

Nassim Taleb: 'Big corporations will always fail'

The author and finance scholar argues that we don't fully understand how financial markets work, making economics based on risk a recipe for disaster



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Hidden risk: Nassim Taleb says the financial crash was the inevitable result of an economics based on debt.

Photograph: Linda Nylind for the Guardian

Nassim Nicholas Taleb was born in Lebanon, and lives mostly in New York. His books *Fooled By Randomness* and *The Black Swan* are powerful arguments against a world – and an economy – based on prediction by "experts". The "black swan" of the title of the latter – which refers to a medieval-era metaphor for something that could not exist – is shorthand for the random events and risks that lie beneath our lives, which we fail to take into account. Taleb has made his fortune putting his money where his philosophy is, and consistently betting against strategies of predicted growth in financial markets. The economic crash, he suggested long before it happened, was an inevitable consequence of an economics based on debt rather than equity, and a global misconception of risk. A new afterword to *The Black Swan* is a tangential reflection on those events.

Your new *Black Swan* chapter looks back on the financial crash, but it begins by thinking about what we might have learned from studying the human body...

The notion of fragility and robustness that I am bringing is applicable across domains. The human body has built-in redundancies: two eyes, two kidneys, two lungs. It is good to incorporate that model into everything we create. In financial entities it creates less growth but more robustness. Also, wherever you have a lot of interactions, it is important to have nothing too large. Why has evolution made an elephant the largest thing on land, and in the ocean a whale? You have to have a dogma that mother

nature knows best.

Would you describe the black swan idea as a philosophy of humility – that is, we never know as much as we think we do?

I would say it is more making a map of what you don't know and confining it. The human body – we don't know large parts of it. The economy, likewise. We shouldn't treat it all the same. We must acknowledge where a lack of knowledge can harm us. Our lack of knowledge is everywhere, but in some domains, as we have seen, it can have monumental consequences.

Did you have an "I told you so" feeling about the economic meltdown?

No, there was no *schadenfreude*, just anger: Why didn't they listen? My book was selling a lot more before the crisis than during or after. Then, people didn't want to hear...

You have been invited to many forums looking at how we can learn from what happened. Have any been useful?

I always had the feeling that these people had just crashed the plane and they had no idea why the plane had crashed. It was as if they all thought it was because the pilot was wearing a red shirt or something like that.

Has no one grasped the message?

The only politician who seemed to understand *The Black Swan* is David Cameron. He was convinced that there is great hidden risk in the economy in a world that has become much more complex in the past 25 years. He understood that government deficit makes you more reliant on forecasting, at the same time that our reliance on forecasting has proved disastrous.

How much has your own biography taught you about uncertainty?

Not my recent biography, but my heritage. My family worshipped books, and we have done for six generations. Around 1800 my ancestor was a silk trader, who wanted all his progeny to be scholars. Even though my father was a doctor, we were taught to respect the lessons of history not science.

What does the past teach us about the current crisis?

The Romans, the Arabs, the Jews all had an edict against debt. If we had religion with a tacit prohibition of debt, we would probably not have had this problem. But science, or scientism, thinks it knows better.

Is there something in that silk trading heritage that you recognise in yourself?

Commerce in the Mediterranean has always been on a human scale. It is only when you move from an artisan-style economy to a corporate-style economy that you develop fragilities. Corporations take the humanity out of trade – they take the happiness out and replace it with something that is ugly.

Should anything be too big to fail?

I just wrote a paper explaining why size necessarily brings fragility. You have family-owned businesses that have been around for 500 years. You cannot name a corporation that survives intact for even a few decades. We should not be concerned

about wealth; we are rich enough, but we should be very concerned about robustness.

Can technology help this process?

The internet allows the small guy a global marketplace. But technology is harmful in the sense that we get too much information from it. Because of the web we get 10 times the amount of noise we ever got, which makes harmful fallacies far more likely. I can't imagine situations in which social networks could be useful except to arrange to have dinner with someone, and they clearly can be very destructive.

The appetite to restore the economic models to what they were must drive you crazy?

Yes, but I also have an exit strategy that others don't: I make bets against US Treasury bonds. People lecture Greece about debt, but the Greeks are not in debt in comparison with America; in America debt is uncontrollable.

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sharkfinn

20 Jun 2010, 10:21AM

It is all about situation and perspective. A lot of Australians probably thought that all swans were black and were amazed to find out that there were white ones.

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