

[Guns, drugs and financial markets](#) [1]

Written by [Tim Worstall](#) [2] | Monday 21 April 2008



[Dani Rodrik](#) [3] equates the three things, guns, drugs and financial markets, and asks why we don't view them in the same way when it comes to their regulation? He does so to point out that, correctly, all three have benefits for their users but can have spill over effects or externalities, upon others. Further, that the fact that all advanced societies strictly regulate the availability of drugs, most do firearms, means that we should be regulating financial markets much more closely and [restrictively](#) [4]:

True prudence requires that regulators avail themselves of a broader set of policy instruments, including quantitative ceilings, transaction taxes, restrictions on securitization, prohibitions, or other direct inhibitions on financial transactions...

Well, yes, except that argument rather relies on the thought that our current regulation of drugs and guns is indeed correct for finance to require those greater restrictions. And of course around here we don't think that to be true. That gun crime has risen in the UK since the banning of handguns and the tightening of the restrictions upon private ownership of other types is one thought. But that we around here think that it is the very illegality, the regulation, of drugs that causes most of the problems surrounding them might give us pause as well.

Overdoses, disease from shared needles like hepatitis C and AIDS, adulteration, the crime surrounding the supply, the crime of addicts stealing to fund their habit, all of these are direct results of the regulations themselves and as we often (and forcefully) argue those results are worse than simply allowing people to exercise their natural liberty to dose themselves as they see fit.

Ricardo Hausman weighs in Rodrik's comment [section too](#) [5]:

I am sure Dani would agree that Silicon Valley venture capital, by allowing start-ups to be created and grow all the way to an IPO, is an incredibly productive financial innovation that no policymaker could have designed ex ante. One could say also many positive things about leasing and factoring and the list goes on and on. Financial innovation is part of the overall process of technological innovation that has been valuable throughout human history.

Quite: given that we don't have and never will have omniscient (to say nothing of unbiased or unbribeable) regulators, providing them with the power to stifle innovation is simply going to make our children poorer than they need to be.

It might also be worth pointing out that people have at various times tried ceilings, transaction taxes,

restrictions upon securitisation and other direct inhibitions: the US did in the 1960s and 70s for example upon certain bonds. They don't work all that well though, as with the similar regulations upon drugs: where else do you think the Eurodollar markets came from and why are they based in London, not New York?

[blog comments powered by Disqus](#) ^[7]

Source URL: <http://www.adamsmith.org/blog/regulation-and-industry/guns-drugs-and-financial-markets>

Links:

[1] <http://www.adamsmith.org/blog/regulation-and-industry/guns-drugs-and-financial-markets>

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

[3] http://rodrik.typepad.com/dani_rodriks_weblog/2008/04/guns-drugs-and.html

[4] <http://www.project-syndicate.org/commentary/rodrik18>

[5] http://rodrik.typepad.com/dani_rodriks_weblog/2008/04/guns-drugs-and.html#comment-111333162

[6] http://disqus.com/?ref_noscript

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