

Black swan down

Nassim Taleb explains the power of “skin in the game”



And settles some old scores

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Skin in the Game: Hidden Asymmetries in Daily Life.

By Nassim Nicholas Taleb.

Random House; 304 pages; \$30. Allen Lane; £20.

IN 2001 Nassim Taleb published “Fooled by Randomness”, an entertaining and provocative book on the misunderstood role of chance. He followed it with “The Black Swan”, which brought that term into widespread use to describe extreme, unexpected events. This was the first public incarnation of Mr Taleb—idiosyncratic and spiky, but with plenty of original things to say. As he became well-known, a second Mr Taleb emerged, a figure who indulged in bad-tempered spats with other thinkers. Unfortunately, judging by his latest book, this second Mr Taleb now predominates.

A list of the feuds and hobbyhorses he pursues in “Skin in the Game” would fill the rest of this review. (His targets include Steven Pinker, subject of the lead review.) The reader’s experience is rather like being trapped in a cab with a cantankerous and over-opinionated driver. At one point, Mr Taleb posits that people who use foul language on Twitter are signalling that they are “free” and “competent”. Another interpretation is that they resort to bullying to conceal the poverty of their arguments.

All this is a shame, because the first, submerged Mr Taleb is still audible, and still has interesting things to say. Broadly, his concept of “skin in the game” holds that the extent of people’s stakes in particular outcomes is an underrated determinant of events. It can be applied to a wide range of subjects, from financial markets to businesses and religion, and the author illustrates it well. One neat concept is the “dominance of the stubborn minority”—ie, that a few individuals who will not change their behaviour can force everyone to adjust to their tastes. An example is that “a kosher (or halal) eater will never eat non-kosher (or non-halal) food, but a non-kosher eater isn’t banned from eating kosher.” Catering companies can thus switch to serving halal meat as it makes life easier.

In his last two chapters, Mr Taleb draws together the book’s ideas with some of his previous work. The more “skin in the game” you have, the greater your exposure to “black swans”. He concludes that the folk wisdom handed down by grandmothers—concerning the virtue of birds in the hand—shows an awareness of extreme risks not found in economists’ models. “Rationality is avoidance of systemic ruin,” Mr Taleb writes. He recommends suspicion of armchair experts who are detached from their subjects: “Do not pay attention to what people say, only what they do, and to how much of their necks they are putting on the line.”

Yet even here Mr Taleb applies different standards to his own arguments and those of others. When he criticises Western politicians for intervening in Libya, he has no skin in the game. He has not run for office or been obliged to put policies into action. The group with real skin in that game were the citizens of Benghazi, who might have been slaughtered had NATO not shown up. Failing to intervene in (for example) Rwanda had consequences too. Humbler analysts would acknowledge such awkward counterfactuals. But there is little humility on display here.