23 Things We're Telling You About Capitalism XVI [1]

Written by **Tim Worstall** [2] | Wednesday 29 May 2013

Our sixtetenth thing is that we're all just too damn stupid to be allowed out without the government nanny holding our hands. Chang doesn't put it in quite these words but but it is his general meaning. He runs through the usual arguments: we free marketeers think that people are rational so allow them to get on with it. Chang says (rightly) that people aren't always rational so they need guidance. When that runs into the problem that the people doing the governing are going to be just as irrational as everyone else Chang then says well, OK, government should simply ban things until we understand them. For example, and it's his example, new financial products should be banned until we understand them.

One major problem with this approach is that the argument for market activity doesn't depend upon rationality. One is, over and above that, that I know my desires better than you know mine. And however much I want to be Prime Minister I don't know yours better than you do. There's thus an extremely strong assumption that I shouldn't be (even if I do become PM) trying to restrict your actions unless there is some over riding reason to do so. What I think best for you ain't good enough. That over rising reason can be found in Mill for example: the proximity of an about to be broken nose to your swinging fist. Chang's argument in favour of regulation doesn't overcome this reason for non-regulation at all.

It's also rather irritating to be told, again, "that as Adam Smith said about the invisible hand". No, he didn't: he used the phrase once in WoN, about the propensity for domestic investment even in the face of the free movement of capital. It was absolutely nothing at all about the glories of market coordination. Grr.

The real heart of Chang's argument is Herbert Simon's point that we humans have bounded rationality. We cannot consider everything so we don't: we're not bright enough to consider the ins and outs of every possible action so we have rules of thumb which we act by. This is undoubtedly true: it's rather the flip side of the idea that we don't particularly maximise utility but we do satisfact (although a purist would argue that by not bothering to think too much, because thinking is hard, we are maximising utility). And there is indeed a great deal of truth in this. Company routines, our own sleep patterns and breakfasts (to use Chang's examples) are based not on rigorous contemplation of all the avaliable options. Rather, on the very limited number of choices that we allow ourselves through our routines or company structures.

Thus, says Chang, the government should impose such regulation on all: and that's the leap that is too far. Yes, even in the face of the uncertainty (no, not risk, uncertainty) about the impact of that new financial instrument.

Think a moment of evolution. We all generally think of it as leading to a certain harmony. Which isn't, as deeper down we know, how it actually is. We've this random mixture going on through mutation, we've a further mixture of genes through mating (in sexual animals at least) and it's the ever changing environment which does the selecting about who and which will survive. That's the only way that life can in fact deal with the inherent uncertainty about future conditions.

You can see where I'm going with this: market processes are an endless repetition of experimentation, much like those gene mutations and mixtures. Which of these experiments will survive depends upon the

environment they are tried in. Writing great smartphone apps in 1955 would not have been a path to success: in 2015 it's highly likely to be. And this is exactly why we don't want government building regulation to stop the experimentation. Precisely and exactly because we don't know what the future environment will be and thus don't know what will succeed in it. And because it's uncertainty, not risk, we cannot know: therefore we must not stop the experimentation.

Another way of putting this is that we don't want to regulate market experimentation out of existence because such market actions are precisely the way we find out what is either good or bad. Further, if we don't allow the ideas out into the markets we can never get enough information to know whether they are good or bad: so, in Chang's universe nothing would ever happen because we've lost the very mechanism by which government can decide whether to regulate or allow something.

The final killer for Chang's extreme interpretation of the precautionary principle (for that is what it is) can be explained by anyone who has ever tried to explain something to a politican. You know, the people Chang wants to make all these decisions for the rest of us. They're no brighter than you or me and almost inevitably less well informed. They also have rather different motivations: one becomes a politician with power by spending inordinate amounts of time working out how to gain and hold on to power. Bad incentives, less information and no greater (at best) mental faculty than the rest of us: their rationality is more bounded than our own. This is not a good argument in favour of their being responsible for protecting us from our own bounded rationality.

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