

## [Good drugs and supporting markets](#) [1]

Written by [Tim Worstall](#) [2] | Sunday 18 November 2012

Good drugs lead to support for the market system. Umm, no, not that sort of recreational pharmaceutical, that's not what I mean. Rather, that the system which produces good pharmaceuticals is an example of how and why a market based system is superior to a planned one. Take this from Corante, discussing Nassim Taleb's [view of finance](#) [3]:

Well, those of you out there who've heard the talk I've been giving in various venues (and in slightly different versions) the last few months may recognize that point, because I have a slide that basically says that drug research is the inverse of Wall Street. In finance, you try to lay off risk, hedge against it, amortize it, and go for the steady payoff strategies that (nonetheless) once in a while blow up spectacularly and terribly. Whereas in drug research, risk is the entire point of our business (a fact that makes some of the business-trained people very uncomfortable). We fail most of the time, but once in a while have a spectacular result in a good direction. Wall Street goes short risk; we have to go long.

A planned system, whether it be an economy, a business or a sector of either, is always trying to reduce the risks of whatever it is that is being done. Most importantly, to reduce the risks of failure. A market system allows any and everyone to chase their wildest dreams, lunatic or not. That is, a planned economy is short risk and a market one long.

And the thing is, in order to get the sort of transformations of the entire economy that we need in order to keep this wealth creating juggernaut on the road we need to be long that risk. As William Baumol has pointed out, as Paul Krugman has noted, planned economies have extreme difficulty in increasing total factor productivity. Market ones seem to manage it, at least they have for the past couple of centuries, at a fairly steady clip 2% a year or so decade after decade. This is the very result of such economies being long on risk. People just doing their own thing, without central planning and risk reduction. Most fail- the vast majority fail- but that's what being long risk means. We explore the possible technological space, find that most of it's not worth anything but are able to quickly seize upon those parts that are.

It's unconstrained exploration that makes market economies work: exactly the very thing that planning abhors and abjures.

[blog comments powered by Disqus](#) [5]

---

**Source URL:** <http://www.adamsmith.org/blog/economics/good-drugs-and-supporting-markets>

### Links:

[1] <http://www.adamsmith.org/blog/economics/good-drugs-and-supporting-markets>

[2] <http://www.adamsmith.org/taxonomy/term/5778>

[3] [http://pipeline.corante.com/archives/2012/11/13/nassim\\_taleb\\_on\\_scientific\\_discovery.php](http://pipeline.corante.com/archives/2012/11/13/nassim_taleb_on_scientific_discovery.php)

[4] [http://disqus.com/?ref\\_noscript](http://disqus.com/?ref_noscript)

[5] <http://disqus.com>