Basic skills, such as shooting ability in basketball, knowledge of precedents in law, or a blank face in poker, are one kind; strategic thinking is another. Strategic thinking starts with your basic skills and considers how best to use them. Knowing the law, you must decide the strategy for defending your client. Knowing how well your football team can pass or run and how well the other team can defend against each choice, your decision as the coach is whether to pass or to run. Sometimes, as in the case of nuclear brinkmanship, strategic thinking also means knowing when not to play.

The science of game theory is far from being complete, and much of strategic thinking remains an art. Our ultimate aim is to make you better practitioners of that art, but this requires a good foundation in some elementary concepts and methods of the science. Therefore we mix the two approaches. Chapter 1 begins with examples of the art, showing how strategic issues arise in a variety of decisions. We point out some effective strategies, some less effective ones, and even some downright bad ones that were used by players in these real-life games. These examples begin to suggest a conceptual framework. In the next set of chapters, 2–4, we build this basis for the science using examples, each of which is designed to bring out one principle. Then we turn our attention to more specific concepts and strategies for dealing with particular situations—how to mix moves when any systematic action can be exploited by the other player, how to change a game to your advantage, and how to manipulate information in strategic interaction. Finally, we take up several broad classes of strategic situations—bargaining, auctions, voting, and the design of incentives—where you can see these principles and strategies in action.

Science and art, by their very nature, differ in that science can be learned in a systematic and logical way, whereas expertise in art has to be acquired by example, experience, and practice. Our exposition of the basic science generates some principles and broad rules—for example, the idea and method of backward reasoning that is developed in chapter 2, and the concept of Nash equilibrium in

chapter 4. On the other hand, the art of strategy, in all the varied situations where you may need it, requires you to do more work. Each such situation will have some unique features that you must take into account and combine with the general principles of the science. The only way to improve your skill at this art is the inductive way—by seeing how it has been done before in similar situations. That is exactly how we aim to improve your strategic IQ: by giving numerous examples, including a case study, in each chapter and in a collection of case studies in the final chapter.

The examples range from the familiar, trivial, or amusing—usually drawn from literature, sports, or movies—to the frightening—nuclear confrontation. The former are merely a nice and palatable vehicle for the gametheoretic ideas. As to the latter, at one point in time many readers would have thought the subject of nuclear war too horrible to permit rational analysis. But with the cold war now long over, we hope that the gametheoretic aspects of the arms race and the Cuban missile crisis can be examined for their strategic logic with some detachment from their emotional content.

The case studies are similar to ones you might come across in a business-school class. Each case sets out a particular set of circumstances and invites you to apply the principles discussed in that chapter to find the right strategy for that situation. Some cases are open-ended; but that is also a feature of life. At times there is no clearly correct solution, only imperfect ways to cope with the problem. A serious effort to think each case through before reading our discussion is a better way to understand the ideas than any amount of reading of the text alone. For more practice, the final chapter is a collection of cases, in roughly increasing order of difficulty.

By the end of the book, we hope that you will emerge a more effective manager, negotiator, athlete, politician, or parent. We warn you that some of the strategies that are good for achieving these goals may not earn you the love of your rivals. If you want to be fair, tell them about our book.